1. Key development issues and rationale for Bank involvement

Improving global competitiveness is at the top of Mexico’s development agenda. Mexico stands at the crossroads between two worlds as it is both one of the rich countries in the Latin America and Caribbean Region and one of the poorest member countries of the Organization for Economic Development and Cooperation (OECD). Traditionally, Mexico relied on its low cost labor to produce goods for the North American market, complemented by natural resources export and remittances. In the past decade however Mexico has seen its international competitiveness decline: in 1998, the Global Competitiveness Report ranked Mexico as 34th in the world; by 2009, it had sunk to 64th place. Mexico needs to focus more on adding value to its production and moving from a low-cost labor-based economy to a knowledge-based economy that exploits the new global economic environment.

Lack of qualified labor has been identified as a key bottleneck for Mexico’s competitiveness. The most recent Mexico Competitiveness Report lists the need for a qualified, constantly learning and adaptable workforce as an essential prerequisite for future sustained growth and warns that an insufficient pool of well prepared graduates reduces the capacity of Mexican firms to move up the value chain.

Reforming the upper secondary education system is an essential component of the Government’s efforts to improve competitiveness. The National Development Program for 2007-2012 (Plan Nacional de Desarrollo, PND) includes ambitious reform proposals in the education sector. While significant progress has been made on basic and higher education systems, upper secondary education remains the weak link. It is fragmented and suffering from variable quality, making it hard for employers to know what skills to expect from a graduate. Moreover, keeping people in upper secondary long enough to graduate is a challenge: two out of three students who drop out of school do so at the upper secondary level.
There are three main obstacles that reduce the number of qualified graduates from the upper secondary education. First, because the system is fragmented, students wishing to transfer to another institution have to start from the beginning, discouraging mobility among institutions and programs. Second, many students feel upper secondary education is not relevant enough to give them an advantage in the labor market. Third, particularly in the case of the poor, opportunity cost of staying in education is high and long term benefits of graduating are undervalued.

The Government of Mexico has requested a Development Policy Loan for the amount of $450 million (TBC) to support its ongoing upper secondary education reform program, focusing in particular on obstacles to increasing the numbers and skill level of graduates entering the labor market.

The proposed operation is consistent with the 2008 Country Partnership Strategy (CPS) and grounded in extensive country dialogue and analytical and advisory services. While the Bank’s lending program to Mexico has been expanded in both volume and scope since the onset of the global crisis, CPS always included a blend of lending and knowledge instruments to support Mexico’s education sector. In particular, the Bank is working closely with Sub-Secretariat of Upper Secondary Education (SEMS) on reform assessment, including the design and implementation of evaluation strategies.

2. Proposed objective(s)

The proposed Mexico Upper Secondary Education (MUSE) Development Policy Loan is the first in a three-part DPL series to support key policy actions to reform the system of upper secondary education in Mexico to adapt it to evolving labor market requirements. It is aligned with the objective of the Government’s reform program which is to improve Mexico’s competitiveness through raising the competency level of its labor force and quality at the upper secondary level.

3. Preliminary description

The DPL supports actions in the following three areas addressing the key constraints of the EMS system: (i) improving flexibility of upper secondary education; (ii) enhancing quality and relevance of education; and (iii) reducing opportunity cost of upper secondary education for the poor. This will be accompanied by the development of robust monitoring mechanisms providing up-to-date information on the performance of schools and individualized data for parents on the learning achievement of their children.

4. Environment Aspects

The proposed program is not expected to have a significant environmental impact.

5. Tentative financing

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6. Contact point
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