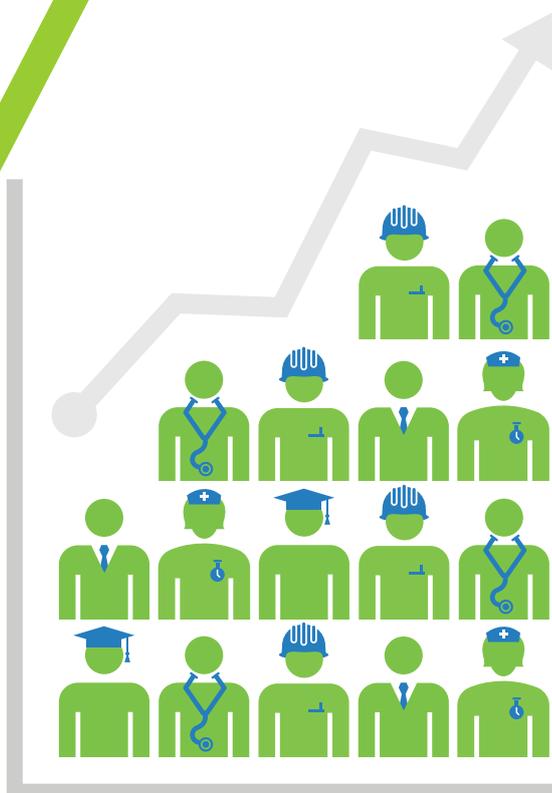
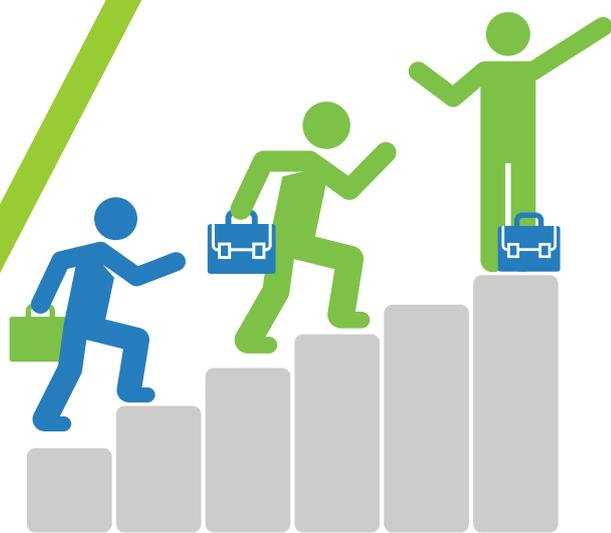


OECD Skills Strategy Diagnostic Report Executive Summary

Mexico 2017



Building the right skills can help countries improve economic prosperity and social cohesion



By contributing to social outcomes such as health, civil and social engagement.

By supporting improvement in productivity and growth.

By supporting high levels of employment in good quality jobs.



How is this achieved?

By strengthening skills systems

Designing and implementing an evidence-based national skills strategy.

Funding skills through public and private sources and designing effective incentives for employers and individuals.

Providing good information for the public, businesses and policy makers.



OECD SKILLS STRATEGY DIAGNOSTIC REPORT MEXICO 2017

EXECUTIVE SUMMARY

Why a Skills Strategy? Better skills, better jobs, better lives

Skills have become the key driver of individual well-being and economic success in the 21st century. Without proper investment in skills, people languish on the margins of society, technological progress does not translate into growth, and countries are unable to compete in increasingly knowledge-based global economies.

The OECD Skills Strategy provides countries with a framework to analyse their strengths and weaknesses as a basis for taking concrete actions relating to the three pillars that comprise a national skills system: 1) developing relevant skills from childhood to adulthood; 2) activating these skills in the labour market; and 3) using these skills effectively in the economy and society. In addition to these three inter-related policy levers, the OECD Skills Strategy framework advocates for an overarching theme of strengthening the skills system to build the right skills that can lead to better jobs and better lives.



Building an effective skills strategy for Mexico

In recent decades, Mexico has undergone profound economic and social transformation. Since the 1980s, Mexico's economy has evolved from an import substitution to an export-oriented economic model. In the space of only a few years, Mexico has become a global leader in the export activities of major industries (such as auto parts, engines, electronic and medical equipment, televisions), and one of the major recipients in the Latin American region of foreign direct investment, due to structural reforms that have made the Mexican economy more open and attractive.

However, many Mexicans still lack good quality basic services in education, health and housing, and many work in the informal economy where employment conditions are more precarious. Within this context, women and youth are especially vulnerable to poor working and living conditions.

Mexico's goal for the future is to ensure that the benefits of structural reforms and of opening the economy translate into better living conditions for Mexicans. Boosting the development, activation and use of skills will be key to achieving these objectives. As demonstrated by the Survey of Adult Skills (PIAAC), which Mexico is currently deploying, higher skill levels are not only associated with higher productivity and earnings, but also with other important outcomes, such as better health, higher levels of trust, and greater propensity to contribute to society through volunteering. To this end, the aim of current educational reform in Mexico is in line with OECD recommendations to create a more inclusive society through giving equal opportunities to everyone, and reducing poverty while providing quality education to all Mexicans.

Enrolment rates in Mexico from primary to lower secondary school are close to universal, however, in upper secondary education they remain relatively low. During the transition from lower secondary to upper secondary, the enrolment rate of 15-19 year-olds drops to around 54%, the lowest enrolment rate for this age group among OECD countries, and well below the OECD average of 84%. Moreover, in Mexico, the returns to attaining tertiary education are among the highest in OECD countries, however, only 16% of adults (25-64 years old) have obtained higher education, the lowest share across OECD countries in 2015. Despite recent progress, therefore, Mexico still has a comparatively low-skilled workforce. As a result, Mexico tends to specialise in low value-added activities that contribute to the prevalence of informal employment arrangements, which are estimated to account for 52.5% of all employment. Workers in the informal economy are, on average, less likely to: receive training, participate in high performance workplace practices that make more effective use of their skills, and find themselves employed in precarious and low quality jobs. Firms operating in the informal sector tend to be less capital intensive and invest less in training their workers and in modernising production, which translates into low productivity and growth. For society, having a large share of the workforce employed informally implies higher social costs and foregone tax revenues that could have been invested in expanding the provision of education and training.

By providing opportunities for all Mexicans to develop high quality and relevant skills, and by supporting employers to improve their human resources management, Mexico can raise productivity levels and, by extension, the incentives for employers to hire individuals in the formal sector. Skills are central to Mexico's future prosperity and the well-being of its people. Fostering better and more equitable skills outcomes, especially for women and youth, will provide the foundation for building a healthier, more equitable, and more cohesive society.

Mexico needs to tackle eight key skills challenges

Mexico recognises the need for a whole of government approach to skills. The importance of skills and human capital has been recognised as a priority for the Mexican Government. Therefore, the National Productivity Committee, an advisory public-private council capable of making binding recommendations to increase productivity, agreed to work on a lifelong skills strategy with a long term vision. Mexico is the second OECD member country, after Norway, to be undertaking the complete process of a National Skills Strategy project with the OECD that encompasses diagnostic and action phases.

This diagnostic report sets out eight skills challenges for Mexico. These challenges were identified through two interactive workshops with stakeholders (including employers, trade unions, and education providers), bilateral meetings (with government officials and experts), internal discussions with experts at the OECD, and analysis of documents and data produced by the OECD, the United Nations Educational, Scientific and Cultural Organisation (UNESCO), the International Labour Organisation (ILO), the World Bank, the Inter-American Development Bank (IDB), and the Mexican government.

The challenges are described under each of the OECD Skills Strategy's main pillars and are framed as outcome statements. The first six challenges refer to specific outcomes across the three pillars of developing, activating and using skills. The next two challenges refer to the "enabling" conditions that strengthen the overall skills system. Success in tackling these skills challenges will boost performance across the whole skills system.

Box 1. The OECD Skills Strategy: Defining the concept of “skills”

The OECD Skills Strategy defines skills (or competences) as the bundle of knowledge, attributes and capacities that can be learned, that enable individuals to successfully and consistently perform an activity or task, and that can be built upon and extended through learning. This definition includes the full range of cognitive (e.g. literacy, numeracy), technical (e.g. sector or occupation specific) and socio-emotional (e.g. teamwork, communication) skills. The concepts of “skill” and “competence” are used interchangeably in this report. The sum of all skills available to the economy at a given point in time forms the human capital of a country.

The OECD Skills Strategy shifts the focus from traditional proxies of skills, such as years of formal education and training or qualifications/diplomas attained, to a much broader perspective that includes the skills people acquire, use and maintain – and also lose – over the course of a lifetime. People need skills to help them succeed in the labour market, contribute to better social outcomes, and build more cohesive and tolerant societies.

Source: OECD (2012), *Better Skills, Better Jobs, Better Lives: A Strategic Approach to Skills Policies*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264177338-en>.

All of the challenges identified are strongly interlinked, and their connections with each other are highlighted throughout the report. The failure to look beyond policy silos will have implications for specific groups in Mexico, such as women and youth, as well as for the economy and society’s ability to build a solid foundation for future prosperity.

8 SKILLS CHALLENGES FOR MEXICO

Developing relevant skills

1. Improving the skills performance of students in compulsory education.
2. Increasing access to tertiary education while improving the quality and relevance of the skills developed in tertiary education.

Strengthening Mexico's skills system

7. Supporting collaboration across government and stakeholders to achieve better skills outcomes.
8. Improving public and private skills funding.

Activating the supply of skills

3. Removing supply and demand-side barriers to activating skills in (formal) employment.
4. Boosting the skills activation of vulnerable groups.

Using skills effectively

5. Improving the use of skills at work.
6. Supporting the demand for higher skills to boost innovation and productivity.

Pillar 1: Developing relevant skills

Challenge 1. Improving the skills performance of students in compulsory education.

- **Skills developed in compulsory education are the building blocks for individual success in further education, the labour market and life.** Whether students pass through the general academic or VET system, they should develop strong foundation skills that allow them to enter directly into the labour market or progress to higher education. Along with its intrinsic value, skills have a positive effect on people's income, their health, and their civic engagement. It also improves individuals' chances to find a job, which means that those who are better educated are less vulnerable to unemployment and informal employment. People with poor foundation skills face a much greater risk of experiencing economic disadvantage, and a higher likelihood of unemployment and dependency on social benefits.
- **Too few Mexican youth are developing high levels of skills and completing higher levels of education.** Despite some improvements, Mexico's performance on most measures of skills development ranks at the bottom of OECD countries. According to the Programme for International Student Assessment (PISA), too many youth are still not developing high levels of skills with the share of students performing poorly in mathematics 56.6%, in reading 41.7% and science 47.8%. In addition, only 56% of 15-19-year-olds complete upper secondary education, far below the OECD average of 84%.
- **Mexico needs to ensure that all students receive a high quality education regardless of their backgrounds, where they live and what kind of school they attend.** Educational outcomes in Mexico vary greatly across regions. While performance gaps by gender have decreased over time, boys are still outperforming girls in science and mathematics and girls are outperforming boys in reading. This may have implications for how well they are prepared to continue their education in certain subject areas and enter certain professions. Encouragingly, the amount of educational performance that is explained by socio-economic background has decreased from 16.9% in 2006 to 10.9% in 2015. Additionally, the percentage of students that are resilient (12.8% in Mexico compared with the OECD average of 29.2%) has also improved. Resilient youth are those who despite significant socio-economic disadvantage are able to succeed in learning – and resilience is measured by the share of students that are in the bottom quarter of the socio-economic scale within a country and nonetheless perform among the top quarter of students. However, many indigenous students continue to struggle, having lower educational attainment rates and poorer skills outcomes. OECD research shows that performance gaps by gender, socio-economic and family background are not determined by innate abilities and can be reduced by parents, teachers and policy makers by taking action such as providing equal support early on, tailoring teaching to students' specific needs, and reducing potential barriers (e.g. financial, cultural) in order to ensure that all students receive the support they need to realise their full potential and contribute to the economic growth and well-being of society.
- **While the quality of school environments has improved, there remains much to be done.** Grade repetition has decreased from 30% in 2003 to 15.8% in 2015, but still greatly exceeds the OECD average of 11.3%. While more time is spent on learning than before, it is critical that it is spent on quality learning. For that teachers need to be well trained and have professional development opportunities throughout their working lives. Recent education reforms that reward high performing teachers and provide professional development opportunities to those requiring further support should help to improve the quality education in Mexico. Information and career guidance systems can help students to make informed decisions about progression in the education system. While annual expenditure per student has increased in Mexico, expenditure for primary and secondary education in absolute terms is still the lowest in the OECD. The distribution of funds can be made more efficient – differences in the quality of educational resources between socio-economically advantaged and disadvantaged schools are one of the largest in the OECD.

Challenge 2. Increasing access to tertiary education while improving the quality and relevance of the skills developed in tertiary education

- **Tertiary education provides significant benefits to individuals and society.** Tertiary graduates benefit from higher skills and have higher productivity, which means they are more likely to be employed in the formal economy and earn a higher income. Tertiary graduates also tend to report better health outcomes, have lower crime rates and participate more fully in the political process and society. For society, a more highly educated population is associated with an expanded formal sector, higher tax revenues, lower costs of social transfers and criminality, and increased productivity, thereby supporting economic prosperity and higher standards of living.
- **A small share of Mexican students completes tertiary education.** Only 16% of the population aged 25-64 years old in 2015 had attained tertiary education, which is significantly below the OECD average of 36%. Access varies greatly across regions, with participation rates high in Mexico City, and significantly lower in most other regions. While tertiary education participation rates are similar for men and women, there are some differences by field of study. Of particular concern is the participation rate among certain disadvantaged groups, such as indigenous students. Improving access broadly across regions would boost the well-being of graduates, but also the country as a whole. Boosting access for disadvantaged groups could support social mobility and improved social cohesion.
- **Mexico will need to improve the quality and relevance of skills developed in tertiary education to fully realise their benefits.** Rapid expansion and limited oversight may mean that many graduates are not developing skills of the quality and relevance demanded by the labour market. Employer surveys suggest that many tertiary graduates do not have the skills required for their jobs. Furthermore, one out of two tertiary graduates works in an occupation unrelated to their field of study, which may suggest that some tertiary students are completing studies that are not in the highest demand. Incentives to adapt course offerings to labour market needs could be strengthened in both private and public tertiary education institutions, which are responsible for about 33% and 67% of tertiary graduates, respectively.
- **Mexico could improve access to tertiary education, while bolstering the quality and relevance of skills developed in tertiary education.** Better regulation and quality assurance systems could ensure that universities are accountable for increasing access, but also for raising quality and relevance. The quality of teaching could be further improved through the increased use of evaluations and better working conditions. The tertiary curriculum could be made more relevant to the labour market through partnerships between universities and industry, and through the increased use of work-integrated learning. Better information about current and future skills needs and outcomes of tertiary institutions could also support increased quality and relevance. The effective financing of tertiary education could be an important lever to improve tertiary education and its outcomes, particularly when public funding is contingent on outcomes of measurable quality and relevance indicators of tertiary education.

Pillar 2: Activating skills supply

Challenge 3. Removing supply and demand-side barriers to activating skills in (formal) employment

- **Mexico could do a better job of activating the skills of its people in the labour market.** Many people are inactive or out of employment. Even when employed, workers often find themselves in poor quality jobs. Most workers are employed in informal jobs that are characterised by low pay, long work hours, limited employment protection and limited opportunities for training and career advancement. This under-utilisation of skills in the labour market represents a significant waste of human potential.
- **Improving the activation of skills into high quality (and formal) jobs will mean removing supply and demand-side barriers to employment.** On the one hand, good quality employment services and active labour market programmes, as well as adequate and well-designed income protection systems, are needed to ensure that jobseekers receive the support they need to activate their skills in the labour market. On the other hand, in order for skills to be successfully activated in the labour market, there is a need to create sufficient numbers of (formal) jobs. To this end, measures that tackle demand-side barriers to employment (e.g. high labour costs and/or strict employment protection legislation) are crucial.
- **Employment support provided to jobseekers could be improved.** The Mexican Public Employment Service (PES) reaches few jobseekers and firms. Low funding, the scarcity of case workers, and the fact that the PES does not have responsibility for the administration of (unemployment and/or social assistance) benefits, may help explain why many people find jobs through informal job-search channels (e.g. family and friends). Although existing active labour market programmes have often proved successful in Mexico, insufficient funding has been allocated to these programmes.
- **Income protection is very weak and may push workers into subsistence-level occupations.** The near inexistence of unemployment insurance, poorly implemented severance payments, as well as the low generosity and poor targeting of existing benefits, mean that many individuals do not have adequate income protection. This lack of income support may push many jobseekers to accept any job, whether informal and/or poorly paid, to sustain their incomes.
- **Relatively high tax and social security contributions on low-wage earners and complex tax systems may be a brake on (formal) hiring and employment.** Although minimum wages are low, the non-wage costs (i.e. employers' social security contributions) associated with hiring a low-income (hence typically low-skilled) worker are high by international standards. While this high tax burden on firms is typically reduced through targeted tax reductions/exemptions, this approach increases red tape and adds complexity to the tax system.
- **Despite recent improvements, employment protection legislation continues to be strict and may (at least in theory) limit the growth of jobs in the formal economy.** Employment protection legislation (EPL) has become less strict since the introduction of the 2012 Labour Law reform, but remains high by OECD standards. If the cost of hiring people formally is high relative to the output of workers, stringent EPL will increase the incentives for employers to hire workers informally. In practice, however, enforcement remains limited: relatively few labour inspectors exist, and inspections are generally focussed on larger firms, which are less likely to breach existing rules.

Challenge 4. Boosting the skills activation of vulnerable groups

- **Some vulnerable groups are struggling to activate their skills in the labour market.** In particular, youth and women are facing considerable challenges in entering and remaining active in the labour market, and need targeted support. The successful integration of these vulnerable groups into the labour market will depend on the ability of policy measures to increase youth and women's employability and work incentives, as well as on the capacity of the Mexican economy to grow and create jobs.
- **Youth are often neither in employment, education or training (NEET).** This represents a large waste of human capital and a significant cost to society. NEETs in Mexico are typically inactive (and therefore not actively looking for jobs), they are often low skilled, and are usually female. While the government is working to address the NEET challenge, international experience suggests that further room for improvements exists. Crucial policy channels through which NEET rates can be reduced and school-to-work transition facilitated include: improving the capacity of the Public Employment Service to reach out to youth, promoting access to high quality education (and reducing school dropouts), strengthening family-friendly policies (see below), and providing youth with adequate income support.
- **Women in Mexico are often excluded from the formal labour market because they typically bear the burden of family responsibilities.** Increasing the participation of women in employment will require family-friendly policies that help parents balance work and family life. Despite notable efforts, too few children (aged 0-2) in Mexico are enrolled in childcare facilities, a situation that forces many parents (and mothers in particular) to remain detached from the labour market after their children are born. Both maternity and paternity leave entitlements are weak, which may discourage many women from entering employment in the first place. In addition, workers are expected to work very long hours, and flexible work arrangements (e.g. part-time or remote working) are uncommon, making it even harder for a woman to balance work and family life.

Pillar 3: Using skills effectively

Challenge 5. Improving the use of skills at work

- **Using skills effectively at work is important for the success of Mexico.** It is not sufficient to develop and activate skills; to realise the full benefits to individuals, firms and society, skills must also be put to effective use. For the individual, the more effective use of skills increases wages and life satisfaction. For the employer and the country, the more effective use of skills means higher productivity and greater competitiveness. Overall, better productivity, wages and benefits mean more resources available to the country to grow the economy and support a better standard of living for Mexicans.
- **The skills of many workers in Mexico are not effectively used.** About 26% of Mexican workers are over-educated, and around 31% are under-educated for their job. Around 40% of employed tertiary graduates work in an occupation that is unrelated to their field of study. Companies are reporting skills shortages and problems finding the skilled labour they need.
- **Factors internal to the firm could improve skills use at work.** The quality of the work environment can affect skills use. Around 34% of workers in Mexico experience job strain. Workers in Mexico work the longest hours across the OECD: around 27% higher than the OECD average, 6% higher than Korea, 25% higher than the United States, and 32% higher than Canada. High performance workplace practices and on-the-job training are important factors in determining how effectively skills are used at work. The prevalence of temporary contracts and informal work arrangements in Mexico will hinder how effectively skills are used in workplaces, as employers will be less likely to invest in workers with whom they have a weak employment relationship. Micro, small and medium enterprises are also less likely than larger firms to implement these practices.

- **External factors to the firm could foster greater skills use at work.** Labour market institutions, such as employment protection legislation, minimum wages, the tax system and collective bargaining, influence the cost of labour, which can have an indirect impact on skills use at work. The availability of quality information and guidance on learning and career pathways can reduce the mismatch of skills and improve their use. The recognition of learning outside of formal education can also help firms identify the skills that workers actually possess, which can improve skills matches within the firm and across occupations and sectors.

Challenge 6. Supporting the demand for higher skills to boost innovation and productivity

- **High-skilled workers, researchers and entrepreneurs are key actors in a country's modernisation efforts.** Entrepreneurs with innovative ideas can drive growth and advancements in global markets. Universities and research institutions generate knowledge that is necessary to support the implementation of innovative ideas. High-skilled workers can use advanced technologies and transform innovative ideas into innovative projects. The share of research and development (R&D) personnel in employment in Mexico is 1%, which is among the lowest in the OECD, and considerably lower than in countries such as Finland and Denmark, where it is over 20%.
- **The relatively weak research base in Mexico should be improved.** A small group of modern and successful businesses demand and employ high-skilled workers in Mexico. However, the majority of firms do not invest significantly in talent and knowledge. As a result, Mexico lags behind other OECD countries on a number of measures of innovation, such as business expenditure on R&D and number of patents. Both private and public sector R&D investment is well below that of nearly all OECD countries. In 2013, Mexican businesses invested the equivalent to 0.2% of GDP in R&D. By comparison, the OECD average was 1.6% of GDP, and in Korea it was 3.3%.
- **Even though barriers to entrepreneurship remain significant in Mexico, there are several signs that a more entrepreneurship-friendly environment is being developed.** According to the evolution of the OECD indicator on barriers to entrepreneurship, which measures the degree to which policies promote or inhibit competition, Mexico has substantially reduced obstacles to business activity in the last ten years. However, it is still one of the OECD countries with the highest barriers to entrepreneurship.

Strengthening Mexico's skills system

Challenge 7. Supporting collaboration across government and stakeholders to achieve better skills outcomes

- **Skills policies require a set of formal and informal arrangements that secure coherence across ministries and levels of government and that encourage stakeholder engagement.** In Mexico, important efforts have been made to improve formal arrangements for collaboration in skills policies across ministries, levels of government and with stakeholders. However, effective collaboration remains a challenge given the large number of ministries, authorities, public agencies and stakeholders involved in the skills system. At the same time, stronger stakeholder engagement is inhibited by the top-down decision-making processes that continue to dominate policy making.
- **Collaboration across ministries should be reinforced to secure policy coherence.** Given the large number of ministries with responsibilities for skills development, activation and use in Mexico, strong co-ordination is needed to secure coherence in policy design and implementation. The law of the public sector in Mexico is not sufficiently clear about the specific responsibilities that each minister has for policies related to skills development, activation and effective use. As a result, the functional responsibilities of ministries are blurred, which creates gaps and overlaps. The creation of the National Productivity Committee (NPC) is a positive step towards improved co-ordination, but NPC efforts and work should be reinforced by more vertical co-operation (there are no representatives from sub-national authorities) and more involvement from stakeholders.

- **Policy alignment across levels of government should be improved to secure responsiveness to regional and local needs.** Policies for the development, activation and effective use of skills should be responsive to the specific needs of regional and local labour markets. Co-ordination and policy alignment between national and sub-national governments is therefore essential to ensure that skills policies receive strong support from top authorities, and that the needs of sub-national authorities are taken into account. Collaboration is mutually beneficial as sub-national entities are often in a much better position to collect information for the monitoring and assessment of policies. There are a number of initiatives that demonstrate the effectiveness of local and regional authorities in building effective skills strategies (e.g. the aeronautic cluster in Querétaro), but there is still much work to be done in order to empower sub-national authorities and stakeholders to be active players in the design and implementation of coherent skills policies in the country.
- **Reinforcing partnerships with stakeholders should be a priority for skills policies in Mexico.** Strong engagement from stakeholders is critical for achieving good levels of effectiveness in policy implementation. Collaboration between government and stakeholders is also needed to ensure that skills policies are aligned with the needs of the economy and society. Although there is a long tradition of stakeholder organisation in Mexico (employers, unions, universities and other relevant actors in the system are collectively represented in a number of relevant bodies for skills policies), policy making still takes mainly place through top-down mechanisms, where substantial, but not empowered actors (e.g. small and medium-sized enterprises, female workers, youth), have a limited voice and participation. The creation of the NPC, in combination with its binding powers and inter-ministerial and consultative nature, is a promising initiative that is already generating results (with specific sectorial plans for skills development), but more support and attention is needed for these actors.
- **Strengthening governance appears to be the main challenge for the Mexican skills system.** Mexico has undertaken multiple efforts to improve collaboration across different ministries and levels of government, and to promote stakeholder engagement in the skills system. In both cases, there have been only limited results. The public administration in Mexico needs to create a new architecture that removes (mostly legal) barriers for collaboration across ministries, creates stronger (mostly budgetary) incentives for inter-ministerial collaboration, and empowers sub-national authorities and stakeholders through more inclusive policy-making mechanisms that transcend political cycles. In this respect, the NPC is again a good example of the collaborative and policy-oriented efforts that should be supported more extensively in Mexico.
- **A legal architecture that reinforces and finances collaboration across ministries and agencies is needed.** Many participants in the OECD Skills Strategy workshops and technical meetings identified that the main challenge of the skills system in Mexico is to remove the legal barriers that prevent collaboration across different ministries and levels of government. The current law of public administration is not sufficiently concise and precise about the specific responsibilities each minister has, and does not provide more guidance about the limited areas in which inter-ministerial collaboration is expected. Furthermore, the current law does not provide much room for flexibility or incentives for collaboration across different ministries and levels of government. Paradoxically, this rigidity produces policy gaps and overlaps. For example, there are skills challenges in Mexico where there is insufficient government policy attention (such as improving the match between the skills developed in education and the skills needs of the labour market, or improving the quality of VET), while other challenges are tackled by multiple ministries/agencies/levels of government without sufficient co-ordination (such as data collection and training programmes). Therefore, in addition to supporting the work of inter-ministerial bodies (such as the NPC), the whole legal architecture of the public administration in Mexico needs to create incentives for more effective collaboration.

Challenge 8. Improving public and private skills funding

- **The financing of skills systems may impact the effectiveness of skills policies.** Total expenditure on education (in 2013) as a share of GDP in Mexico (5.2%) is close to the OECD average (5.3%); however, on a per student basis it is comparatively low (USD 3 386 USD in Mexico against USD 9 000 as average for the OECD). For governments and individuals, education spending pays for itself in net present value terms, although improving the quality, targeting and value for money of education spending in Mexico is crucial.
- **Expanding public support for skills investments is important for raising participation in, and the quality of, education in Mexico.** Increasing resources for education can occur either through a reduction in direct costs for students, or, at the tertiary level, through the introduction of a scheme of income-contingent loans. Mexico should also improve the modest levels of support for skills development later in life, for skills activation through active labour market programmes (currently at 0.01% of the GDP, one of the lowest across the OECD), and for better use of skills through supporting employer investment in skills. Tax expenditures offer a potentially important means of supporting skills investments, as reductions in labour income tax liabilities may encourage formalisation. Government financial support for business R&D activity is particularly low and should be improved.
- **Returns to education in the Mexican labour market are high.** These returns more than cover their costs to the government over their lifetime, and are also high for individuals. Profitable educational investments should not be foregone due to lack of access to financing for students.
- **The current tax and social contribution mix constitutes a significant barrier to formalisation in the labour market.** Employers' social contributions are a particular barrier to the activation of those with low earnings potential. While income tax credits go some way to offsetting this effect, they could go further. It is particularly important that labour taxes are reduced for those with low skills and low earnings potential, who are particularly at risk of informality.

Building shared understanding and commitment to action

Effective skills policy design and implementation requires a broad and shared understanding of the need to enhance skills, the current strengths and challenges facing a country's skills system, and priorities for action. The OECD Skills Strategy provides an integrated, strategic framework that can foster inter-ministerial collaboration and effective engagement with all relevant actors, including employers, trade unions, training institutions, students and other stakeholders.

The NPC is the main counterpart to the OECD in defining the scope and strategic direction for this project. It includes representatives from the Ministry of Finance, the Ministry of Economic Affairs, The Ministry of Public Education, the Ministry of Labour and Social Protection, and the National Council of Science and Technology (CONACYT), as well as from trade unions, employers and educational institutions. The NPC is itself a concrete expression of Mexico's commitment to promoting a whole of government and whole of society approach to skills.

As an integral part of the diagnostic phase, two interactive workshops were held in June and September 2016, each of which gathered over 80 participants from employer organisations, trade unions, education and training providers, foundations, and private companies. While many of the skills issues discussed are long standing and were well known to participants, the workshops also generated new insights into how different stakeholders perceived and experienced these challenges. Through their active participation in these events, stakeholders have played an important role in identifying the main challenges faced by Mexico's skills system, and their input has helped to shape this diagnostic report.

From diagnosis to action

The main goal for this joint project between the OECD and the Mexican government on “Building an effective Skills Strategy for Mexico” was to provide a strategic assessment of the national skills system in Mexico, and the way skills are developed, activated and used. This analysis is needed when designing effective skills policies and strategies to meet Mexico’s future skill needs, and to improve the match between supply and demand for skills.

Now is the time to focus on improving skills outcomes to boost productivity and innovation, while strengthening the bedrock for Mexico’s future economic growth. This diagnostic report represents one input to future action on improving skills outcomes in Mexico. Of equal importance to future success are the “intangible” assets generated by the project through sustained inter-ministerial dialogue and stakeholder engagement over the course of 2015-16. In particular, this report will be used as input for the NPC to develop binding recommendations to pursue a lifelong development skills strategy for Mexico.

This diagnostic report can also be used in many other ways, including: as a basis for raising public awareness, fostering broader public debate about the skills challenges currently facing Mexico, and encouraging social partners and national and regional governments to work together to tackle these challenges in the future. It will serve as the foundation for the upcoming Action Phase to be conducted in 2017, which will move the focus from diagnosis to action. The OECD stands ready to support Mexico in its ongoing efforts in designing and implementing better skills policies for better jobs and better lives.

Contact us

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OECD Skills Strategy Diagnostic Report Executive Summary

Mexico

Better skills policies help build economic resilience, boost employment and reinforce social cohesion. The OECD Skills Strategy provides countries with a framework to analyse their skills strengths and challenges. Each OECD Skills Strategy diagnostic report reflects a set of skills challenges identified by broad stakeholder engagement and OECD comparative evidence while offering concrete examples of how other countries have tackled similar skills challenges.

These reports tackle questions such as: How can countries maximise their skills potential? How can they improve their performance in developing relevant skills, activating skills supply and using skills effectively? What is the benefit of a whole-of-government approach to skills? How can governments build stronger partnerships with employers, trade unions, teachers and students to deliver better skills outcomes? OECD Skills Strategy diagnostic reports provide new insights into these questions and help identify the core components of successful skills strategies.

This report is part of the OECD's ongoing work on building effective national and local skills strategies.

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- www.pisa.oecd.org for the Programme for International Student Assessment (PISA) data
- skills.oecd.org for OECD work on skills

Further reading

OECD (2012), *Better Skills, Better Jobs, Better Lives: A Strategic Approach to Skills Policies*, OECD Publishing.

OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing.

OECD (2015), *OECD Skills Outlook 2015: Youth, Skills and Employability*, OECD Publishing