

Document of
The World Bank

Report No: 23295-ME

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF US\$300.0 MILLION
TO THE UNITED MEXICAN STATES
FOR
BASIC EDUCATION DEVELOPMENT PHASE II
February 21, 2002

**Human Development Sector Management Group
Country Management Unit for Colombia, Mexico and Venezuela
Latin America and the Caribbean Regional Office**

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 2001)

Currency Unit = New Peso (MXN\$)

MXN\$ 1.0 = US\$0.109

US\$1.0 = MXN\$ 9.207

FISCAL YEAR

January 1 -- December 31

ABBREVIATIONS AND ACRONYMS

AGE	School Management Support (<i>Apoyo a la Gestión Escolar</i>)
ANMEB	National Agreement for Basic Education Modernization (<i>Acuerdo Nacional para la Modernización de la Educación Básica</i>)
APL	Adjustable Program Loan
ATP	Technical Pedagogic Assistants (<i>Asistentes Técnico Pedagógicos</i>)
COMPRANET	Internet Procurement Mechanism (<i>Sistema Electrónico de Contrataciones Gubernamentales</i>)
CAS	Country Assistance Strategy
CMRs	Teacher's Resource Centers (<i>Centros de Maestros y Recursos</i>)
CONAFE	National Council for Educational Development (<i>Consejo Nacional de Fomento Educativo</i>) of SEP
CONALITEG	National Free Textbook Commission (<i>Comisión Nacional del Libro de Texto Gratuito</i>)
CONAPO	National Population Council (<i>Consejo Nacional de Población</i>)
COPLADE	State Planning Council (<i>Consejo de Planificación del Estado</i>)
DGAF	CONAFE's General Directorate for Administration and Finance (<i>Dirección General de Administración y Finanzas</i>)
DGE	General Directorate for Evaluation (<i>Dirección General de Evaluación</i>) at SEP
DGEI	General Directorate for Indigenous Education (<i>Dirección General de Educación Indígena</i>) at SEP
DGPPP	General Directorate for Planning, Programming, and Budgeting (<i>Dirección General de Planeación, Programación, y Presupuesto</i>) at SEP
FDI	CONAFE's Institutional Development Fund (<i>Fondo de Desarrollo Institucional</i>)
FM	Financial Management (<i>Gestión Financiera</i>)
FMR	Financial Monitoring Report (<i>Informe de Monitoreo Financiero</i>)
FMS	Financial Management Specialist (<i>Especialista en Gestión Financiera</i>)
GDP	Gross Domestic Product (<i>Producto Interno Bruto</i>)
GTC	Central Technical Group (<i>Grupo Técnico Central</i>) for the APL
IBRD	International Bank for Reconstruction and Development (<i>Banco Internacional para Reconstrucción y Desarrollo</i>)
IDB	InterAmerican Development Bank (<i>Banco Interamericano de Desarrollo</i>)
INEA	National Institute of Statistics, Geography and Information (<i>Instituto Nacional de Educación para Adultos</i>) of SEP
INEGI	National Institute of Statistics, Geography and Informatics (<i>Instituto Nacional de Estadística, Geografía e Informática</i>)
IPDP	Indigenous Peoples Development Plan (<i>Plan de Desarrollo para Pueblos Indígenas</i>)

GDP	Gross Domestic Product (<i>Producto Interno Bruto</i>)
LGE	General Education Law (<i>Ley General de Educación</i>)
MET	Technical Memorandum of Understanding on Auditing (<i>Memorando Técnico de Entendimiento sobre Auditorías</i>)
MIS	Management Information System (<i>Sistema de Información de Gestión</i>)
MXN	Mexican Peso (<i>Peso Mexicano</i>)
NAFIN	National Financing Agency (<i>Nacional Financiera, S.N.C.</i>)
NCB	National Competitive Bidding (<i>Licitación Pública Nacional</i>)
NGOs	Non-Government Organizations (<i>Organizaciones No-Gubernamentales</i>)
OECD	Organization for Economic Cooperation and Development
PAD	Project Appraisal Document (<i>Documento de Evaluación de Proyecto</i>)
PAM	In-Service Teacher Training Program (<i>Programa de Actualización del Magisterio</i>) at SEP
PARE	Primary Education Project (<i>Programa para Abatir el Rezago Educativo</i>) (Ln. 3407-ME, 1991)
PAREB	Second Primary Education Project (<i>Programa para Abatir el Rezago en Educación Básica</i>) (Ln. 3722-ME, 1994)
PAREIB-I	Basic Education Development Project, APL1 (<i>Programa para Abatir el Rezago en Educación Inicial y Básica</i>) (Ln. 4333-ME, 1998)
PAREIB-II	Basic Education Development Project, APL2 (<i>Programa para Abatir el Rezago en Educación Inicial y Básica</i>)
PIARE	Integral Program of Education (<i>Programa Integral para Reducir el Rezago Educativo</i>) IDB-financed
PNE	National Education Program (<i>Programa Nacional de Educación</i>)
PME	Education Modernization Program (<i>Programa para la Modernización Educativa 1989-1994</i>)
Posprimaria	CONAFE's Rural Community-Based Lower Secondary Education Program
PRODEI	Initial Education Project (<i>Proyecto para el Desarrollo de la Educación Inicial</i>) (Ln. 3518-ME, 1992)
PROGRESA	Education, Health, and Nutrition Program (<i>Programa de Educación, Salud, y Alimentación</i>) at SEDESOL
PROSSE	Program of Essential Social Services (<i>Programa de Servicios Sociales Esenciales</i>) (Ln. 3913-ME)
SCEP	Coordinated Public Education Services (<i>Servicios Coordinados de Educación Pública</i>), SEP's delegation in the states, replaced by SEPES
SECODAM	Secretariat for Control and Administrative Development (<i>Secretaría de Contraloría y Desarrollo Administrativo</i>)
SEByN	Undersecretariat of Basic and Normal Education (<i>Subsecretaría de Educación Básica y Normal</i>) at SEP
SSEDF	Undersecretariat of Educational Services for the Federal District (<i>Subsecretaría de Servicios Educativos del Distrito Federal</i>) at SEP
SEP	Secretariat of Public Education (<i>Secretaría de Educación Pública</i>)
SEPES	State Level Secretariats of Public Education (<i>Secretarías Estatales de Educación Pública</i>)
SHCP	Secretariat of Finance and Public Credit (<i>Secretaría de Hacienda y Crédito Público</i>)
SNTE	National Teachers Union (<i>Sindicato Nacional de Trabajadores de la Educación</i>)
SOE	Statement of Expenses (<i>Estado de Gastos</i>)

SPPP	Undersecretariat for Planning, Programming, and Budgeting (<i>Subsecretaría de Planeación, Programación, y Presupuesto</i>) at SEP
SWOT	Analysis of strengths, weaknesses, opportunities and threats (<i>Análisis de fortalezas, debilidades, oportunidades y riesgos</i>)
<i>Telesecundaria</i>	TV-Based Lower Secondary Education Program at SEPEs
TCP	Teaching Career Program (<i>Programa de la Carrera Magisterial</i>) at SEP
UCEs	CONAFE's State Coordinating Units (<i>Unidades Coordinadoras Estatales</i>)
UPC	CONAFE's Compensatory Programs Unit (<i>Unidad de Programas Compensatorios</i>).

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MEXICO
BASIC EDUCATION DEVELOPMENT PHASE II

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MAP(S)
IBRD 23547

MEXICO
 Basic Education Development Phase II
Project Appraisal Document
 Latin America and Caribbean Region
 LCSHD

Date: February 21, 2002 Country Director: Olivier Lafourcade Project ID: P057531 Lending Instrument: Adaptable Program Loan (APL)	Team Leader: Eduardo Velez Bustillo Sector Director: Ana-Maria Arriagada Sector(s): EY - Other Education Theme(s): Education; Poverty Reduction Poverty Targeted Intervention: Y
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Program Financing Data							
APL	Indicative Financing Plan				Estimated Implementation Period (Bank FY)		Borrower
	IBRD US\$ m	%	Others US\$ m	Total US\$ m	Commitment Date	Closing Date	
APL 1 Loan/ Credit	115.00	66.6	57.60	172.60	06/15/1998	12/31/2001	Nacional Financiera (NAFIN)
APL 2 Loan/ Credit	300.00	56.5	231.10	531.10	08/31/2001	06/30/2004	United Mexican States
APL 3 Loan/ Credit	210.00	39.9	316.40	526.40	01/01/2004	06/30/2006	United Mexican States
Total	625.00		605.10	1230.10			

[X] Loan [] Credit [] Grant [] Guarantee [] Other:

For Loans/Credits/Others:

Amount (US\$m): \$300.00

Borrower Rationale for Choice of Loan Terms Available on File: Yes

Proposed Terms (IBRD): Fixed-Spread Loan (FSL)

Grace period (years): 5

Years to maturity: 15

Commitment fee: 0.85% for the first 4 years and 0.75% thereafter. **Front end fee (FEF) on Bank loan:** 1.00%

Initial choice of Interest-rate basis:

Type of repayment schedule:

- [] Fixed at Commitment, with the following repayment method (choose one):
- [] Linked to Disbursement

Financing Plan (US\$m):	Source	Local	Foreign	Total
BORROWER		231.10	0.00	231.10
IBRD		239.96	60.04	300.00
Total:		471.06	60.04	531.10

Borrower: UNITED MEXICAN STATES

Responsible agency: MINISTRY OF EDUCATION (SEP) THROUGH CONAFE

(Consejo Nacional de Fomento Educativo)

Address: Rio Elba 20, Piso 16; Col. Cuauhtemoc 06500; México, D.F.; México

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Other Agency(ies):

State-level Secretariats of Education (SEPEs)

Estimated disbursements (Bank FY/US\$m):							
FY	2002	2003	2004				
Annual	105.00	100.00	95.00				
Cumulative	105.00	205.00	300.00				

Project implementation period: 2.5 years

Expected effectiveness date: 04/20/2002 **Expected closing date:** 06/30/2004

OCS APL PAD Form: Rev March, 2000

A. Program Purpose and Project Development Objective

1. Program purpose and program phasing:

The proposed project is the second phase of a three-phase program supported by an Adaptable Program Loan approved by the Board on June 4, 1998. The purpose of the APL is to support implementation of the Government's compensatory education program, as outlined in National Education Program (PNE) of the current and former Administrations (Education Development Program 1995-2000 -- "*Programa de Desarrollo Educativo - 1995-2000*" and National Education Program 2001-2006 -- "*Programa Nacional de Educación 2001-2006*"). The PNE intends to raise the level and quality of schooling in Mexico, bringing the country's education indicators substantially closer to other OECD countries. The compensatory programs are implemented through CONAFE (*Consejo Nacional de Fomento Educativo*), which targets under-served communities. These communities tend to be: rural, poor, indigenous, and marginalized urban areas. Phase I of the APL, supported by a US\$115.0 million loan (Ln. 4333-ME), closed on December 31, 2001, after one six month extension.

Board approval for Phase II is required because of the following reasons:

(a) Triggers. Two of the 16 triggers for Phase I, approved by the Board in June 1998, have not been fully met. These triggers are (i) the carrying out of a pilot program for children age 9-14 in marginalized urban areas; and (ii) partial implementation of the Institutional Development Fund (FDI) by the participating states (See Annex 12). The Government is committed to address during Phase II the two areas where triggers have been only partially met in a way that appropriately reflects lessons learned during Phase I and is expected to fully accomplish the original Program objectives.

(b) Nationwide expansion of the Program. The Government's commitment to the Program is reflected in the expansion of activities nationwide, from the original 14 states to 31 states. The Interamerican Development Bank (IDB) has originally financed 17 states, but will no longer do so. Thus, total Program cost increased by 58 percent from an original estimate of US\$780.10 million to US\$1230.10 million. In Phase 2, the Government is assuming the IDB's share of the financing, and as a result, the Government share in total project financing has increased from 20 percent to 49.2 percent. Although the proposed \$625.00 million in Bank financing for the Program remains unchanged, the Bank's share in total financing was reduced to by from 80 percent to 50.8 percent.

(c) Change in the Borrower. At the request of the Mexican Government, the Borrower will be the United Mexican States for all loans submitted to the Board starting in calendar 2002, thus Nacional Financiera, S.N.C. is no longer the Borrower for the Basic Education Development Project. As a result, legal documents no longer comprise a loan and a guarantee agreement, but only a loan agreement.

The basic education strategy of the PNE focuses on the classroom and on the school. The program is structured along six main lines: (a) promote equity, ensuring that all children have equal opportunity to attend and stay in school and to complete basic education; (b) compensate for the social and regional inequalities by channeling incremental resources to the most disadvantaged students at risk of failing at school; (c) use flexible, nontraditional modalities to reach all groups through diversified attention to cultural and linguistic groups; (c) improve the quality of the educational process and student learning achievements, ensuring that all students gain basic knowledge and develop the intellectual abilities, values, and attitudes necessary to pursue full personal and family lives, act as competent and commitment citizenship, participate in productive work, and have the basic conditions to continue to learn throughout their lives; (d) improve pre-service and in-service training of teachers; and (e) reform the organization of basic education, ensuring better articulation between levels, and more efficient use of resources. A more

complete discussion of the Government basic education sector program appear in the Policy Letter (Attachment 1) and in Annex 4 of the Project Appraisal Document (PAD for the Basic Education Development (PAREIB) Project, Report No: 17535-ME, dated May 7, 1998.

The phases of the APL were planned as follows:

- Phase I (1998-2001; Ln. 4333-ME of US\$115.0 million) extended the Government's compensatory education programs to schools targeted by CONAFE's marginality index and not covered by other projects. Within this context, APL1 expanded coverage of lower secondary education in rural areas, mainly through *telesecundaria* and *posprimaria* modalities. This phase also piloted new modalities of basic education including education for migrant children, and for indigenous children in regular schools through inter-cultural, bilingual teaching. A pilot program for out-of-school children age 9-14 in marginal urban areas was not implemented because its design proved to be inadequate. In addition, APL1 helped prepare a competitive fund to support education innovation initiatives proposed by states, even though the fund was not made fully operational during APL1, as planned.
- Phase II (2001-2003; loan of US\$300.0 million), the current proposal, to be implemented in 2002-2003, seeks to rationalize and integrate the various compensatory programs into a more decentralized environment, both in terms of organization and financing. APL2 will expand the activities of APL1, covering additional targeted schools and communities nationwide. APL2 will also continue the efforts of the PAREB project (Ln. 3722-ME) at the primary school level. APL2 support initial, preschool, primary and lower-secondary education in the poorest communities nationwide, extending the originally planned coverage of primary education from 14 to 31 states. APL2 will develop criteria for graduating from the program those primary school that show significant improvement in education indicators.
- Phase III (2004-2006; loan of US\$210.0 million), is current proposed to be implemented in 2004-2005 and, if approved, would support the continued implementation of the Government's compensatory education program based on (i) an assessment of progress in raising completion rates for targeted primary schools and enrollment rates for lower-secondary schools (*telesecundaria*), and continue to graduate from the program the school that no longer need additional support; and (ii) an adaptation of the mechanisms to support decentralization of the compensatory education program at state level, built under APL1 and APL2. Current estimates indicate that it will be desirable to increase the original loan amount for APL3 by US\$90.0 million, in order to keep the share of IBRD financing at similar level as in APL2. This issue will be considered during the preparation of APL3.

2. Project development objective: (see Annex 1)

Phase I objectives were:

- (a) To provide quality improvements in initial and basic education, including nontraditional modalities of post-primary education;
- (b) To improve the school supervision system;
- (c) To develop and implement improved school-based school management strategies;
- (d) To design and pilot new education modalities to better meet the needs of migrant children, children aged 9-14 in urban marginal areas, indigenous children in general primary schools, and community-based post primary education (*posprimaria*); and,
- (e) To strengthen institutional capacity for system management and for planning, programming, and evaluation at the federal and state levels.

APL1 has largely achieved these goals. As Annexes 4 and 12 show, many results exceeded targets by substantial margins, and only two of the triggers for the preparation of APL2 were not fully met (see Annex 12).

Phase II objectives are:

- (a) To consolidate and expand quality improvements in initial and basic education (preschool, primary, and lower-secondary education), covering, *inter alia*, infrastructure improvements, didactic materials provision, teacher training, school supervision, and implementation of school-based management strategies;
- (b) To strengthen management of the education system through support for the Government's ongoing strategy to consolidate the organization and management of basic education (preschool through lower secondary), and to integrate the operation of the compensatory education program;
- (c) To put in operation a competitive fund to support education innovations proposed by the states; and
- (d) To continue strengthening of states' institutional capacity to plan, program, and evaluate the delivery of basic education services.

Phase III objectives will likely focus on the fine-tuning of delivery mechanisms based on a more fully developed decentralization model.

3. Key performance indicators: (see Annex 1)

Key indicators under Phase II include: (a) Physical implementation indicators, to provide evidence of tangible progress in delivering a set of critical inputs to the project schools; (b) Satisfactory progress in policy activities that seek to strengthen the decentralization process and to improve the efficiency and equity of education services; (c) Educational outcome indicators covering completion, failure, repetition and dropout rates for targeted schools compared to national rates, distinguishing between indigenous and non-indigenous preschools and primary schools; and (d) Coverage of targeted students and schools by compensatory subprogram and educational level. For key indicators of APL1, see World Bank, "Basic Education Development (PAREIB) Project," Annex 1, Report No: 17535-ME dated May 7, 1998.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 22147-MX **Date of latest CAS discussion:** May 21, 2001

The most recent CAS for Mexico (Country Assistance Strategy Progress Report) stresses social sustainability, macroeconomic stability and sustainable growth, and effective public government, as strategic priorities for achieving poverty reduction. This APL implements the CAS strategies by giving the poor access to quality basic education. In this regard, the APL breaks the vicious cycle of poverty, achieving social sustainability and promoting sustainable growth. For education to be effective in reducing poverty, universal primary school enrollment—which basically Mexico has already achieved—is insufficient; the poorest segments of the population must receive basic education of improved quality and efficiency. Achieving this goal is a major challenge, particularly in the poorest states, in rural areas, and in indigenous communities, where dropout and repetition rates are high, and preschool coverage, cognitive achievement, and enrollment in secondary education are low.

The instruments to address this challenge include: (a) Improving teacher quality; (b) Increasing teacher

retention in isolated rural areas; (c) Reducing grade repetition and dropout rates; (d) Improving academic achievement among the poor, rural, and indigenous populations; (e) Improving management capacity in strategic planning and evaluation at both federal and state levels; and (f) Increasing community participation in school management. The APL approved in June 1998 harnesses all these instruments. The proposed APL2 further integrates interventions designed to improve the education of Mexico's poorest groups to meet the standards of the rest of the country. On balance, these interventions help disadvantaged groups emerge from poverty while raising the average level and quality of schooling in the Mexican population as a whole.

2. Main sector issues and Government strategy:

Mexico has made important progress in providing universal primary education. An important achievement in the last decade was the increased allocation of resources to the education sector, moving from 3.7 percent of GDP in 1990 to 4.9 percent in 2000, which helped the country reach quantitative goals. Total public education spending per student in Mexico increased steadily in the 1990s, in spite of the increase in total student population. Today, nearly 90 percent of school-age children attend primary school; 86 percent of these students complete primary school. An estimated 83 percent of 13-15 year old children attend lower secondary education; 76 percent of enrollees (62 percent of the 13-15 year old population) complete lower secondary education. Despite recent progress, universal coverage remains a challenge and the quality of basic education remains distantly below international standards. In 1992, the Federal Government, the State Governors, and the Teachers' Union began a concerted effort to address these problems through the National Agreement for the Modernization of Basic Education (ANMEB), which a new general education law ratified in 1993. The agreement undertook bold policy reforms, extending basic compulsory education from six to nine years and integrating preschool as a free (but not compulsory) part of basic education. In addition, the Government gave managerial responsibility for basic education to the 31 states, approved a new curriculum, allocated more resources to education, and emphasized compensatory programs that provide extra support to education for specific disadvantaged groups.

The current Government's main priority is to provide quality basic education to all citizens. The government hopes to achieve this goal by improving learning outcomes, developing innovative approaches to reach remote and marginalized groups, and providing better educational opportunities to those students progressing slowly than expected. The Government's PNE emphasizes the special needs of handicapped children, migrant children, indigenous children, and children living in rural or marginal urban areas. The main issues facing the Government's compensatory education programs are:

- (a) **Low readiness for learning among children entering school**, especially among the poor. High repetition rates in early primary school identify readiness as a major problem, although improvements have occurred. From the 1992-93 school year to the 1998-99 year, repetition rates for poor primary students decreased from 13 percent to 9.3 percent, but even the 1999 rates are significantly higher than the national average, and repetition in first grade continues to be the most common. Research shows that investments in early childhood education and preschool increases school readiness and substantially impact learning outcomes in primary school and beyond. But participation in initial and preschool education remains very low among the poor, thereby perpetuating the vicious cycle of poverty. Only five percent of children below the age of four benefit from formal or informal initial education, and although coverage of public preschool has increased by 26% over the last ten years, access to these programs for the poor is still very limited. This limited access may explain why grade repetition by poor children in primary school remains frequent.

- (b) **Inadequate training for teachers working with at-risk students.** The majority of teachers graduating from pre-service training institutions refuse teaching positions in remote rural or indigenous schools, forcing the Government to rely on untrained teachers to provide educational services in remote rural areas. SEP/CONAFE has addressed this problem by offering in-service training programs.
- (c) **Poor fit between education programs and the needs of students and communities.** As part of the school management reform, SEP is encouraging schools and communities to develop pedagogical strategies that better fit local conditions. Lack of local capacity has limited the opportunities for this reform, particularly in remote areas. The program will train and supervise principals and teachers, and encourage teachers and parents to develop school-based initiatives that meet the specific needs of their children.
- (d) **Deficient supervision.** Supervisory practices, despite recent improvements, are still fragmented and centered on monitoring compliance with administrative regulations, rather than on pedagogical support to teachers and to schools directed at improving the teaching/learning process. Under the Government's new strategy, the supervisory team (including technical pedagogic assistants) have a primary role in providing pedagogical support to teachers in the classroom and in identifying and addressing the specific training needs of teachers.
- (e) **Low secondary education coverage.** The recent increase in lower secondary education enrollment is good but insufficient. Approximately 38 percent of students who complete primary education do not continue to secondary school, either because places are unavailable or because the school programs do not accommodate their need to work. Leaving education before secondary school is a critical problem for migrant students, who represent a significant percent of the primary and lower secondary school-age children not attending school. The Program supports nontraditional modalities for providing secondary education, especially extending coverage to rural areas through distance education and community-based programs (*telesecundaria* and *posprimaria*), complementing the Government's Education, Health and Nutrition Program (PROGRESA) which provides, *inter alia*, demand incentives for families to send their children to school.
- (f) **Weak managerial and administrative capacity at the state level.** States have uneven institutional capacity to provide basic education services and to operate, monitor and evaluate ongoing compensatory programs. These weaknesses hamper the states' ability to translate national education policies and strategies into concrete actions, to target resources towards localities of greatest need, and to monitor student achievements.
- (g) **Fragmentation of basic education by level and type.** Each level and type of education has distinct management and administrative structure. This bureaucracy has led to both administrative inefficiency from duplication of bureaucratic structures and inconsistency in the policies, strategies and objectives of each modality. The first step in addressing this problem was the integration of preschool, primary and lower secondary into basic education. The Government's goal is to continue this integration by consolidating management structures and better articulating the national core curriculum.
- (h) **Lack of critical school inputs in poor, rural, indigenous, and marginal urban communities.** Schools serving the poor, rural, indigenous, and marginalized urban poor lack critical inputs.

Rectification of educational inequities requires not only provision of infrastructure, materials and teachers, but also offering critical inputs to schools, including pedagogical support to teachers and effective school management.

The Government's PNE, which the Bank has supported since its inception, addresses these issues. For the 2001-2006 period, the SEP/CONAFE strategy focuses on establishing minimum operational standards for all schools targeted by the compensatory education program, developing innovative programs to address the needs of students, involving schools and communities in education decision-making, and developing the institutional capacity of states to design and implement national education policies and compensatory programs.

3. Sector issues to be addressed by the project and strategic choices:

Strategic choices were made as to the scope, focus, and coverage of both the Program as a whole and the APL2 specifically. Goals for these strategic choices were to optimize resource use and program impact. Experience from previous basic education development projects in Mexico strongly influenced these choices.

Resulting choices continued to support the Government's compensatory education program for basic education (preschool through lower secondary), by combining different projects into a single system. This strategy targets direct inputs to the schools attended by the poorest students. It also provides technical assistance to support the Government's education reform by investing in teacher training, school supervision, and community participation. The Government's decision to unify basic education, affords improvements in the efficiency of the education system in Mexico. External support can enhance this effort by seeking economies of scale where possible and by promoting the integration of interventions within an increasingly decentralized environment.

The choice to support lower secondary education programs targeted to the poor, is based on the need to increase the level of education of the poor and give them an avenue out of poverty. The success of earlier and ongoing programs (such as PROGRESA and the Compensatory Education Program) increased demand for secondary education among the poor, thereby making capacity expansion and quality enhancement urgent tasks, especially at the lower secondary level. With the unification of the basic education cycle, attention needs to be given to system-wide strategies, particularly curricula coherence and transitions between levels.

The choice to provide key inputs to the poorest schools, reflects the finding that the presence of all critical inputs can magnify quality improvements. This synergy effect encouraged a project design that ensures availability and opportune delivery of key inputs at the school level, and the use of corrective measures when supply is missing or deficient. In the area of teacher training and school supervision, the government has reoriented its approach to emphasize team work and school-centered strategies.

The choice to graduate from the program those schools that have already attained significant improvement in key education indicators is made based on the government policy for compensatory education program, which stresses targeting to the most needy schools. The graduated schools will continue to be monitored with respect to education indicators and students achievement, to ascertain if they indeed are able to maintain improved performance in the absence of the additional support provided by the compensatory education program. The graduation process and its monitoring, will provide an important test to the long term sustainability of the program.

In contrast to earlier education compensatory programs, the proposed APL2 covers all 31 states, supporting initial and basic education. Expanded coverage allows for effective consolidation of

compensatory interventions while strengthening the capacity of the states to plan and execute the Program. APL2 also strengthens federalization of the education system, through technical assistance to improve institutional capacity at state level, particularly in planning and evaluation. At the central level, the project supports the normative role of SEP/CONAFE in identifying the universe and priority criteria for the compensatory education programs, in defining the target population, and in providing quality standards, pedagogical/administrative norms, and regulations to guide state action.

Investment in early childhood education and in the first years of schooling at preschools, substantially improves learning in later years. The Government has reoriented its approach to initial education in rural areas by strengthening its community base, by focusing on the role of parents as educators, and by emphasizing adequate child raising practices. The Government has expanded communication efforts and revised materials for parents and community promoters along a more participatory mode. The Program will continue to support and expand initial education in Mexico's poorest communities as an integral part of the basic education system.

4. Program description and performance triggers for subsequent loans:

The Program supports the Government compensatory education strategy through a set of interventions designed to improve initial and basic education in the poorest communities and to strengthen the institutional capacity in the education sector at federal and state levels. Within this basic framework, the Program design is flexible, allowing for periodic adjustments based on experience. APL1 activities sought to improve quality in preschool, general secondary, technical secondary, *telesecundaria*, and initial education at schools serving the poorest 50 percent of rural students and the poorest 25 percent of students in urban marginal areas. During the implementation of APL1, the strategy evolved to emphasize, instead, the extension of coverage of rural lower secondary education, particularly through distance education (*telesecundaria*). Program activities in other levels were carried out in reduced scale. This realignment of priorities was a result of the sharp increase in demand for lower secondary education resulting from higher completion rates in primary school and the impact of education incentives provided by PROGRESA. The triggers for APL2 were met in relation to Component 1. For Component 2, all triggers were met, except two that were only partially met. As Annex 12 indicates, one partially met trigger corresponds to the implementation of the competitive part of the Institutional Development Fund (*Fondo de Desarrollo Institucional* -FDI), which proved poorly designed because, *inter alia*, the competitive element among states was not readily accepted by the states. APL2 will support a Basic Education Innovation Fund, which improves upon the design of the original FDI. The second partially met trigger refers to the pilot program for children age 9-14 in urban marginal areas. The institution responsible for carrying out this pilot (the National Institute for Adult Education - INEA), was substantially restructure during APL1, thereby restricting its mandate to the population 15 years or older requiring education assistance. During APL2, a study of basic education in marginalized areas of Mexico City will seek to provide the research base to design appropriate education interventions for marginalized urban youth. Because of these partially met triggers, and the proposed changes in timing of the APL phases, Board approval will be sought for the proposed loan supporting APL2.

C. Program and Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

APL2 Program components:

Component 1 - Quality Improvements in Initial and Basic Education

This component seeks to continue and expand quality enhancing activities carried out in APL1, covering additional targeted schools and communities at initial, preschool, primary, and lower secondary levels, both in rural and marginal urban areas. APL2 will also integrate the organization and finances of CONAFE's compensatory programs nationwide.

This component will finance, *inter alia*, the following:

- (a) Expansion or rehabilitation of education infrastructure in targeted communities;
- (b) Educational materials and equipment for students, teachers, and schools;
- (c) Training for teachers, supervisors, other administrative staff and initial education promoters, including technical assistance at the school level provided by the Network for Education Quality in Primary Schools, and performance incentives for primary teachers;
- (d) Support and technical assistance to community or parents associations for school-based management activities;
- (e) Improvement of school supervision.

Component 2 - Strengthening Institutional Capacity at Federal and State Levels

This component will further strengthen the management capacity of key sector entities at both federal and state levels through:

- (a) Consolidating the SEP national evaluation system and evaluation of education outcomes at state level;
- (b) Consolidating the national school mapping system and its use in regional planning for basic education at state level;
- (c) Educational research through studies;
- (d) Strengthening the role of the Secretariats of Education (SEPEs) to better provide basic education services by reinforcing their capacity to plan, program, budget, monitor and evaluate the delivery of basic education services;
- (e) Education innovation at state level, through the Basic Education Innovation Fund; and,
- (f) Project administration at central and state level, contract and benefits for personnel at central and state level, and operational costs.

This component will finance technical assistance at the federal and state levels for: (a) the development of more efficient management practices, (b) the implementation of the national evaluation and school mapping systems, and (c) SEPEs' institutional building priorities, such as integration of the administration of basic education at state level, and rationalization of SEPEs operations through reducing duplication of functions. Financing will also be provided for incremental operating cost incurred in project administration, office equipment, primary teacher performance incentives, and for salaries and benefits of personnel in the central area and in the 31 states. Operating costs *include inter alia*, per diem and travel expenses for administrative staff travel, office materials, office maintenance and utilities.

Component	Sector	Indicative Costs (US\$M)	% of Total	Bank-financing (US\$M)	% of Bank-financing
1. Quality Improvements in Initial and Basic Education			0.0		0.0
1.1 Infrastructure and equipment	Other Education	102.50	19.3	76.90	25.6
1.2 Didactic materials	Other Education	74.53	14.0	15.40	5.1
1.3 Training	Institutional Development	166.95	31.4	91.80	30.6
1.4 School management	Institutional Development	88.02	16.6	72.00	24.0
1.5 School supervision	Institutional Development	7.76	1.5	5.80	1.9
2. Institutional Strengthening			0.0		0.0
2.1 Consolidation of the national evaluation system	System Reform & Capacity Building	18.16	3.4	13.60	4.5
2.2 Consolidation of the national school mapping system	System Reform & Capacity Building	1.60	0.3	1.20	0.4
2.3 Studies	Institutional Development	3.42	0.6	2.60	0.9
2.4 Institutional Strengthening	Institutional Development	11.03	2.1	8.30	2.8
2.5 Basic Education Innovation Fund	Institutional Development	6.12	1.2	4.60	1.5
2.6 Project Administration	Institutional Development	48.01	9.0	4.80	1.6
			0.0		0.0
Total Project Costs		528.10	99.4	297.00	99.0
		Front-end fee	3.00	0.6	3.00
		Total Financing Required	531.10	100.0	300.00
					100.0

2. Key policy and institutional reforms supported by the project:

The program supports consolidation of the following key policies:

- (a) Gradual decentralization in the operation of the compensatory programs through (i) strengthening the states' institutional capacity to plan and operate the basic education system; and, (ii) promoting school autonomy, through increased participation of communities and parents-school associations in school management.

- (b) Consolidation of the targeting criteria of the education compensatory programs to improve the quality of education for poor students in the most remote rural areas and marginal urban areas, and to establishing an appropriate "graduation" policy for the schools that no longer require compensatory support.
- (c) Increased accountability at all levels, through improvements in teacher training, provision of minimum operational standards for targeted schools, dissemination of national learning assessment results nationwide, and support for school-parents associations.
- (d) Integration of the compensatory education programs (initial and basic education covering preschool through lower secondary) to reduce the excessive bureaucracy and inconsistency inherent in the present fragmented system.

3. Benefits and target population:

About 3.5 million students are currently enrolled in preschool education (gross enrollment of 71 percent), 14.8 million in primary education, and 6.4 million in lower secondary education. Overall, the basic education enrollment for the year 2000 was approximately 23.6 million students, or 120% of the age group 6-14, indicating a significant share of students who enroll late. The APL targets direct benefits (defined as improvements in didactic material, training of school personnel, technical assistance, and primary teachers performance incentives) to schools in rural and marginal urban areas with the highest incidence of poverty and lowest education indicators, seeking to ensure the successful completion of basic education schooling for poor children. In broad terms, the Program seeks to reach: (a) 9.86 percent of the children aged 0-4 of whom, 9.5 percent are indigenous children (according to INEGI 2000 Population Census); (b) at preschool level, the program will cover 87 percent indigenous children and 25 percent of non-indigenous children in rural areas; (c) at primary school level, 100 percent indigenous primary school children will be covered, in addition to 73 percent non-indigenous rural primary school children, the poorest 25 percent of primary school children in urban marginal areas; (d) at the lower secondary level, the program covers all students attending rural *telesecundarias*. Target populations for Component I by level, type of program, and by school-year is presented below for the entire APL Program.

APL Coverage Targets - Component 1, 1998-2006

A. Students and Schools

Program	Level	Group	Baseline 1997-1998	End APL1 Target 1998-2001	End APL1 Actual 1/ 1998-2001	End APL2 Target 2002-2003	End APL3 Target 2004-2005
Non-Indigenous	Initial	Families	2/		472,994	974,556	974,600
	Preschool	Students	342,000	349,500	23,061	232,686	232,700
		Schools	12,750	13,400	346	7,657	7,700
	Primary 3/	Students	NA	NA	NA	3,421,867	3,422,000
		Schools	NA	NA	NA	28,136	28,200
Indigenous	Initial	Families	32,500	41,000	35,866	73,899	73,900
	Preschool	Students	285,000	307,000	8,352	255,271	255,300
		Schools	8,000	8,600	172	7,665	7,700
	Primary	Students	NA	NA	NA	793,606	793,700
		Schools	NA	NA	NA	9,142	9,200
Total	Initial	Families	2/		508,860	1,048,455	1,048,500
	Preschool	Students	627,000	656,500	31,413	487,957	488,000
		Schools	20,750	22,100	518	15,322	15,400
	Primary 3/	Students	NA	NA	NA	4,215,473	4,215,700
		Schools	NA	NA	NA	37,278	37,400
<i>Posprimaria</i> 4/		Students	5/	8,025	9,575	6/	6/
		Schools	5/	321	383	6/	6/
<i>Telesecundaria</i> 4/		Students	217,000	231,000	236,298	274,926 7/	142,562 7/
		Schools	5,600	6,200	6,061	4,236	2,271

1/ Actual figures as of June 2001 and estimated figures through 12/31/2001.

2/ The baseline for non-indigenous initial education does not exist because only indigenous population are targeted.

3/ During APL1 primary education was covered by PAREB and PIARE programs.

4/ *Posprimaria* and *telesecundaria* include both non-indigenous and indigenous students.

5/ *Posprimaria* did not exist in 1997-1998.

6/ As of school year 2001-2002, the *posprimaria* program was transferred to the regular community education program of CONAFE for community education.

7/ In the case of *telesecundaria*, the target is cumulative, considering that in each phase different schools are targeted; thus, in the end of Phase III all 12,578 *telesecundarias* are expected to have benefited from the program. The selection of which *telesecundaria* to benefit in each phase is made according to the established targeted criteria for the compensatory education program (see Annex 13).

Other direct beneficiaries of the Program are teachers, supervisors, education administrators, parents and communities. All of these beneficiaries will receive training provided by the project. In addition, primary teachers will benefit from technical assistance and performance incentives; primary school supervisors and sector chiefs will benefit from *per diem* to facilitate visits to the schools, and technical pedagogic assistants (ATPs) will receive both training and monetary incentives. The number of non-student beneficiaries is given below for APL2. During APL3, the number of non-student beneficiaries is estimated to be approximately the same number as in

APL2.

B. Other Beneficiaries

Other Direct Project Beneficiaries	PAREIB APL2
Promoters of Initial Education	52,423
Preschool teachers	24,896
Primary school teachers	162,174 (of which, 32,616 in Indigenous schools)
Technical Pedagogic Assistants (ATP) for the Network for Education Quality in Primary Schools	5,306
<i>Telesecundaria</i> teachers	12,879
School parents associations	52,600 (of which, 15,322 in preschools)
Primary school supervisors and sector chiefs	1,538 (of which 955 in indigenous schools)

Benefits by Phase.

APL1 was implemented in 31 states covering initial, preschool, and lower-secondary education levels, while primary education was covered by PAREB and PIARE projects. During APL1, coverage of lower-secondary education was extended to 244,998 poor rural students through *telesecundarias* and *posprimaria* modalities. In addition, APL1 provided for quality improvements in education for approximately 611,000 children at the initial education level (through 508,860 parents), and successfully developed educational models for indigenous children attending regular primary schools, and for migrant children. These pilot programs have been absorbed by SEP, as part of the regular basic education program, thus ensuring their sustainability.

APL2 will be implemented in 31 states covering initial, preschool, primary, and lower-secondary education levels. The short-term benefits of APL2 include quality improvements in education for approximately 6.2 million children (of whom, 1.3 million, or 20 percent, are indigenous children), and 347,557 other direct beneficiaries, as follows:

- (a) 1,258,147 children at the initial education level (through 1,048,455 parents);
- (b) 487,957 preschool children;
- (c) 4,215,473 primary school students;
- (d) 274,926 children in rural areas at the lower secondary level, attending *telesecundaria* schools;
- (e) 52,423 initial education promoters;
- (f) 24,896 preschool teachers;
- (g) 162,174 primary school teachers;
- (h) 37,279 primary school supervisors;
- (i) 5,306 technical pedagogic assistants (ATPs);
- (j) 52,600 parents associations at preschool and primary levels; and,
- (k) 12,879 *telesecundaria* teachers.

The Program benefits children and communities indirectly, through more efficient education services that are expected to result from institutional development and decentralization activities supported under Component 2.

At the end of APL2, **medium-term benefits** will accrue from improved efficiency and equity in the management and delivery of educational services at both the federal and state levels. The technical assistance program will strengthen the capacity for policy analysis and strategic planning at the federal level and, at the same time, will improve the capacity of the SEPEs' to plan, operate, monitor and evaluate regular and compensatory programs at the state level.

The **long-term benefits** of the Program derive from the projected increase in the average years of schooling of the population, owing to the greater coverage and higher quality of basic education for the poor. This increase will imply a reduction in the absolute level of poverty for those who can participate more productively in the economy (see Annex 4 for an economic analysis of the Program).

4. Institutional and implementation arrangements:

Implementation period: 2.5 years

Executing Agencies. As in APL1, CONAFE will be the main executing agency for the Program, and will coordinate all implementation activities on behalf of SEP. CONAFE has extensive experience implementing Bank- and IDB-financed projects, and will exercise its project coordination responsibilities through a Compensatory Programs Unit (UPC), with participation of SEP's normative units, notably the Under-Secretariat for Basic and Normal Education (*Subsecretaría de Educación Básica y Normal-SEByN*), the Under-Secretariat for Planning, Programming and Budget (*Subsecretaría de Planeación, Programación y Presupuesto- SPPP*), the General Directorate for Evaluation (*Dirección General de Evaluación - DGE*), and the Under-Secretariat for Educational Services of the Federal District (*Subsecretaría de Servicios Educativos del Distrito Federal - SSEDf*). The UPC has operative units in each state (*Unidad Coordinadora Estatal - UCE*), that work closely with the state education authorities (SEPEs). The UPC coordinates program operations with the relevant CONAFE General Directorates, especially the General Directorate for Planning (DGP), and the General Directorate for Administration and Finance (DGAF). These units are adequately organized and staffed to perform the required administrative, supervisory and financial management functions; in particular, the DGAF it has recently strengthened its financial management unit with skilled staff. The responsibilities of UPC include:

- (a) Project execution activities;
- (b) Consolidation of the yearly work plan and program execution review;
- (c) Procurement;
- (d) Information preparation for the review of annual implementation;
- (e) Coordination with normative areas of SEP;
- (f) Communication with state-level offices; and
- (g) Monitoring of project objectives, goals, processes, and timetables in coordination with SEP and the SEPEs.

Through the SEPEs, the states plan and execute compensatory education activities according to the national guidelines, which specify the targeted schools and communities, menu of supported activities, educational norms to be met, and procedures to be used. Through the UCEs, the states prepare annual work plans for the compensatory program, including procurement plans for the following year, which CONAFE

consolidates at the federal level. CONAFE carries out procurement at the central level (under ICB or NCB); while the UCEs in each state carry out procurement at the municipal or school level, for smaller contracts. The UCEs implemented PAREB and PIARE projects, as well as APL1. A fully staffed UCE was established by CONAFE for the 17 states where primary schools were not covered by PAREB. The institutional capacity of CONAFE is deemed satisfactory (see Section E on institutional and financial analysis below).

CONAFE developed significant project management capacity in previous Bank-supported projects, and meets minimum Bank financial management requirements. It has adequate procedures for budget control, adequate structures for internal control and financial reporting, and a computerized information system that supports accounting processes and transactions. The agency employs well trained professionals; and its financial management arrangements were considered appropriate for APL1. But CONAFE must still adjust its management information system to produce quarterly Financial Monitoring Reports (FMRs). CONAFE and the Bank agreed on an action plan to strengthen the current management information system (MIS).

Expansion and/or rehabilitation of school infrastructure by municipalities and local communities, will follow the same planning and financial transfer mechanisms used in PAREB and in APL1 (see Annex 6). For these activities, investment planning is carried out at the state level; CONAFE consolidates state plans at the federal levels, and submits the corresponding budget to the Ministry of Finance. Nacional Financiera, S.N.C.(NAFIN), the financial agency for the project, oversees authorized funds transfers to each state on a quarterly basis through commercial banks; these transfers are 100 percent pre-financed by CONAFE's regular budget, and loan reimbursements are made only after actual expenditures are documented. Communities with approved infrastructure plans, receive 60 percent of funds in advance to purchase all materials, with the balance disbursed as civil works progress. NAFIN also oversees transfers of funds to SEP units participating in project implementation. The approval by the Bank of the Construction Design Criteria, and of the Standard Contract Document for education infrastructure, are conditions of loan effectiveness.

For APL2 the Borrower is The United Mexican States and NAFIN assumes the function of financial intermediary. NAFIN submits withdrawal applications to the Bank, maintains (along with CONAFE) separate records and accounts for all transactions under the loan, and commissions audits of deposit accounts in accordance with standard Bank requirements.

Once the MIS system upgrade has taken place, CONAFE will ensure that its MIS produces quarterly FMRs, in addition to other basic reporting requirements. Eventually, the use of FMRs will allow the migration from traditional procedures to FMR-based disbursements. Consequently, traditional disbursement methods (mainly Statement of Expenses - SOEs and direct payments) will be used until CONAFE is ready to adopt the FMR-based disbursement methodology, which will be contingent upon (i) the agreement of CONAFE, SHCP, NAFIN and the Bank, and (ii) full compliance of Bank requirements.

The Bank, NAFIN and CONAFE had already agreed on the format and content of PMRs, but as the project opted for the use of the FMR format, discussions were initiated to ensure appropriate and timely reporting. In accordance with a time-bound action plan, satisfactory to the Bank, for improving its current MIS systems, CONAFE will produce quarterly FMRs acceptable to the Bank, starting 45 days after the first full quarter/period after loan effectiveness. These arrangements and resulting procedures are reflected in the Project Operations Manual for APL2.

Procurement of Works, Goods and Services. Procurement of works and goods financed by the Bank under the project will be carried out in accordance with Bank's Guidelines for Procurement under IBRD loans (Annex 6).

Review by the World Bank. The proposed threshold for prior review by the Bank is based on the procurement assessment of the project executive agency and is summarized in Annex 6. In addition to the review of individual procurement actions, the annual procurement plan will be reviewed and approved by the Bank, as will the procurement audits carried out during the project implementation period.

Financial Management. In order to comply with Bank requirements of OP/BP 10.02, a certified Financial Management Specialist (FMS) carried out an assessment of CONAFE's institutional capacity on financial management. The assessment covered the project's financial management system (budgeting, accounting, internal control, auditing and reporting), and the agency's equipment and staffing. Additionally, two analyses were carried out: one focused on the strengths/weaknesses/opportunities/threats or SWOT analysis, and the second focused on risk assessment. The results of both analyses were incorporated in the FM Assessment, which was based on applicable Bank guidelines. Supporting documentation is in the project file on financial management (see Annex 6). The FM Assessment also covered the format and content of the PMRs. However, after the new FMR were launched, discussion with CONAFE officials were initiated to refocus from PMR to FMR, as its use for project management and reporting, and eventually also disbursing.

The FM assessment concluded that CONAFE's financial management system is adequate, and satisfies minimum Bank's financial management requirements. It also ascertained that CONAFE developed significant project management capacity during prior and ongoing projects, which ensures continuity in operations. For the production of PMRs, CONAFE's will enhance its financial management system according to an Action Plan satisfactory to the Bank. Presently, CONAFE is adjusting its actions to focus on FMR preparation.

Budgeting Process and Flow of Funds. CONAFE prepares the annual project budget. Financing for the project is included in the regular CONAFE budget, clearly identifying in accounting records by the digit, as agreed by the Bank and SHCP for identification of Bank-financed projects. Details on budgeting process and flow of funds are part of the Project Operations Manual.

Special Account and Project Account. A Special Account will be established at the *Banco de México* and be managed by NAFIN. CONAFE's General Directorate for Administration (DGAF), in collaboration with the Compensatory Program Unit (UPC), will provide NAFIN with instructions and supporting documentation for all transactions affecting the Special Account, including disbursements, reimbursements, and direct payments. CONAFE will not have direct access to the Special Account. A Project Account, in local currency, will be open in a commercial bank. Funds from this account will be used to pay project expenditures under eligible categories and components, and will provide the resources for advances made for specific activities. These expenditures will be 100 percent pre-financed by CONAFE's regular budget, and periodic reimbursements through the Special Account will be processed thereafter, based on documentation of actual expenditures. Both NAFIN and CONAFE will operate in line with Bank financial management guidelines and procedures, and both will conserve all its corresponding supporting documentation, to be made available to the Bank or to the auditors, as required. Additionally, NAFIN will prepare and provide to the Bank a monthly statement of reconciliation of all transactions affecting the Special Account.

Disbursement. As mentioned above, a Special Account in US Dollars will be established at the Banco de México for APL2. The authorized allocation in this Special Account is US\$ 30.0 million, which will be limited at the early stage of the project to an initial deposit of US\$ 10.0 million. When the aggregate disbursements under the loan have reached US\$20.0 million, the initial allocation may be increased up to the authorized allocation amount. The Special Account will be monthly replenished, and will be used for all transactions eligible for financing from the loan. Traditional documentation requirements apply for direct payments, special commitments, and SOEs. When the project is converted to FMR-based disbursement methodology, disbursement procedures will be modified in line with Bank requirements and, the authorized amount of the Special Account may be increased up to US\$ 50.0 million.

Accounts and Audit. CONAFE will maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the resources and expenditures in connection with the execution of the project. The financial and accounting system to be used in the initial phase of project implementation will be the same used by CONAFE in the implementation of the Second Primary Education (PAREB, Ln. 3722-ME) and the APL1 (Basic Education Development, Ln. 4333-ME). The due date for the first FMR is 45 days after the first full quarter/period after loan effectiveness. CONAFE will prepare and submit FMRs to the Bank on a quarterly basis, linking project expenditures to key monitoring indicators of project activities. The format and basis to produce these PMRs was agreed by CONAFE, NAFIN and the Bank, and is part of the Project Operations Manual. Nevertheless, the Project Operations Manual will be adjusted to reflect the adoption of the new FMRs. The approval by the Bank of the Project Operations Manual is a condition of loan effectiveness.

External audits of project financial statements will be required on an annual basis for all expenditures with respect to which withdrawals from both the Loan Account and the Special Account were made. CONAFE will ensure that records, accounts and supporting information are available for review by the Bank supervision missions, by NAFIN, and by the external auditors, as required. Annual audits will be carried out according to the Technical Memorandum of Understanding on Auditing (MET) dated September 28, 2000. This document was agreed by the Bank and the *Secretaría de Contraloría y Desarrollo Administrativo* (SECODAM).

On an yearly basis, CONAFE and SECODAM will request the Bank's non objection to the proposed auditor and terms of reference for the audit. The audit will be carried out according to national auditing norms, which observe the International Standards on Auditing (ISA). As required by international standards and best practices, annual audits will include review of processes.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

In discussing options to address the objective of providing quality basic education to all students in Mexico, a number of alternatives were considered during the preparation of the APL. The following section summarizes the reasons why certain alternatives were rejected in favor of the adopted approach.

Program Alternatives Considered:

- (a) **National project vs. restricted focus on the poorer states.** Prior to PAREIB, Bank-supported projects focused on states with higher levels of poverty. Experience with these projects shows that,

while giving priority attention to the poorer states simplifies targeting, disadvantaged schools and students exist in every state, and high performing schools exist even in poor states. The improved targeting criteria used in the APL establishes a set of poverty and education indicators to identify schools and communities in greatest need of extra assistance, both in rural and marginalized urban areas.

- (b) **Limiting focus to formal basic education vs. including non-formal modalities for initial and post-primary education.** Informal, community-based initial education has been an important complement to preschool programs in improving children's school readiness and eventual primary school performance. An evaluation done in 1987 confirmed this assumption, especially among the poor. The evaluation also indicated that initial education programs require quality improvements to have significant impact. No changes in the educational system have occurred since 1987 to render this finding obsolete. Furthermore, lower secondary education proved to require adjustments to best meet the need of small rural communities. The APL combines both formal and informal modalities of pre-primary and post-primary education with improved delivery mechanisms and pedagogic methods.
- (c) **General poverty focus vs. focus on indigenous children.** While basic education for non-indigenous students has significantly expanded, basic education for indigenous students requires special attention. Bilingual education, an inter-cultural approach, the use of appropriate teaching/learning materials and programs, and adequate pedagogical supervision, are necessary to improve the performance of indigenous teachers and students. Special attention is also required for indigenous students attending regular schools. The APL2 covers all primary indigenous schools and 88.2 percent of indigenous preschools, ensuring that all these necessary elements are available to the schools.
- (d) **Supply vs. demand side financing.** The PROGRESA program is successfully addressing demand-side factors that influence educational opportunity, by proving monetary incentives to poor families to maintain their children in school. As a result of the success of PROGRESA and of the compensatory education programs which increased completion rates at primary school, demand for secondary education in rural areas has been steadily increasing, making the limited access to secondary education a binding constraint for many rural and poor students. Poor quality of education at all levels also contributes to high dropout rates among the poor. To reverse this trend, innovative interventions must enrich the educational environment, adequately train teachers, provide appropriate education materials, develop supportive supervisors, and establish incentives for school-based initiatives to find local solutions to local educational problems. The APL addresses the need to expand coverage of lower-secondary education in rural areas through *telesecundarias*.

APL2 Alternatives Considered

- (a) **Institutional Development Fund (FDI) vs. support for Basic Education Innovation Fund within the States.** PAREIB APL1 envisioned a National Institutional Development Fund (FDI) to finance the best proposals presented by the states as part of the institutional development component. The FDI consisted of a "Basic Fund," to provide technical assistance for the preparation of Strategic Plans (*Planes Rectores*) by the states. This part of the fund was successfully implemented. The second part of the FDI, consisting of a competitive fund managed by CONAFE for which the states would present proposals for carrying out the Strategic Plans, was not successful. This competitive part of the fund was not implemented in APL1, because not only inter-state competition proved politically unacceptable, but more importantly, the rules to operate the Fund were excessively complicated and lacking in important design elements (see Annex 12 for more details). As a result of discussions with

stakeholders at the federal and state levels, APL2 will introduce substantial changes to this element of the Program. The proposed Basic Education Innovation Fund will have simplified operating norms, including: (a) competition within states rather than among states, (b) fewer proposals (3 per state) focused on five specific problem areas, (c) evaluation of proposals by a high level evaluation committee created within SEP, (d) transparent operational guidelines that clearly state the evaluation criteria, and (e) provisions for monitoring and impact evaluation of sub-projects. CONAFE will be responsible for the financial management of the fund, while SEP will respond for its technical aspects. The "Request for Proposals" as well and the Operating Norms of the Fund will be published as part of the Project Operations Manual.

- (b) **Rural Poverty Focus vs. Rural/Urban Poverty Focus.** Although APL1 intended to include interventions targeted to the 25 poorest primary students in marginal urban areas, the urgent need to reallocate funds to expand rural secondary education limited the scope of this element of the Program. APL2 will give special attention to providing the poorest schools in small urban communities with quality improvements that lead to better education outcomes. In addition, APL2 will support a study of Mexico City poorest and most educationally backward schools, designed to prepare a strategy to improve disadvantaged schools in metropolitan areas.
- (c) **Fragmented vs. Integrated Compensatory Education Programs.** Financially and organizationally, integrating compensatory education programs has been an important Program objective since its inception. However, APL1 was implemented still under a fragmentary structure. APL2 will provide the first opportunity to apply this strategic priority nationwide, by integrating the organization and finances of the programs. CONAFE will take care to monitor and evaluate this process, making periodic adjustments as needed, to increase the probability of success of the integrated approach.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed Equity in primary education	Primary Education I (PARE), (Ln. 3407-ME effective 12/11/1991 and closed 06/30/1997), aimed at improving the quality and efficiency of primary education in the four states with the highest incidence of poverty. (ICR Report No. 17303)	HS	HS
Equity in initial education	Initial Education Project (PRODEI), (Ln. 3518-ME effective 08/12/1993 and closed 06/30/1997) Objectives included preparing children of poorest families for school, educating parents in child-rearing practices, and strengthening institutional capacity to formulate and evaluate policies in initial education while improving the quality of primary education in the 14 states with the highest incidence of poverty. (An ICR was prepared for PRODEI: No. 17192.)	S	S
Equity and efficiency in primary education	PAREB, (Ln. 3722-ME, effective 09/30/1994 closing date 12/31/2001) covering the poorest and most educationally backward communities in 14 states. In 1997, the PRODEI and PAREB projects were consolidated into one. The ICR for the consolidated project is under preparation.	S	S
Equity and Efficiency in Basic	PAREIB Phase I (APL1) (Ln.	S	S

Education (initial, preschool, primary and lower-secondary education)	4333-ME effective 06/29/1999; closing date 12/31/2001). An evaluation by the Government was prepared, and the ICR is under preparation. PAREIB-I aimed at improving coverage and quality of basic education (initial, preschool, primary, and lower-secondary education).		
Protection of social services directed to the poor	Program of Essential Social Services (PROSSE), (Ln. 3912-ME effective 07/06/1995 closed 06/30/1998), in response to the 1995 economic crisis, this project aimed at protecting essential social services for the poor, strengthening existing social safety nets, and establishing the base for measuring and implementing efficiency gains in the social sector. (see ICR No. 18850 of January 22, 1999).	S	S
Other development agencies Equity in primary education Improving quality in lower secondary education	PIARE, IDB-funded in parallel to PAREB, with similar objectives, covering 17 other states. This project will not have a follow on, as PAREIB APL2 will cover primary schools all 31 states. Distance Education project, IDB-funded, to increase access for students at the lower-secondary level using various modalities. This project was cancelled. The APL interventions designed to improve lower secondary education (telesecundaria), partly compensate for the cancellation of this project.		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

APL2 incorporates the lessons learned from APL1, from prior education projects in Mexico, and from education projects with similar objectives elsewhere in Latin America. The most important lessons learned during the implementation of APL1 are the following:

The APL instrument is especially well suited for achieving program objectives that require long term investments, such as improvement in the quality of basic education. This is so, because the APL favors the maintenance of an overall policy framework that helps sustain program activities over time and favors periodic evaluations of partial achievements during the program implementation. In fact, the APL shows that working within an overall policy framework is crucial for the success of the project. The Mexican government is very much supportive of the use of this lending instrument for selected sectors. In particular, the government values the flexibility afforded by the instrument, and recognizes the benefits of incorporating in subsequent APL phases, the lessons learned from the first earlier phases. The use of the APL instrument in Mexico also taught the important lesson that triggers should be few in number, centered in important outcomes that can be meaningfully measured, and on policy advances that are central to the development objectives of the program. This type of triggers should replace the rather long array of indicators covering delivery of program inputs.

Teacher Training. The APL1 (as well as previous education projects in Mexico), supported in-service teacher training, through large national/regional courses. APL1 helped identify the shortcoming of this strategy: by taking teachers out of the classroom to attend national/regional courses, the training program failed to provide sufficient improvement in the classroom performance of teachers. It became clear that teachers need “hands-on” technical assistance to help them apply the skills acquired in pre-service and in-service training courses to the particular situation of the classrooms where they work. In other words, only in-service teacher training combined with classroom-based technical assistance can produce lasting teaching/learning results. A Bank study conducted in poor communities in four states in 2000, shows that teachers demand and benefit from direct technical assistance at the school level. Applying this lesson, APL2 supports a Network for Education Quality in Primary School. This network is staffed with specialized primary teachers (technical pedagogic assistants) who visit schools several times during the year, to help teachers resolve teaching and learning problems in the classroom, while at the same time, assisting them in establish a continuous performance evaluation program based on student learning achievements measured at the beginning and at the end of the school year. The Network will operate for all targeted primary schools and employ approximately 5,306 technical pedagogic assistants (ATPs).

Teacher Training. The second lesson regarding teacher training, is particular important for teachers serving the poorest schools. For those teachers, certain key courses need to be available on a continuous basis, notably courses on multi-grade pedagogic techniques, and courses dealing with inter-cultural and bilingual education. This is so, because the rate of rotation of teachers serving the poorest schools continues to be high, even though teacher performance incentives has significantly reduced rotation. This lesson has been applied in APL2, through the support of Teacher’s Resource Centers (*Centros de Maestros y Recursos* - CMRs). These are “resource centers” located near the target schools, that function as outreach training facilities where distance training courses and materials are available year-round for teachers to take advantage of, according to their time availability and interest.

Education Federalism. Mexico has decentralized to the states the function of providing universal basic education since 1992. PARE, PAREB and APL1 have supported this decentralization policy

with technical assistance to strengthen the capacity of the states to deliver both regular and compensatory education programs. The experience of APL1 in this respect, taught two important lessons. First, technical assistance should be directed at certain key policy reforms, such as integration of the administration of basic education, and rationalization of operations through the elimination of functional duplication at state level. Second, allowing the states to seek assistance from the federal level to address their specific problems is useful, but very often is side-tracked into simply providing additional funding for routine administrative functions. In other words, instituting a demand driven mechanism is not enough to efficiently foster education federalism. Instead, it is important to provide incentives at the state level to generate innovation, thereby national program can be appropriately adjusted to the state context, reinforcing the fact that the states are indeed responsible for the education outcomes within their borders. The revised design of the Basic Education Innovation Fund will accomplish this purpose in APL2.

School autonomy and community participation. The initiative of supporting the establishment of parents associations in primary schools were started by CONAFE prior to the APL, in 1995, with 2,500 pilot rural primary schools. Subsequent studies of effective schools in Mexico, confirmed the importance of this instrument to strengthen school autonomy, which in turn, tends to improve the quality of education. This is an interesting and unusual development in a country where, until quite recently, all education decisions were taken centrally. Based on the experience of PAREB and APL1, Parents Associations are now operating in all primary schools targeted by the compensatory education program, and their functions and decision-making role in the schools is expanding. Parents Association manage school funds to carryout routine school maintenance and complement the supply of basic materials, very frequently the Associations also execute school infrastructure improvements under contract with CONAFE. They participate in the School Council where they contribute to the planning and administration of the school, along with the director and the teachers. Parents are systematically informed of the progress of their children, first in qualitative terms and under APL2 on the basis of actual learning achievement measures. In APL2, this initiative will be expanded to the 15,322 preschools supported by the program.

Pilot Programs. The basis of successful pilot programs seems to be the availability of pertinent research findings to orient the selection of appropriate intervention which the pilot will test, as well as the necessary institutional base to carry out the pilot. It is not enough to identify a pressing problem. For example, while the problem of street children who are not working or attending school in marginal urban areas is an acute, a pilot program to address their needs (planned for APL1) did not succeed without the necessary research and institutional bases. Clearly, it is not advisable to “jump into action” without a defined program design and implementation mechanisms. At a minimum, the failed experience in APL1 to implement the pilot for children age 9-14 children in urban marginal areas, served to highlight to SEP the importance of the theme. Street children now command a key place within SEP’s program, not only through the creation of a special committee to address the problem, but also as part of the National Education Program for the current Administration. APL2 will build upon this experience, by supporting a study of basic education in marginalized areas of Mexico City, with the goal of identifying specific interventions that will help retain poor urban children in school and improve the quality of education they receive.

Poverty and Monitoring and Evaluation. The relationship between education and income in Mexico, as elsewhere, is positive. Economic rates of returns are positive for all levels, even after a significant expansion of the education system. Given the strong emphasis on poverty alleviation in Mexico, the Bank regularly monitors the relationship between education and incidence of poverty. Systematically, education attainment exerts a very powerful negative effect on the probability of being poor. Every

year of additional education decreases by 5 percent the chance of an individual to be classified as poor. Now that Mexico has reached a good coverage at the primary education level, the focus of priority investment in the sector is, at the margin, to increase quality of primary education but also coverage and quality of preschool and lower secondary education. This is a central objective of APL2.

Achievement and sustainability of organizational and operational changes require continuous reinforcement of ownership and participation throughout project design and implementation. Experience from APL1 shows the importance of incorporating all key players (SEP, CONAFE, SEPEs, parents, among others), involved in the program. SEP and CONAFE took leading roles in the preparation of the APL and both have remained actively involved in monitoring, assessing progress and adjusting its design. Support for parents' participation in key aspects of school management during APL1 was highly successful both in empowering parents and in improving the accountability of teachers to the communities in which they work.

Effective targeting mechanisms must be precise. APL1 introduced more precise targeting mechanisms than had been previously used, based on experience where state-level data aggregation hide impoverished localities and caused leakage of benefits to non-poor communities. APL1 has further refined these mechanisms, permitting identification of targeted schools through a set of indicators (using school characteristics as well as income level of the area) in rural and urban areas. Nevertheless, because of the fragmentation of funding and administration of the compensatory education program during APL1, the full adoption of this improved targeting mechanism was not completely achieved due to the fragmentation of the programs. APL2 will use the targeting mechanisms developed under APL1 in the entire country, providing the first opportunity to systematize targeting. In monitoring the implementation of APL2, CONAFE will further assess the effectiveness and equity of these targeting mechanisms.

Effective targeting mechanisms must provide for an exit strategy. The identification of targeted schools measured on the bases of key education indicators during APL1, has shown that some schools have registered significant performance improvements, and might be approaching the stage of being ready to graduate from the compensatory education program. During APL2 a precise graduation criteria will be developed and applied. The graduation of schools from the program provides an unique opportunity to test if the improvements observed are sustainable in the absence of the additional support provided by the program. Thus, the graduated schools will be closely monitored through APL2 and APL3.

The synergy of key inputs and factors of student success produces a significant impact. Evaluation of the PARE and PAREB experiences shows that, while each of the important inputs (consistent teacher attendance, adequately trained teachers, adequate supervision, availability of appropriate textbooks and materials, and participation in initial and preschool education) improves learning outcomes, the combination of all of critical inputs in a single school markedly increases student achievement beyond the effect to be expected from an aggregation of the effect of each input. This finding highlights the importance of ensuring provision of all inputs to each school, at the right time and sequence. The implementation of APL2 provides for the close monitoring of these factors by school.

Identification of the factors that contribute most to student learning is key. Appropriate policies and relevant sector interventions require a capacity not only to assess student learning outcomes, but also to identify which factors produce the best results, and which interventions are most effective in ensuring the presence of those factors. While the diagnostic capabilities of states and central units have

improved, they require continued attention, particularly in the poorest states. APL2 will strengthen the capacity to evaluate learning outcomes at the federal and state levels, and most importantly, will provide for the systematic dissemination of learning achievement test results at the school level.

Long-term success requires flexibility to adapt program interventions to local needs and evolving experience. In particular, successful approaches allow for adaptation to fit the particular needs of local contexts. APL1 demonstrated the value of such flexibility. Diversity in the approaches taken by different states contributes to enriching the learning experience of the program itself, allowing for cross-fertilization from state to state and for the development of improved overall strategies. Within the basic framework provided by the Government National Education Program 200-2006, APL2 will retain the flexibility to adjust to local needs and will directly stimulate innovative policies at state level, through the Basic Education Innovation Fund.

4. Indications of borrower commitment and ownership:

A Central Technical Group (*Grupo Técnico Central*, or GTC) including representatives from key sector agencies and several technical departments of SEP and CONAFE, prepared the APL Program. Similar teamwork has marked the preparation of APL2. Program designers consulted state authorities at important stages during program preparation; some states have established working groups to accompany the design process. APL2 also reflects both the education priorities of the new Administration and the full ownership of the Program by the new officials, as indicated in the Policy Letter presented in Attachment 1.

5. Value added of Bank support in this project:

The Bank has contributed both technically and financially to the evolution of Mexican compensatory education since the early 1990s. The lessons of each project have been incorporated in successive projects, and the Bank has been able to learn from experiences in other countries, many of which have adapted the Mexican strategies to their own context. The proposed APL2 represents a critical step toward consolidation of many dispersed efforts under one umbrella, with an integrated and coherent approach throughout. In addition, the Bank's continued support will help ensure continuity and would enhance institutional memory at a time of government transition. The Bank's collaborative approach with SEP/CONAFE and SEPEs in program design, has increased dialogue and cooperation at many institutional levels.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

Cost benefit NPV=US\$ million; ERR = % (see Annex 4)

Cost effectiveness

Other (specify)

An estimate of the economic rate of return to the Program conducted during the preparation of the APL, found that the private return to basic education was 18.2 percent, and the social return was 17.5 percent. These were considered lower-bound results, as the analysis did not attempt to quantify the externalities of basic education. In addition, an estimate of the impact and cost-effectiveness of the PARE program (the first Bank project supporting compensatory basic education in Mexico, implemented in 1991-1997) found that the program significantly improved student achievement, in schools receiving the intended complement of inputs; indigenous schools received an even larger benefit. The range of improvement in test scores for rural students was from 19 to 38 percent, while for indigenous students scores increased by between 45 to 90 percent. In addition, the probability of dropping out was 20 percent lower for students covered by the program, even for those student that received only some of the benefits. Considering only the improvement

in test scores (using the maximum increase derived from the program), the benefit cost ratio for the indigenous population was 137:100; the equivalent ratio for the population of rural students was 58:100. Since several of the PARE interventions have now been absorbed into the regular education programs, the contribution of the program has become more difficult to quantify, though perhaps it has grown more significant and sustainable.

The Bank adjusted APL1 early on to address the increase in demand for lower secondary education resulting partly from the impact of both the PAREB and PAREIB programs (in increasing the completion rate at primary level among rural and indigenous populations) and partly from the success of PROGRESA (in directly stimulating the demand for lower secondary education through the provision of monetary incentives to poor families). Confirmation of the benefits accruing to students who complete basic education appears in the report "Mexico: Earnings Distribution after Mexico's Economic and Education Reforms" (No. 19945-ME dated May 16, 2000), which notes that "the implication from the rates of returns to education and the benefit-incidence analysis is that the government should allocate more resources and improve the use of those resources in basic education. It was shown that at this level of instruction, education is working to reduce inequality" (Vol. I, page 4). APL2 is designed to consolidate the interventions undertaken in earlier programs with a view to achieving the synergy that result in higher benefit to cost ratios.

2. Financial (see Annex 4 and Annex 5):

NPV=US\$ million; FRR = % (see Annex 4)

Previous Bank experience with CONAFE indicates that generally acceptable systems are in place. An assessment of the financial management capacity of CONAFE was completed; APL2 incorporates recommendations from the assessment. During initial implementation of APL2, CONAFE will enhance its Financial Management System to operate to produce regular PMRs.

Fiscal Impact:

The table below shows the historical and projected federal expenditures on basic education relative to total federal expenditures and GDP.

Expenditures in Education as a Share of GDP and Federal Expenditures

Fiscal Year	Federal Expenditures in Basic Education (MXN\$ billion)	Total Programmable Federal Expenditures (MXN\$ billion)	Share of Basic Education	GDP (MXN\$ billion)	Share of Basic Education
1993	25.7	207.3	12.4%	1,256.2	2.0%
1994	33.7	249.9	13.5%	1,420.2	2.4%
1995	40.5	290.2	13.9%	1,837.0	2.2%
1996	54.3	404.1	13.4%	2,525.6	2.2%
1997	71.8	526.9	13.6%	3,174.3	2.3%
1998	101.3	600.0	16.9%	3,846.4	2.6%
1999	119.5	710.5	16.8%	4,583.8	2.6%
2000 (*)	144.7	863.7	16.8%	5,432.4	2.7%
2001 (*)	163.0	881.7	18.5%	5,688.5	2.9%

(*)Projections subject to reviews.

Expenditure on basic education is expected to grow in the next several years, to meet the increased demand for secondary education. To the extent that enrollments at the secondary level continue to rise, these

expenditures may grow even further. Investment and recurrent expenditures resulting from the project appear in the table below:

Project Costs as a Share of Federal Budget in Basic Education

Fiscal Year	Federal Expenditures in Basic Education (MXN\$ billion)	Of which Project Costs (MXN\$ billion)	Project Costs as % of Federal Expenditures in Basic Education
2002	180.6	2.58	1.43
2003	199.1	2.60	1.31
2004	217.4	2.60	1.20
2005	235.2	2.60	1.11
2006	247.0	0.96 (*)	0.39

(*) Recurrent costs, or 37% of estimated total project costs.

Assuming that recurrent costs (37 percent of total project costs) continue beyond Program implementation period, covering replacement of didactic materials, infrastructure maintenance, incentives programs, *inter alia*, recurrent costs would amount to about MXN \$ 0.96 billion per year, or 0.39% of projected total federal expenditures in basic education for 2006. Neither the counterpart fund requirements nor the incremental recurrent costs are likely to impose a significant fiscal burden.

3. Technical:

Recently improved operational manuals are in effect in all states. The integration of the compensatory education programs faced no technical problems, and none are anticipated. These manuals provide for environmental guidelines for the execution of infrastructure works, satisfactory to the Bank.

4. Institutional:

4.1 Executing agencies:

- a. Executing agencies: SEP, CONAFE, SEPEs
- b. Project management: CONAFE

4.2 Project management:

CONAFE has extensive experience with Bank- and IDB-financed projects and, through its UCEs in all 31 states, will assist the SEPEs with procurement and the preparation of annual work plans. Rather than adopting a traditional, centrally-driven institutional strengthening approach, the APL uses a demand-side approach to institutional development initiatives targeted to a few priority institutional reform areas. Under the program, states develop yearly operational plans, which the states discuss with SEP/CONAFE, thereby providing an opportunity to review and strengthen their capacity to operate compensatory programs.

4.3 Procurement issues:

CONAFE has received sustained technical assistance from the Bank on procurement procedures. In 2000, an ex-post procurement assessment was carried out, indicating that CONAFE's central procurement capacity is satisfactory, and that CONAFE performance in the procurement of computers exemplifies best practice in the Latin American and Caribbean Region. Improvements were made to the technical specifications for procurement of student educational materials, for use in APL2; bulk purchases were successfully carried out in APL1 allowing for cost savings, and will continue in APL2. The PAREB project and APL1 are part of the experimental initiative of Internet Procurement Mechanism (*Sistema*

Electrónico de Contrataciones Gubernamentales - COMPRANET) launched by the SECODAM; CONAFE staff in Chiapas and Veracruz received special training to participate in this pilot. The assessment also shows that CONAFE needs to continue strengthening state-level procurement capacity through periodic training of local officials to achieve sustained improvements. CONAFE has also developed a systematic training program for all the CONAFE delegations and UCEs. APL2 will continue this training program.

4.4 Financial management issues:

Independent consultants conducted a financial management assessment (FM) of CONAFE during the preparation of the APL2. This assessment produced satisfactory results and confirmed that CONAFE's financial management unit has adequate skills and functional organization. CONAFE's performance under APL1 and in prior projects has also been satisfactory. Through the continued provision of technical assistance to CONAFE in this area, the Bank has ascertained that the financial management information system put in place during APL1 is satisfactory at central and state levels. This system will be further enhanced during APL2 to support the production of PMRs in accordance with Bank guidelines.

5. Environmental: Environmental Category: C (Not Required)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

This project poses no significant environmental issues. New construction in new sites is marginalized from the project. The Project Operational Manual provides for: (i) proper exclusion of new construction; (ii) consideration of basic design specifications; and, (iii) environmental rules for contractors that exclude materials such as asbestos and lead paint, or scarce timber sources, and provide for proper solid and liquid waste disposal.

5.2 What are the main features of the EMP and are they adequate?

N/A

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft:

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

The Project Operational Manual includes a description of the collaboration mechanisms with States, School Councils, Parent School Associations and municipalities, as well as technical guidelines.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

N/A

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

Indigenous education is a social development issue, both considering that 20 percent of the direct beneficiaries of APL2 are indigenous children, and in terms of their poverty level. In preparation for the APL social, institutional, and education constraints to indigenous education were analyzed, and consultations were made with state and local governments, NOGs, and direct indigenous beneficiaries. The Mexico Indigenous Profiles studies corroborated these findings. Lessons learned from previous projects and results of the analyses for the APL, are incorporated in the design of APL2. The monitoring and evaluation system for APL2 includes specific indicators for indigenous education, as shown in Annex 1. The analysis of the impact of compensatory education programs in indigenous education, presented in Annex 11, shows that the Program is advancing in the right direction, as indigenous students are improving at a faster rate than non-indigenous students in terms of learning achievements in primary school.

A social assessment carried out during the preparation of the APL, concluded that the activities proposed for the Program are consistent with the Government's policy for compensatory programs for the indigenous population, and meet the expressed needs of indigenous children, as expressed in interviews with a sample of beneficiaries. A second beneficiary assessment, carried out during the implementation of APL1, confirmed the adequacy of Program strategies. Indigenous communities and schools benefit more than proportionally from the Program interventions. Several initiatives piloted under APL1 have now been incorporated in the regular education program (examples of such successful pilots include: inter-cultural program for indigenous children in general schools, the program for migrant children, and the community-based *posprimaria* program). The design of APL2 continues these same strategies which are fully satisfactory in relation to the Bank's safeguard policies for Indigenous Peoples (OD 4.20). APL2 key indicators are designed to show the impact of the program in indigenous schools. APL2 targets all indigenous primary schools and 52 percent of all preschool children covered by the Program as indigenous. Approximately 27 percent of the total cost of APL2 corresponds to expenditures for indigenous schools, while indigenous students who are direct beneficiaries of the program are 20 percent of the total number of students covered under APL2. The Government has prepared an Indigenous Peoples Development Plan (IPDP) which will be disseminated in Mexico and through the World Bank prior to Negotiations.

6.2 Participatory Approach: How are key stakeholders participating in the project?

The Program promotes increased participation of civil society and education officials at various levels and in every state. The *Proyectos Escolares*, piloted in APL1 and now generalized to all public primary schools, encourage and reward initiative at the school level, as each school prepares its own development proposals. Support to Parents School Associations (*Apoyo a la Gestión Escolar* - AGE) has been successful in increasing parents' involvement in the education of their children and in the management of schools. These efforts have given parents a sense of ownership and a degree of control over the education of their children. Both supervisors and teachers pro-actively define training needs and design training and technical assistance programs to meet the need of each school.

Results of the beneficiary surveys in part guided Program design. These surveys directly guided pilot programs, such as schooling for migrant children and indigenous children in general schools. As noted above, these pilot programs had successful results and, for the most part, are now incorporated into the regular education system. Several other components and activities grew from the direct experience of

ongoing projects (e.g., *Proyectos Escolares*, the community participation model for school infrastructure, the model for parents' association participation in schools), and, in general, beneficiary reaction to these activities has been favorable.

At the institutional level, participation and collaboration among the various departments of SEP and CONAFE, significantly improved the Mexican compensatory education programs. Examples of these include:

- (a) A more comprehensive approach to compensatory education that addresses the needs of disadvantaged students at all levels of initial and basic education in rural and marginalized urban areas,
- (b) Improved targeting mechanisms for compensatory programs,
- (c) Increased involvement of the SEPEs in the design and operation of compensatory programs at state level, leading to programs that are more responsive to local needs, and
- (d) Renewed emphasis on evaluation of learning outcomes and closer links between evaluation results and program planning.

APL2 consolidates Program adjustments based on these lessons.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

The preparation of the APL included consultation with a large cross-section of stakeholders as part of the social assessment, and their input was considered in the APL design. Consulted stakeholders include, *inter alia*: (a) CONAFE staff, supervisors and teachers, (b) staff of SEPEs, (c) principals, teachers and supervisors of the system of indigenous education of SEP, (d) parents and students under both CONAFE and SEP systems, (e) representatives of the teacher union, (f) specialists and experts on indigenous, inter-cultural, and bilingual education, (g) members of indigenous community-based organization including teachers, linguists, medical doctors, anthropologists, etc., (h) representatives of local education NGOs, and (i) the only elected indigenous Senator in Mexico.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

The organizational and financial integration of compensatory programs at federal and state levels ensures higher levels of efficiency by eliminating duplication of administrative structures nationwide. APL2 gives the state units of CONAFE (UCEs) the operational responsibility at the state level and the mandate to act as the main link with the state educational authorities, ensuring the continuous participation of the SEPEs. CONAFE will closely monitor the institutional reforms introduced in APL2 to allow for periodic adjustments in response to local needs, and to promote the continuous strengthening of the local managerial capacity to operate compensatory programs.

6.5 How will the project monitor performance in terms of social development outcomes?

Throughout implementation of APL2, CONAFE/SEP will monitor the performance of the project in terms of its social development outcomes, through key education indicators that measure project outcomes for different target groups.

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Forestry (OP 4.36, GP 4.36)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Pest Management (OP 4.09)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Cultural Property (OPN 11.03)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Indigenous Peoples (OD 4.20)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Involuntary Resettlement (OP/BP 4.12)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Safety of Dams (OP 4.37, BP 4.37)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	<input type="radio"/> Yes <input checked="" type="radio"/> No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

The targeting mechanism for compensatory programs used in APL2 ensures coverage of all primary schools classified as indigenous (schools located in communities with a school population that is 80 percent or more indigenous). And the Indigenous Peoples Development Plan for the project, specifies the particular interventions that will be implemented to improve education outcomes of indigenous students.

F. Sustainability and Risks

1. Sustainability:

The sustainability of Bank-financed education projects in Mexico, including APL1, has been demonstrated by the fact that successful interventions under these projects have been incorporated into regular educational programs by SEP and sub-national governments at state and municipal levels. For example: (a) the production and distribution of indigenous textbooks and materials is now available to all indigenous schools through the General Directorate of Indigenous Education (DGEI); (b) SEP has mainstreamed the regional didactic materials, free textbooks and classroom libraries to all primary and lower secondary schools; (c) innovative models tested in APL1 have been generalized, as for example the model for inter-cultural programs for indigenous children in regular schools, the model for the migrant children's program, and the *postprimaria* model of lower-secondary education for small rural communities which are now being carried out nationwide by the DGEI, SEP, and CONAFE, respectively. The SEPEs in several states have begun to undertake their own compensatory programs, and several municipalities now finance additional community instructors for initial education. This process is expected to continue under ALP2, as the effectiveness of specific interventions is demonstrated and as the process of decentralization increasingly devolves responsibility to the states. In addition, the active involvement of stakeholders at various levels of the planning and operation of the program, helps ensure that new or modified activities will be continued after the end of APL3. At the community and school levels, the success of parental involvement in primary education through the AGEs and their central role in the initial and preschool education programs, has given parents a greater awareness of their role in the education of their children, which bodes well for their continued participation. The direct management of funds for school maintenance, infrastructure improvements, purchase of equipment or materials, by subnational governments, local community groups, and parents' associations gives many local stakeholders a sense of empowerment that will contribute to the sustainability of the program as a whole.

Educational resources have been consistently provided by the Government. Both the National Agreement

for Modernization of Basic Education (*Acuerdo Nacional para la Modernización de la Educación Básica, ANMEB, 1992*) and the General Education Law of 1993 (*Ley General de Educación - LGE*) stipulate the allocation of increasing budgetary resources to public education, including compensatory programs that are partially financed with external funds. The Government's commitment to maintain this historical trend, manifested in the new National Education Program - 2001-2006, is a reassuring indication of the sustainability of the Program.

Substantive improvements in educational systems is a long-term cultural change process. The preparation and approval of the 9-year PAREIB Program is a clear indication that the Mexican government is committed to give first priority to investment in human capital targeted to the poor. The new Administration has demonstrated its support for the Program as an effective instrument to reduce poverty through the expansion of quality educational opportunities for the most disadvantaged children.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Risk	Risk Rating	Risk Mitigation Measure
<p>From Outputs to Objective Policy framework for compensatory programs maintained</p> <p>Continuity in government policies and priorities</p> <p>Government policies continue to support local empowerment</p>	<p>N</p> <p>N</p> <p>N</p>	<p>Continuous close dialogue with Government; demonstrated success of compensatory programs is the most convincing reason for continuing the framework.</p> <p>APL2 was prepared during the first year of the new Administration's six-year term and is consistent with the Government overall social development plan, and explicitly supported by the National Education Program 2000-2006.</p> <p>Decentralization and local empowerment are a central part of the Government's strategy. The SEPEs' increasingly active participation during APL1 has gained momentum, as did parents' involvement at the school level. This trend will be strengthened during APL2.</p>
<p>From Components to Outputs Close coordination between federal and state agencies involved</p> <p>Systematic evaluation of Program outcomes guides Program adjustments and ensures adequate response to local needs</p> <p>States receive adequate support during program implementation</p>	<p>N</p> <p>M</p> <p>M</p>	<p>Program operations are left mostly to the states, with CONAFE playing a supportive, facilitating role, in accordance with the federal normative guidelines provided by SEP.</p> <p>Adequate evaluation budgets to support and expand the national evaluation system, systematic analysis of education indicators, and periodical external evaluations are tested and proven effective. Systematic dissemination of evaluation results of student's achievements, will be carried out during APL2.</p> <p>Demand-driven technical assistance provided to the SEPEs during Program implementation consolidates and further develops the institutional capacity of the states to innovate,</p>

Teaching and supervisory staff receiving technical assistance, training and incentives, apply newly acquired knowledge and skills to the classroom	M	plan, program, budget, and deliver basic education services and promote stronger linkages with local authorities and communities. Classroom-centered technical assistance and participatory training methods widely applied and supported by technical teams organized in integrated supervision zones will be tested under APL2.
Key stakeholders support Program activities	N	Extensive involvement of stakeholders throughout project design and implementation is in place at the school level through the AGEs and Proyectos Escolares; at state level, through the active participation of SEPEs in the design and operation of Program activities; and, at the federal level, through the leading role of SEP's SEByN.
Overall Risk Rating	N	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects:

None.

G. Main Loan Conditions

1. Effectiveness Condition

- (a) The technical criteria and general guidelines governing the contracts for civil works, satisfactory to the Bank, have been adopted by CONAFE;
- (b) The standard agreement between CONAFE and Municipal Governments, School Councils, Parents Associations, and States for the execution of civil works, satisfactory to the Bank, has been adopted by CONAFE;
- (c) The standard participation agreement between CONAFE and States, for the implementation of the project, satisfactory to the Bank, has been adopted by CONAFE;
- (c) The Operational Manual, satisfactory to the Bank, has been adopted by CONAFE and put into effect.

2. Other [classify according to covenant types used in the Legal Agreements.]

- (a) Financial Monitoring Reports (FMRs) will be issued quarterly, starting 45 days after the first full quarter after loan effectiveness,

- (b) Project implementation is carried out in accordance with an Operational Manual,
- (c) Project monitoring during project implementation, and impact evaluation upon project completion is carried out, and
- (d) A plan to ensure the continued achievement of the Project's objectives, satisfactory to the Bank, is prepared six (6) month prior to the Closing Date.

H. Readiness for Implementation

- 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- 1. b) Not applicable.
- 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
- 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
- 4. The following items are lacking and are discussed under loan conditions (Section G):

I. Compliance with Bank Policies

- 1. This project complies with all applicable Bank policies.
- 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.



Eduardo Velez Bustillo
Team Leader

for



(INDERMIT GILL)
Ana-Maria Arriagada
Sector Director



Olivier Lafourcade
Country Director

Attachment 1 (Translated from the Spanish original)

**UNDER-SECRETARY FOR PLANNING
AND COORDINATION**

Ref. No. SPC/217/2001

Mexico City, September 3, 2001

**MR. OLIVIER LAFOURCADE
DIRECTOR
MEXICO DEPARTMENT
WORLD BANK**

Dear Mr. Lafourcade:

I am pleased to send you my regards and to describe in this document the educational policies of the Government of Mexico in the context of the Adjustable Program Lending (the "Program") to be financed with national resources and a World Bank loan. The purpose of the loan is to support the educational reform process being carried out by the Government of Mexico through the Secretariat of Public Education (SEP) and the National Educational Development Council (CONAFE).

GENERAL POLICY

1. The Mexican Government has determined to make education the great national project. Education is a fundamental factor for the development of the country and for capitalizing the opportunities of progress for people, families, and the entire society. Economic globalization and the shift towards knowledge societies in the world forces us to redouble our efforts.
2. The Political Constitution of the United States of Mexico establishes, in its Third Article, that every individual has a right to education. It also establishes the obligation of the State to provide basic education that is free and secular. The General Education Law is explicit in giving education authorities, at federal and state levels, the responsibility for generating conditions that enable the full exercise of this right. For this, it is necessary that specific actions be taken in favor of education equity. These must preferably be directed to groups and regions that are more educationally disadvantaged or that face difficult economic and social conditions. For this purpose, the Law adds to the regular educational activities other actions to support compensatory education programs, "whereby (the Executive Branch of Government) supports with additional resources the government of more disadvantaged states."
3. The National Education Program (PNE) for the 2001-2006 period, in the section on basic education, establishes the following basic objectives:
 - a) Ensure equal opportunities of access, permanence, and educational achievement in basic education for all children and youth in the country:

- b) Guarantee for every child and youth enrolled in basic education the opportunity to gain basic knowledge and to develop intellectual abilities, values and attitudes needed to achieve full personal and family lives, behave as competent and committed citizens, participate in productive work, and continue to learn throughout their lives: and,
- c) Reform the education system at federal and state levels in order to ensure effectiveness in the design and practice of these policies, provide for their continuous evaluation, and for the efficient, transparent and accountable use of resources, in order to focus the policy on the classroom and the school.

The lines of action to reach these objectives are the following:

a. Guarantee to all children and youth in the country equal opportunity of access, permanence, and educational achievement in basic education. In order to create equitable conditions of access and permanence in basic education, it is necessary to ensure not only a general increase in the resources allocated to this level of education, but also to direct educational investment differentially, so that individuals and population groups whose background places them at a disadvantage to profit from the educational services, receive adequate material and functional resources to attend school and complete successfully every grade of basic education: from preschool through lower-secondary. Moreover, it is necessary to design and carryout integrated educational alternatives that are best suited to the geographic, socioeconomic and cultural conditions of the population it serves, rather than expect the population to adapt to the characteristics of the educational services.

This feature is specially important for individuals or social groups not attending school or abandoning school due to factors such as distance between home and school, calendar and schedule of classes, educational curricula, or because the pedagogic practices are less than relevant for their personal needs and their cultural characteristics.

Besides an increase in education investment, it is necessary to implement specific and diversified compensatory activities directed at disadvantaged individuals or social groups, to ensure that they have the same educational opportunities as other social groups.

a.1 The compensatory function is to channel incremental resources, based on investment per student, to the population in disadvantaged conditions and at risk of failing at school, so as to compensate for the social and regional inequalities and to advance towards educational justice.

a.1.1. Strengthening the compensatory programs. The Undersecretariat for Basic and Normal Education (SEByN), as the normative authority for the national basic education program, supports the strengthening of the compensatory programs presently executed by the *Consejo Nacional de Fomento Educativo* (CONAFE), especially the Basic Education Development Program (PAREIB) and the *Programa de Educación, Salud y Alimentación* (PROGRESA) executed by the Secretariat for Social Development (*Secretaría de Desarrollo Social* - SEDESOL), to ensure that these programs effectively fulfill their objective of improving justice and equity of access, school permanence, and education achievement for disadvantaged population groups.

During the next few years, our aim is to advance towards operational schemes that ensure that the compensatory education programs effectively compensate for the differences in educational opportunities that exist in the national population, through the following actions:

- Ensure close institutional coordination between CONAFE and SEP in order to assure complementary and mutual support between activities and programs, as it is regularly done at state level.
- Implement the compensatory education programs in a flexible manner, promoting the active participation of state educational authorities in the adaptation of these programs to the characteristics and needs of the disadvantaged groups of each state.
- Establish mechanisms that ensure the effective and efficient implementation of the program and that stimulate schools and students to overcome the disadvantages which originally caused them to be part of the program.
- Establish permanent evaluation and monitoring mechanisms for the programs, to ensure their adequate and effective operation.

a.2 Diversify the supply and provide for differential attention. A diversified and flexible mode of operation is mandatory to achieve universal coverage of basic education. It is also necessary to promote the expansion of, and strengthen, initial and preschool education for children less than five years old.

a.3 Recognition and attention to cultural and linguistic diversity. Develop the knowledge of our multicultural reality, promote its recognition and, value the diversity which sustains our wealth as a nation.

b. Quality of process and educational achievement. Guarantee that all children and youth enrolled in basic education gain basic knowledge, and develop their intellectual abilities, values and attitudes needed to achieve full personal and family lives, behave as competent and committed citizens, participate in productive work, and continue to learn throughout their lives.

b.1 Strengthen and articulate basic education. Ensure the continuous renovation of the basic education curriculum to guarantee that it is relevant and pertinent, that it is congruent with the national educational goals, and that effective articulation exists between levels.

b.2 Citizenship formation and the culture of legality. Strengthen the educational contents and practices that contribute to the formation of students as competent citizens, who are committed to the values of democracy and democratic process, are respectful of legality and the rights of others, and who recognize and value cultural diversity.

b.3 Technologies, didactic materials, audio visual, and information tools. Promote the production, distribution and effective use, in the classroom and in the school, of printed, audio visual, and information educational materials that are up to date, and are congruent with the curriculum; and, develop and expand the information and communication technologies for basic education.

b.4 Initial formation and continuous professional development of teachers. Promote the formation of teachers and their continuous development, to ensure congruence of educational contents and practices with the objectives of basic education. Promote the academic and administrative transformation of the normal schools to assure that the country has the basic education professionals that it requires.

Promote the professional development of teachers, ensuring a supply of teachers that is continuous, diversified, flexible, and congruent with the national education objectives. Create the institutional

conditions for the formation of teachers, and provide for a system of incentives that lead to good professional practice and recognize the merit of effective teachers.

Give effective recognition to the central function and role of teachers in the educational process, through the creation of mechanisms that guarantee their participation in the process of policy formulation and in the creation of pedagogic proposals for basic education.

b.5 Transformation of school management. Transform school management to ensure – through the formation of teacher and directors, technical assistance and normative changes – that teachers and directors in each school take the responsibility for the educational results of their students, establish collaborative relations among themselves and the community, and are committed to the continuous improvement of the quality and equity of education.

b.6 Evaluation of teaching practice and education achievement. Incorporate the evaluation process as a means to continuously ascertaining the effectiveness of teaching and the learning achievements of the students.

c. Institutional reform. Reform the management of the education system at federal and state levels, to ensure effectiveness in the design and implementation of the national policies, provide for their continuous evaluation, and guarantee the efficiency, transparency and accountability in the use of resources, to best focus policy on the classroom and on the school.

c.1 Institutional management. Reform the management system to ensure the institutional, normative, and working conditions that are necessary for the efficient operation of the schools, through evaluation, opportune correction of deficiencies, and expansion of the decision making role of teachers and directors with respect to school life.

c.2 Institutional efficiency. Guarantee the efficient provision of sufficient and timely resources in the classroom and in the schools, which are necessary to ensure adequate conditions for educational work

c.3 Educational federalism. Promote an authentic federalism that allows for the construction of a shared vision regarding the educational challenges facing the country, and establish the mechanisms for dialogue, consensus, commitment, and agreements with the states to reach the national goals.

c.4 Monitoring and evaluation. Evaluate and monitor student's learning progress, their regional and social distribution, and the factors that influence the results, so as to provide a basis for policy and decision making directed at improving the quality and equity of basic education.

c.5 Social participation. Effectively promote social participation through the design and implementation of mechanisms conducive to reflection and dialogue among all social actors, especially the mothers and fathers of students, with the aim of democratizing decision making and strengthening co-responsibility in the educational task.

c.6 Accountability. To be accountable to society with respect to the implementation of policies, and the results of educational activities, with emphasis in the equity and quality of learning achievements, and in the use of resources allocated to the education sector.

c.7 Research and education innovation. Promote the development of education research, taking research

results as a fundamental input in decision making and policy formulation, and promote innovation in the education sector.

c.8 Organization and Operations Development. Transform the SEByN into an organization that is flexible, effective, and capable of evolution, through new management practices and internal operations evaluation, in order to guarantee the satisfactory operation of the sector's basic and normal education program.

4. During the last nine years five compensatory education programs were implemented with the support of the World Bank and the Inter-American Development Bank. These programs aim to overcome the effects of educational disadvantages in rural marginal areas and comprise: *Programa para Abatir el Rezago Educativo* (Primary Education I Project – PARE), *Programa para Abatir el Rezago en la Educación Básica* (Primary Education II Project – PAREB), *Programa Integral para Abatir el Rezago Educativo* (Integrated Basic Education Project – PIARE), *Programa para Abatir el Rezago de la Educación Inicial y Básica* (Basic Education Development Project –PAREIB).

5. In absolute terms, during the last five years, these compensatory programs benefited approximately 5 million children including children less than four years and children attending 45,000 primary schools, including all indigenous primary schools.

6. The compensatory education programs have made possible the improvement of school attendance, learning achievements, and completion rates among the children served. The Federal Government policy must continue to support the regions of the country that experience more acute educational and social disadvantages, within its financial means, until the education indicators of these regions improve considerably.

7. Education resources. Both the National Agreement for the Modernization of Basic Education (*Acuerdo Nacional para la Modernización de la Educación Básica*, ANMEB, 1992) and the General Education Law (*Ley General de Educación*, LGE, 1993), recognize the need to allocate additional budgetary resources to public education. In the year 2000, total education expenditures (public and private) reached 6.1% of the GDP, and federal education expenditure represented 35.4% of the federal programmable expenditure. In 2001, federal education expenditure is estimated to represent 4.5% of GDP and 37.8% of the federal programmable expenditure.

When external financing for the education programs were exhausted, resources from the regular national budget were used with the objective of ensuring the continuity of activities. The high priority given by the Federal Government to education is reflected in the increased share of the educational budget in the total federal budget.

8. In addition to the compensatory education programs supported by the Federal Government, the states and municipalities, consistent with the educational federalism, have increased their budgetary allocations for education. Federalism has meant the responsible and committed participation of state governments, contributing to higher efficiency in the system and to the improvement of the quality of education.

B. SPECIFIC ASPECTS

1. Program Objectives. The overall objective of the Program is to improve the quality of education services, helping to give the population between the ages of 0 and 14 years, residing in socially and

educationally disadvantaged areas, the conditions to attend and successfully conclude the basic education cycle. To this end, the Program seeks to expand the coverage of initial education; reduce preschool dropout rates; diminish failure, repetition and dropout rates in primary and lower-secondary levels; raise completion rates for basic education, and reduce the existing gap in learning achievements between the least privileged groups and the rest of the school population.

2. To achieve these objectives, the Program supports several innovations. First, the Network for Educational Quality in primary education, through which direct technical assistance will be provided to primary teachers and directors of each primary school covered by the Program with the aim of helping resolve specific problems, leading to improved student learning achievements. The implementation of the Network provides for the collection of information regarding learning achievements of the students, their educational background, determines whether they have had the benefits of initial and preschool education, and describes the characteristics of the school. This information will be used as base to evaluate the results of the Program. Second, the Program envisages the extension to preschool of the benefits of the participation of Parents Associations in school management, as has been done in primary schools since 1996. To consolidate these activities, flexible financing mechanisms are necessary in order to simplify and adjust the resource use to local conditions. For these reasons, as in the first phase of the Program, we consider the Adjustable Program Loan the most appropriate lending mechanism for subsequent two phases.

3. During Phase II (2002-2003), the Program will support all basic education schools located in the 436 municipalities of 17 states that comprise the 250 micro-regions with the highest poverty rates, which have been singled out by the Federal Government as deserving priority attention. With regard to basic education schools located in the other municipalities of the 31 states, the Program will cover: (a) indigenous preschool schools classified in the 4th and 3rd quartiles, and the remaining preschools classified in the 4th quartile; (b) continue to support all indigenous primary schools, general primary schools in the rural 4th, 3rd, and 2nd quartiles, and school in the 4th quartile in marginal semi-rural urban areas; and (c) rural secondary schools (*telesecundaria*) classified in the 4th, 3rd, and 2nd quartiles. Moreover, initial education services will be expanded in those targeted localities that have preschool and/or primary education services.

4. Three studies will be carried out to help prepare the third phase of the Program: (a) Evaluation of the implementation of the Network for Educational Quality; (b) Creation of the Database of Students attending primary school who benefited from initial and attended preschool education; and, (c) Diagnosis of problems affecting basic education schools in marginalized areas of the Federal District.

5. In addition to the activities previously described, Phase II will consolidate the national and state system of Evaluation of Student Learning Achievements in Basic Education, and will strengthen the national and state geographic planning systems on the basis of cartographic and geo-reference techniques.

6. With respect to the Public Education Secretariats of the States, SEP will determine the activities that are eligible for federal financing within the Program. Eligibility criteria will comprise activities that promote: better pedagogic and operational articulation of initial and basic education services, improvement in the quality of education services, improvements in administration and management of state systems geared to increased community participation in the school project and give basic education schools more decision making autonomy.

7. During Phase I (1998-2001) important improvements were observed. Nevertheless, it is necessary to proceed during the second and third phases of the Program, strengthening aspects such as: the articulation of CONAFE with the regular SEP programs, to ensure synergy and efficiency in achieving

national results; adjustment of the benefits received by the schools in the compensatory program that show the most progress, compared to others; implementation of pertinent and opportune evaluations with the dual aim of assessing the quality of the Program and serving as base to introduce modifications or adaptations that might be necessary to improve the quality of education in the classroom and the participation of social actors in the educational process. For these reasons, during the next few years, actions will be carried out to correct the deficiencies observed during the first phase, with the aim to promote education innovation through the Program. Innovation efforts have been considered in the first phase but require additional emphasis in the subsequent phases.

8. During Phase III (2004-2005) the Program will: continue to support targeted initial and basic education services covered in Phase II, including all indigenous preschools and general preschools classified in the rural 3rd quartile; promote the creation of integrated basic education schools; begin the evaluation of the impact of initial and preschool education in student performance at primary school; implement a strategy to disseminate the results of the Network for Education Quality in primary schools and, depending upon the observed results and the available resources, expand the Network for Education Quality to preschool; and expand the compensatory program to marginal urban schools in the Federal District. In addition, during the third phase, analyses will be carried out to determine the rules whereby the most successful schools will be phased out of the Program, in order to redirect the corresponding resources to the least successful schools, until all Program schools have “graduated” to a level that permits them to operate according to the regular rules of SEP.

9. Regarding the modernization of the Supervision of Basic Education, the State Secretariats of Public Education will be encouraged to create and develop Basic Education Supervision Zones, based on the cartographic studies and the corresponding geographic planning analyses carried out during Phase II and covering children age 0-14 years in the targeted areas. States that choose to create Basic Education Supervision Zones will be supported with: training for supervisors, creation and/or systematization of information regarding the academic history of the students, indicators and results of student learning achievements for each zone; improvement in personnel management, and creation of Parents Associations, among other measures.

10. The activities of Phase III will be determined based on the results of Phase II, the education indicators of the schools covered by the Program, and the studies on initial education and the Network for Education Quality, mentioned above.

Indicators to determine the target population for Phase III of the Program:

11. Supervision and evaluation. The indicators of the Program in each of its phases will be supervised based on different monitoring reports, education statistics, and the results of the evaluations of learning achievements of the students carried out by SEP. The responsibility for the supervision of the Program rests with CONAFE and the State Secretariats of Public Education. The preparation of reports provides for visits and interviews in the schools and localities where initial education services are offered.

12. Role of the National Educational Development Council. CONAFE is a decentralized public service agency, with legal status and its own assets. It was created in 1971 to assemble supplementary resources, from both national and international sources, and apply these resources to the development of education in the country. It is subject to the Federal Law on Quasi-Government Agencies (*Dependencias Paraestatales*).

13. CONAFE was conceived to offer alternative solutions to education problems observed among

disadvantaged groups. The agency faces the challenge of generating ideas and actions to bring education to the more marginalized rural areas and administer resources for educational programs in an efficient, effective and innovative way. One of its most important achievements is the establishment of the CONAFE model for Rural Community Education, covering preschool, primary and post-primary education; this is a flexible and pertinent model which provides for the acquisition of knowledge, abilities, and attitudes in a reflective and critical manner, adapted to the life style and culture of each community. CONAFE's Rural Community Education has made possible for boys and girls and youngsters from these communities to exercise their right to basic education.

14. Rural Community Education covers indigenous and non-indigenous populations living in migrant agricultural camps, and in localities of less than 500 inhabitants, which are the most disperse, isolated, and difficult to reach communities in the country.

15. CONAFE will be the executor of the *Programa para Abatir el Rezago en Educación Inicial y Básica* (Basic Education Development Program - PAREIB). In its operations, CONAFE will, at all times, abide by the norms established by the SEByN and modify its programs as determined by that agency. SEByN is the normative agency for basic education in the country, according to the functional responsibilities determined by the executive power.

ATTENTIVELY
EFFECTIVE SUFFRAGE, NO REELECTION
THE UNDER-SECRETARY

Ing. José María Fraustro Siller

Copied to: Lic. Lorenzo Gómez Morín, Under-Secretary for Basic and Normal Education
Lic. Carlos Márquez Perez, General Director of CONAFE

Annex 1: Project Design Summary
MEXICO: Basic Education Development Phase II

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
<p>Sector-related CAS Goal: Socially sustainable economic growth and development</p> <p>Increased access to quality education for the poor</p>	<p>Sector Indicators:</p>	<p>Sector/ country reports: Poverty assessments</p> <p>Household surveys Government reports on enrollment and achievement</p>	<p>(from Goal to Bank Mission)</p>
<p>Program Purpose: Ensure that children 0-14 years old in the poorest rural and most educationally disadvantaged communities, access to basic education, stay in school, and successfully complete the basic education cycle, through the expansion of educational opportunities in initial education (for the population 0-4 years), and the improvement in the quality of basic education (preschool, primary and lower-secondary) for all students, including indigenous children.</p>	<p>End-of-Program Indicators: Overall program indicators to be achieved in targeted schools by the year 2005:</p> <ul style="list-style-type: none"> ● Indigenous preschool dropout rate remains at 2.1% ● Dropout rate at indigenous primary schools is reduced by 0.2% from 2.1% to 1.9% ● Dropout rates in no indigenous schools decline as follows: (a) preschool from 4.5% to 4.4%; (b) primary school from 2.3% to 2.1% ● <i>Telesecundaria</i> indicators are reduced as follows: (a) dropout rates from 8.5% to 6.2%; (b) repetition rates from 0.7% to 0.5%; and (c) failure rates from 5.6% to 4.8% ● Completion rates in indigenous primary schools increase by 4.5% from 79.0% to 83.5% ● Completion rates in non-indigenous primary schools increase by 1.4% from 85.2% to 86.6% ● Completion rates in <i>telesecundarias</i> increase by 1.8% from 78.2% to 80.0% ● School autonomy 	<p>Program reports: ICR for each phase and annual evaluations during each phase of the program would review progress toward achieving program objectives.</p> <p>Historic series of indicators measured by SEP</p> <p>Number of AGEs in operation</p>	<p>(from Purpose to Goal) Other pillars of economic development maintained.</p> <p>Government continues to give priority to improving the quality of basic education.</p> <p>Government continues to give priority to compensatory education programs.</p>

	<p>increases through improved mechanisms for participation in school management by Parents Associations (AGEs), and by teachers and directors in targeted schools.</p>	<p>in preschool and primary schools</p>	
<p>Project Development Objective: Increase access to initial education for the poorest children 0-4 years of age, and improve the quality of basic education (preschool, primary and lower secondary) for students in the poorest 476 municipalities classified as priority by the Federal Government, and poor students in schools ranked at the bottom half of the education indices in the 31 states of Mexico</p>	<p>Outcome / Impact Indicators:</p> <ul style="list-style-type: none"> ● Physical indicators by the end of Phase II (year 2004) : ● Completion rates at primary schools improve as follows: (a) in indigenous primary schools, completion rates increase by 25 %, from 64.2% in 1995-1996 to 80.6% in 1002-2003; and (b) in non-indigenous primary schools, completion rates increase by 5%, from 81.6% in 1995-1996 to 85.7% in 2002-2003. ● Training for 1,048,455 parents of children 0-4 years of age, benefitting approximately 1,258,147 children, of whom 9.5% are indigenous ● Support to 15,322 schools and 24,896 teachers in preschools, benefitting 487,957 children, of whom 52.3% are indigenous ● Expansion of School Parents Associations in the 15,322 preschools targeted by the program ● Support to 37,278 schools and 162,174 teachers at primary schools (including all indigenous primary schools), benefitting 4,215,473 children ● Support to 4,236 schools and 12,879 teachers in 	<p>Project reports:</p> <p>CONAFE progress reports; SEP statistics; CONAFE supervision visits; Bank supervision missions</p> <p>Learning achievements test results for targeted primary schools, disaggregated for indigenous and non-indigenous schools.</p> <p>Completion rates for primary targeted schools, disaggregated by indigenous and non-indigenous schools.</p> <p>Completion rates for primary and lower-secondary targeted schools, compared to the national average.</p>	<p>(from Objective to Purpose)</p> <p>Continuity in government policies and priorities for compensatory educational programs.</p>

telesecundarias,
benefitting 274,926
rural lower secondary
students.

Other Indicators:

- Completion of the database for the evaluation of the impart of the initial education program
- Completion of the evaluation study on the implementation of the Network for Education Quality
- Completion of the study on the disadvantaged basic education schools in the Federal District
- Evidence of availability of adequate budget for CONAFE's compensatory educational programs

Progress reports and results of the studies

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
<p>Output from each Component:</p> <p>Component I. Improvement of the quality of initial and basic education</p> <p>Component I.1 Infrastructure</p> <p>Component I.2 Didactic Materials</p> <p>Component I.3 Training</p> <p>Component I.4 School Management</p> <p>Component I.5 School Supervision</p> <p>Component II Institutional Strengthening</p> <p>Component II.1 Consolidation of the national education evaluation system</p>	<p>Output Indicators:</p> <ul style="list-style-type: none"> ● 16,755 educational facilities (classroom and annexes) build and/or rehabilitated ● 5,860 educational facilities (classroom and annexes) equipped ● 34 teacher training centers rehabilitated and equipped ● 1,048,455 initial education didactic materials for parents and promoters of initial education ● 3,255,753 didactic materials packages for primary school students and schools ● 4,236 telesecondary schools provided with computers and software ● 1,048,455 parents of children 0-4 years of age are trained ● 42,423 promoters and 7,619 initial education staff trained ● The Network for Education Quality implemented in 37,278 primary schools ● 52,600 AGEs (Parents Associations) in preschool and primary school in operation ● 4,661 supervisors and sector chiefs assisted to travel to the schools ● 31 states participate in expanded national education evaluation system and have access to 	<p>Project reports:</p> <ul style="list-style-type: none"> ● SEP statistics ● Assessment of usage of targeting mechanisms ● CONAFE and SEP supervision visits ● CONAFE progress reports ● Bank supervision missions 	<p>(from Outputs to Objective)</p> <p>Continuity in government policies and priorities.</p> <p>Targeted schools receive all programmed inputs</p>

<p>Component II.2 Consolidation of the national school mapping system</p> <p>Component II.3 Studies</p>	<p>evaluation results</p> <ul style="list-style-type: none"> ● 31 states operate cartographic system for basic education ● The baseline for the evaluation of initial education is completed ● The evaluation of the implementation of the Network for Education Quality is completed ● The diagnostic of the problems of disadvantaged basic schools in the Federal District is completed 		
<p>Component II.4 Institutional Strengthening</p>	<ul style="list-style-type: none"> ● State level educational sector management is strengthened 		
<p>Component II.5 Basic Education Innovation Fund</p>	<ul style="list-style-type: none"> ● 20 state education innovation projects are completed 		
<p>Component II.6 Project Administration</p>	<ul style="list-style-type: none"> ● 31 state project management units are strengthened ● Project execution and disbursements are on schedule 		

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
<p>Project Components / Sub-components:</p> <p>Component I. Improvement of the quality of initial and basic education</p> <p>I.1 Infrastructure</p> <p>I.2 Didactic Materials</p> <p>I.3 Training</p> <p>I.4 School Management</p> <p>I.5 School Supervision</p> <p>Component II. Institutional Strengthening</p> <p>II.1 Consolidation of the national education evaluation system</p> <p>II.2 Consolidation of the national school mapping system</p> <p>II.3 Studies</p> <p>II.4 Institutional Strengthening</p> <p>II.5 Basic Education Innovation Fund</p> <p>II.6 Project Administration</p>	<p>Inputs: (budget for each component)</p> <p>Component I: US\$ 439.76 million</p> <p>US\$ 102.50 million</p> <p>US\$ 74.53 million</p> <p>US\$ 166.95 million</p> <p>US\$ 88.02 million</p> <p>US\$ 7.76 million</p> <p>Component II: US\$ 88.34 million</p> <p>US\$ 18.16 million</p> <p>US\$ 1.60 million</p> <p>US\$ 3.42 million</p> <p>US\$ 11.03 million</p> <p>US\$ 6.12 million</p> <p>US\$ 48.01 million</p>	<p>Project reports:</p> <p>Project monitoring reports, SEP statistics, CONAFE progress reports, Supervision missions.</p>	<p>(from Components to Outputs)</p> <p>Assumptions for all project activities:</p> <p>Close coordination between CONAFE, SEP, and state secretariats of education</p> <p>Personnel receiving technical assistance and/or training are encouraged to apply knowledge and skills acquired in the classroom and the school</p> <p>States receive adequate support during project implementation</p> <p>Key stakeholders support project activities.</p>

Annex 2: Detailed Project Description

MEXICO: Basic Education Development Phase II

The project seeks to implement the social justice objectives of the Mexican Government and its basic education policy that establishes three main objectives:

- (a) **Equity:** to ensure equal opportunities of access, permanence, and educational achievement in basic education for all Mexican children,
- (b) **Quality:** to guarantee for every child enrolled in basic education, the opportunity to gain basic knowledge, and to develop the intellectual abilities, values, and attitudes needed to achieve full personal and family lives, act as competent and committed citizens, participate in productive work, and continue to learn through out their lives,
- (c) **Efficiency:** to reform the basic education system at federal and state levels, to ensure effectiveness in converting these policies into practice in the classroom and in the school, providing for their continuous evaluation, and ensuring efficient, transparent and accountable use of resources.

To implement these policies, the Government is committed not only to increase education spending, but also to strengthen compensatory education programs. By supporting the Government compensatory education programs, the Basic Education Development Program continues to channel incremental resources to children at disadvantaged conditions and at risk of failing at school, in order to compensate for the social and regional inequalities and advance towards education justice.

Specific APL2 objectives are:

- (a) To consolidate and expand quality improvements in initial and basic education (preschool, primary, and lower-secondary education), covering, inter alia, infrastructure improvements, didactic materials provision, teacher training , school supervision, teacher performance incentives, and implementation of tested school-based management strategies;
- (b) To strengthen management of the education system through support for the Government's ongoing strategy to consolidate the organization and management of basic education (preschool through lower secondary), and to integrate the operation of the compensatory education program nationwide;
- (c) To put in operation a competitive fund to support education innovations proposed by the states; and
- (d) To continue strengthening the states' institutional capacity to plan, program, and evaluate the delivery of basic education services.

During Phase II, the Program will support all basic education schools located in the 476 municipalities of 17 states that comprise the 250 micro-regions with the highest poverty rates in the country, singled out by the Federal Government for priority attention. It will also support; (a) indigenous preschools classified in the 4 and 3 quartiles, and rural preschools classified in the 4 quartile; (c) continue to support all indigenous primary schools, and general primary schools in the rural areas, classified in the 4, 3, and 2 quartiles, and primary schools in the 4 quartile located in marginal semi-rural urban areas; (c) rural lower secondary

schools (*telesecundarias*) classified in the 4, 3, and 2 quartiles. Initial education services will be expanded in targeted localities that have preschool and/or primary education services. Targeting procedures are detailed in Annex 13.

Phase II retains the same basic two components of the Program, which are:

By Component:

Project Component 1 - US\$439.76 million

Quality Improvements in Initial and Basic Education

Sub-component 1.1 - Infrastructure - US\$ 102.50 million. This sub-component intends to improve the physical condition of existing primary and lower-secondary schools that urgently need rehabilitation or replacement of inadequate facilities, and require construction of new classrooms and ancillary school facilities to meet expanding enrollment. New and rehabilitated classrooms will be provided with appropriate classroom furniture, including student desks and benches and teacher desks and chairs. This sub-component operates as follows. On a yearly basis, the states prepare infrastructure plans, which are then consolidated by CONAFE at the national level. Execution will be entrusted to communities represented by parents associations, school councils and/or municipalities, under umbrella agreements with CONAFE, applying the same administrative and financial mechanisms used in APL1. NAFIN oversees the transfer of funds to each state, on a quarterly basis; communities with approved infrastructure plans receive 60 percent of funds in advance, to purchase materials; the balance is disbursed as civil works progress. These advances are 100 percent pre-financed with CONAFE's budget; Bank reimbursement is only made after actual expenses have been incurred and documented. The presentation of standard contract agreements for the implementation of infrastructure, satisfactory to the Bank, is a condition for loan effectiveness. Procurement norms applicable to infrastructure implemented by municipalities, are specified in Annex 6. The presentation of design criteria for infrastructure works, satisfactory to the Bank, is a condition for loan effectiveness. This sub-component will also finance Teacher Training Centers (*Centros de Maestros y Recursos. CRMs*) in targeted communities, to facilitate in-service training of teachers. These Teacher Training Centers will operate in buildings provided by the municipality or by CONAFE, which will be rehabilitated with project support. The Project Operational Manual excludes new construction in new sites. The Project Operational Manual also establishes that design for construction must take into account basic environmental specifications, including proper solid and liquid waste disposal, and should avoid the use of asbestos, lead paint and scarce timber. Approximately 16,755 classrooms and other education facilities will be build and/rehabilitated, and 5,860 of these will also be provided with furniture and equipment.

Sub-component 1.2 - Didactic Materials - US\$74.53 million. Didactic materials will be provided to parents and promoters participating in the initial education program, as well as to targeted primary and lower-secondary schools. These materials consist of teaching and learning materials for classrooms, and consumable education supplies. Approximately 1.0 million packages of didactic materials will be provided to parents, promoters and staff involved in initial education. Didactic materials for primary schools are allocated according to the number of students in each school, and include an estimated 3.2 million student packages and school packages. The 4,236 *telesecundarias* that were not equipped during Phase I, will receive computer equipment and software, along with the appropriate training for their use.

Sub-component 1.3 - Training - US\$ 166.95 million. The teacher training program consists of three basic elements. First, training for initial education promoters; approximately 52,423 staff will be trained to operate the initial education program. Second, the Network for Education Quality in all targeted primary

schools, which represent an innovative training modality that promotes classroom participation of supervisors and technical pedagogic assistants (ATPs); this Network complements in-service training of teachers, by helping them apply in the classroom the skills learned at training sessions. The Network will operate in all 37,278 targeted primary schools. ATPs will receive financial incentives to carry out their new functions. Third, the sub-component supports the operation of 34 Teacher Training Centers (CRMs), strategically located in rural areas near the project schools, where teachers can take nationally standardized courses at their own convenience, using distance education techniques. This component also finances performance incentives for primary school teachers, which currently represent approximately 40 percent of the teacher's base salary, and are paid contingent upon performance results monitored by school-parent's associations.

Sub-component 1.4 - School Management - US\$ 88.02 million. School management will be strengthened at preschool and primary levels by promoting the active participation of mothers and fathers in the education of their children, and by providing greater school autonomy and decision-making by principals and teachers in the technical, administrative, and operational aspects of school life. This will be achieved through the support for Parents Associations (APFs), responsible for school refurbishing and maintenance, implementation of infrastructure improvements, certification of attendance of teachers, and other school-based management activities, including, in pilot schools the purchase of student's educational supplies (*utiles escolares*). The AGEs will receive administrative and financial management training to ensure the proper use of funds in carrying out their functions. Approximately 52,600 AGEs will be operating at preschool and primary levels by the end of Phase II.

Sub-component 1.5 - School Supervision - US\$ 7.76 million. This sub-component promotes enhanced supervision practices centered on the pedagogic support to teachers by supervisors, technical pedagogic assistants (ATPs), and sector chiefs, operating as a team. Support will be given to approximately 4,661 supervisory staff in the form of per diems to increase supervision visits to schools. The members of the supervision teams will also receive appropriate training to incorporate the new practices embodied in the Network for Education Quality. With respect to the organization of school supervision, technical assistance will be provided to promote to states interested in the creation of Supervision Zones for Basic Education, based on the cartographic information supported by the project.

Project Component 2 - US\$88.34 million

Institutional Strengthening

2.1 Consolidation of the national education evaluation system - US\$18.16 million. The objective of this sub-component is to make available to educators, parents, and civil society, accurate and timely measurements of the learning achievements of basic education students, together with the identification of factors that explain these educational outcomes, to provide a solid base for quality improvements in the teaching/learning process. Activities planned for Phase II are based on the achievements of Phase I. Main achievements of Phase I include the provision of equipment and staff training at all state-level evaluation units. To consolidate these advancements will necessitate: (a) training of human resource at state level; (b) expansion of the national database for initial and basic education, through periodic testing of students benefitting from the project; (c) identification of the characteristics of the supply and the demand for education at the different levels covered by the project; and (d) dissemination of information on the learning achievements of the students targeted by the project at the school and state levels.

2.2 Consolidation of the national school mapping system - US\$ 1.60 million. Effective educational planning requires accurate cartographic information, which in turn requires the active participation of

government entities at the federal and state levels. Phase I significantly advanced towards this goal. Main achievements include: updating of cartographic and geo-educational information for all 31 states; use of INTERGRAPH platform to process the information for educational planning purposes; development of procedures to update geo-educational information; organization of workshops in each state on the INTERGRAPH applications; development of a territorial catalogue which makes SEP's and INEGI's databases compatible; expansion of the geo-educational database with data on related sectors, including health, nutrition and urban development; and, improvement of the analytical capacity of five pilot states to develop topographic and micro-planning models. Phase II will support the consolidation of the system through: (a) further develop the INTERGRAPH platform, (b) validation of the SEP-INEGI catalog of localities; (c) updating of the information at the level of localities for the 31 states using LANDSAT satellite images; (d) improvements in the use of the information for planning purposes at the federal and state levels; (e) integration of a digital topographic model into the educational cartography; (f) expansion of the database by including architectural information on schools; (g) application of appropriate software link topographic information to the educational planning process; and, (h) training of human resources in each state to efficiently operate and further develop the system.

2.3 Studies - US\$ 3.42 million. Phase II will promote the development of education research to foster the use of research results as input in decision making and policy formulation. This component will support three studies: (a) Database for the impact evaluation of the initial education program; (b) Evaluation of the operation of the Network for Education Quality, covering a representative sample of states and types of primary schools supported by the project; and (d) Diagnostics of problems affecting basic education schools located in marginalized areas of Mexico City and other major cities, aimed at identifying compensatory interventions appropriate to the metropolitan context. These studies will be carried out with assistance of consultants, by two units of SEP; studies (a) and (b) will be carried out by the Directorate General for Evaluation of SEP, and study (c) will be developed by Under-Secretariat for Planning and Coordination for Educational Services of the Federal District. Preliminary terms of reference are already prepared for these studies.

2.4 Institutional Strengthening - US\$ 11.03 million. Technical assistance will be provided to the states, to develop the organization and operation of basic education services, in accordance with sector policies, as well as to implement other priority programs defined by the SEByN. Specific technical assistance activities will be proposed annually by the interested states. The state proposals supported by this component will be those that improve effectiveness in the design and implementation of basic education policies, provide for their continual evaluation, ensure the efficient and transparent use of public funds, and promote the integration of basic education levels in terms of planning, supervision, and service delivery.

2.5 Basic Education Innovation Fund - US\$ 6.12 million. This fund aims to foster federalism, by supporting state initiatives to improve the quality of basic education, and by promoting the active participation of state educational authorities in the adaptation of education programs to the needs of the of each state. The fund will be administered by CONAFE in close coordination with the SEByN, which will be responsible for the evaluation of the proposals presented by the states. Eligible expenditures under the Fund comprise consultant services and training. The operating norms of the fund, including evaluation criteria, funding mechanisms, monitoring and evaluation arrangements for the Fund will be extensively disseminated among states, and will be part of the Project Operations Manual.

2.6 Project Administration - US\$48.01 million. Project administration needs to be strengthened to achieve the new goals set out for Phase II. The first main challenge is to establish the operational and logistic integration of compensatory programs nationwide. This involves eliminating duplication of functions and units, consolidating procedures, and reinforcing personnel training in all 31 states. The

second challenge is to carry out an intensive monitoring and evaluation of the project, designed to effectively measure the progress in the implementation and to evaluate project impact. Thirdly, project administration units in each state (UCEs), need to be strengthened to coordinate with the SEPES in matters of planning and programming, procurement, monitoring and reporting on project implementation. This sub-component finances honoraries and benefits of project administration staff at central and state levels, travel expenses, and incremental operating expenditures.

Annex 3: Estimated Project Costs
MEXICO: Basic Education Development Phase II

Project Cost By Component	Local US \$million	Foreign US \$million	Total US \$million
1. Quality Improvements in Initial and Basic Education			
1.1 Infrastructure and Equipment			
1.1.1 Construction and rehabilitation of school facilities	83.00	9.22	92.23
1.1.2 Furniture and equipment for school facilities	2.04	4.75	6.79
1.1.3 Rehabilitation of Teacher Training Centers	0.36	0.04	0.40
1.2 Didactic Materials			
1.2.1 Consumable educational supplies	36.65	15.71	52.36
1.2.2 Equipment and didactic materials for <i>telesecundarias</i>	5.98	13.96	19.95
1.3 Training			
1.3.1 Training initial education staff	74.14	0.00	74.14
1.3.2 Network for education quality in primary schools	44.77	0.00	44.77
1.3.3 Training staff for Teacher Training Centers	2.53	0.00	2.53
1.3.4 Incentives for primary school teachers	44.61	0.00	44.61
1.4 Strengthening school management			
1.4.1 School Management Fund (AGE)	59.95	6.66	66.61
1.4.2 Training Parents Associations	21.42	0.00	21.42
1.5 Strengthening school supervision			
1.5.1 Travel expenses of technical assistants, supervisors and sector chiefs	6.98	0.78	7.76
2. Institutional Strengthening			
2.1 Consolidation of the National Evaluation System	16.34	1.82	18.16
2.2 Consolidation of the National School Mapping Systems	0.30	1.27	1.57
2.3 Studies	3.42	0.00	3.42
2.4 Institutional Strengthening	9.93	1.10	11.03
2.5 Basic Education Innovation Fund	5.51	0.61	6.12
2.6 Project Administration	48.02	0.00	48.02
Total Baseline Cost	465.95	55.93	521.88
Physical Contingencies	1.70	0.37	2.07
Price Contingencies	3.41	0.74	4.15
Total Project Costs¹	471.06	57.04	528.10
Fee	0.00	3.00	3.00
Total Financing Required	471.06	60.04	531.10

Project Cost By Category	Local US \$million	Foreign US \$million	Total US \$million
Works	85.92	9.58	95.50
Goods	76.62	36.38	113.00
Consultant Services and Training	193.92	11.08	205.00
School Grants	66.60	0.00	66.60
Operational Costs	48.00	0.00	48.00
Total Project Costs ¹	471.06	57.04	528.10
Fee	0.00	3.00	3.00
Total Financing Required	471.06	60.04	531.10

¹ Identifiable taxes and duties are 0 (US\$m) and the total project cost, net of taxes, is 370 (US\$m). Therefore, the project cost sharing ratio is 81.08% of total project cost net of taxes.

Annex 4: Cost Benefit Analysis Summary

MEXICO: Basic Education Development Phase II

Summary of Benefits and Costs:

A cost-benefit analysis based on the initial targets of the Education Development Program, estimated costs, and opportunity costs derived from household survey data, was carried out at appraisal of Phase I. The economic rate of return (ERR) was estimated at 18.2 percent based on private costs and 17.5 percent based on public and private costs. These were considered lower-bound results, as the externalities expected from basic education were not taken into account in the analysis. While data necessary to update the analysis are as yet unavailable, there are strong indications that the positive impacts have continued, confirming the validity of the underlying assumptions of the original analysis.

Main Assumptions:

The original cost-benefit analysis assumed: labor force participation rate of secondary school graduates of 50 percent, an unemployment rate of 10 percent, and maintenance costs of 2 percent a year.

Sensitivity analysis / Switching values of critical items:

Phase I appraisal tested the sensitivity of the ERR with respect to terminal efficiency, and labor force participation of secondary students. The switching value for terminal efficiency for primary education is 0.84 and for lower secondary education is 0.79. These values were achieved by 1999. With respect labor force participation rate, the analysis shows that the ERR would remain greater than 10 percent even in case of a 50 percent increase in the participation rate.

Fiscal Impact: Assuming that 80% of total project costs for Phase 2 and 3 would be continued beyond project execution (replacement of materials, infrastructure maintenance, incentives programs, etc.), recurrent costs would amount to about MXN \$0.21 billion per year, or about 0.09 percent of projected total federal expenditures in basic education for 2006. Therefore, neither the counterpart fund requirements nor the incremental recurrent costs are likely to impose a significant fiscal burden.

Background: Several recent studies on education in Mexico have shown that the economic returns to education have increased in the past decade. Moreover, education is by far the most significant factor explaining earnings inequality in Mexico, which is more marked than in developed countries and most countries in Mexico's income group. Therefore, investment in improving the efficiency, coverage, and quality of the education system would both enhance the country's economic development and improve income distribution. Mexico's compensatory education programs are based on this reasoning. The returns to investment in the compensatory programs will depend, in turn, on their efficiency in improving the coverage, efficiency and quality of the education system. At appraisal of Phase I, a complete economic analysis was carried out to estimate the returns to the Education Development Program in Mexico, as well as the sensitivity of the results to various factors and changes in costs. As Phase II will support the entire range of compensatory education programs, and the key assumptions are still valid, the results of this analysis are still valid. This Annex reviews the progress made during the past decade in improving coverage and the trends in the financing of education, summarizes the results of the original economic analysis of the program, and discusses the continued validity of the underlying assumption of that analysis.

Progress in Improving Coverage and Efficiency

Primary Education. Between 1990 and 2000, the percentage of the primary-school-age group (aged 6-14) attending school increased steadily, reaching 91.3 percent overall by 2000 (Table 1). The first goal of the EDP was thereby nearly achieved, with the number of children not enrolled decreasing by nearly half over the period. As these children move through primary school, it is hoped that further improvement will be observed. Improvement was especially strong for younger children, suggesting that more children were beginning school at the proper age, and among 12-14 year-olds, suggesting that more children were staying in school for the complete primary cycle. This is borne out by the reduced dropout rates and higher completion rates during the 1990s, as shown in Tables 2 and 3. The completion rate reached 82.9 percent by 1997, an increase of 11.3 percentage points over its 1990 level (Table 2). States with the lowest coverage in 1990 made the most gains, reflecting the impact of the compensatory programs. Nevertheless, they still lag far behind the states with highest coverage, indicating the need for continued effort to raise coverage.

Table 1: Population of 6-14 Years of Age: Percentage Enrolled in School

Age	1990 Census			2000 Census	
	Enrolled (%)	Not Enrolled (%)	Unknown (%)	Enrolled (%)	Not Enrolled (%)
6	79.5	19.0	1.5	89.0	9.8
7	88.8	9.9	1.3	94.4	5.0
8	91.5	7.6	0.9	95.4	4.1
9	93.1	6.1	0.8	95.8	3.7
10	92.2	7.2	0.6	95.6	4.1
11	91.8	7.5	0.6	95.3	4.3
12	86.6	12.9	0.5	91.6	8.3
13	79.4	20.0	0.6	86.0	13.9
14	69.5	29.8	0.7	78.1	21.8
Overall	--	--	--	91.3	8.2

Source: INEGI, Censo de Población, 1990; XII Censo General de Población y Vivienda, 2000. *Tabulados Básicos por Entidad Federativa. Bases de Datos y Tabulados de la Muestra Censal. México, 2001.*

Table 2: Primary Completion Rates, National Average and Selected States, 1991/92 – 1998/99

	1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999
National Average	71.6	72.9	74.2	77.7	80.0	82.9	84.9	85.6
Tlaxcala	86.2	92.3	88.6	96.1	96.5	97.1	96.7	96.2
Distrito Federal	89.6	90.9	91.5	95.6	95.9	96.7	99.0	95.8
Quintana Roo	78.3	79.2	81.1	85.6	89.0	96.1	97.4	94.2
Veracruz	58.0	58.9	60.2	64.6	68.0	71.0	75.3	80.6
Guerrero	52.0	53.5	54.1	58.3	61.1	64.4	66.9	77.3
Chiapas	40.3	41.1	43.4	45.6	48.2	61.4	63.1	65.9

Source: SEP, *Estadísticas Educativas, 2001.*

The improvement in completion rates shown in Table 2 is linked to an improvement in both repetition and dropout rates, which was particularly marked in the lower grades, when the risk of dropping out is highest, especially among disadvantaged populations (Table 3). These improvements indicate that the Government is well on its way to achieving its goal of raising the primary completion rate to 87.7 percent by 2003.

Table 3: Repetition and Dropout Rates by Grade, 1992-1996

YEAR	GRADE						
	1	2	3	4	5	6	Average, 1-6
Repetition Rates							
1991-1992	16.7	11.2	10.0	8.5	6.6	1.7	9.8
1992-1993	12.9	10.3	9.0	7.6	5.8	1.5	8.3
1993-1994	13.0	11.2	9.0	7.4	5.5	1.4	8.3
1994-1995	13.2	10.8	8.9	6.9	5.1	1.3	8.1
1995-1996	12.8	10.3	8.7	6.7	4.9	1.6	7.8
Dropout Rates							
1991-1992	7.6	2.4	4.7	4.7	4.8	2.3	4.6
1992-1993	6.4	2.3	4.4	4.4	4.2	0.3	4.1
1993-1994	5.7	1.7	4.0	3.9	3.6	2.0	3.6
1994-1995	5.7	1.8	3.8	3.5	2.9	2.0	3.4
1995-1996	6.2	1.7	3.6	3.0	2.2	1.6	3.0

Source: SEP, *Estadísticas Educativas*, 2001.

The coverage of basic secondary education also rose during the 1990s, reaching over 75 percent of the secondary school-aged population (14-16 years) by 1997—an increase of nearly seven percentage points. The number of students entering secondary school grew by nearly 28 percent over the decade, and by over 14 percent since 1996, surpassing the EDP goal. Construction of new secondary schools outstripped the growth in enrollments, helping to relieve overcrowding (Table 4). New teachers were also added faster than enrollment, maintaining the student-teacher ratio at just under 18:1 over the period. Secondary education is predicted to continue to grow in the next several years, as the improvement in primary completion rates continues and programs such as PROGRESA stimulate demand for secondary education.

Table 4: Growth in Secondary Education, 1991-1999

School Year	Enrollment ('000)	Population (12-15) ('000)	Coverage	Schools	Teachers	Completion Rate
1990-1991	4,190.2	6,119.4	68.5%	19,228	234,293	
1996-1997	4,809.3	6,380.3	75.4%	24,402	275,331	74.8
1997-1998	4,929.3			25,670	275,331	73.8
1998-1999	5,070.6			26,710	282,595	76.1
1999-2000	5,208.9			27,512	293,008	--
2000-2001	5,348.1			29,007	299,999	--
Growth, 1991-2001	27.6%	4.3%		31.4%	50.9%	

Source: SEP, Education Statistics, 2001; INEGI.

Progress in improving secondary completion rates has been slower than at primary level (Table 5). Several factors may explain this result. First, the growth in secondary school enrollment consisted largely of students who, in earlier years, would have dropped out after primary school. PROGRESA was sufficient to encourage many of those students to enroll in secondary school, but pressures to join the work force were still strong, especially during the economic crisis that affected Mexico during the 1990s. Second, the

strong growth in enrollment has placed increased stress on schools and teachers, making difficult the introduction and maintenance of quality improvements, which are key to raising completion rates. Finally, significant improvement in the completion rate at secondary level may depend on the degree to which parents can be encouraged to enroll their children in pre-school and primary school at the appropriate age, as well as improvements in quality at both primary and secondary level. Additional time is required to measure the effects of changed parental behavior and quality improvements in terms of secondary completion rates, as cohorts of students experience the improvements from the early years of primary school on.

Table 5: Secondary Completion Rates, National Average and Selected States, 1991/92 – 1998/99

	1991- 1992	1992- 1993	1993- 1994	1994- 1995	1995- 1996	1996- 1997	1997- 1998	1998- 1999
National Average	75.3	76.4	77.5	76.2	75.8	74.8	73.8	76.1
Tlaxcala	79.7	80.8	82.9	78.9	78.7	80.3	75.2	78.4
Distrito Federal	73.9	75.9	78.6	72.8	74.7	73.7	74.4	78.0
Quintana Roo	78.8	80.1	71.5	76.9	78.1	76.5	74.5	74.5
Veracruz	76.8	78.2	77.1	77.5	78.8	77.9	76.8	76.5
Guerrero	76.2	77.2	76.3	73.8	73.9	73.1	64.2	75.5
Chiapas	75.5	77.7	73.7	78.6	78.2	83.1	74.9	76.7

Source: SEP, *Estadísticas Educativas*, 2001.

Note: The relatively small difference observed between more and least development states reflects the fact that completion rate is calculated on the basis of students enrolled and not on the basis of the number of children in the age-group.

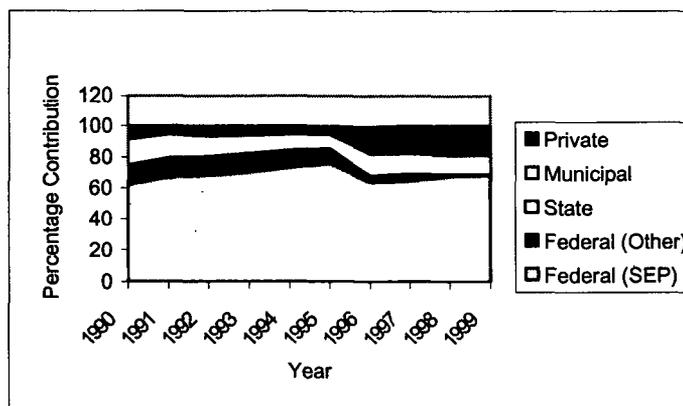
Education Financing. Total spending on education grew throughout the 1990s, reaching close to 6.0% of GDP from 1996-1999 (Table 6, Figure 1). The private sector grew during the decade, accounting for nearly 22% of spending by 1999, an increase of about 10 percentage points since 1990. SEP's share of spending varied: it provided about 75% of the total during the economic crisis of 1994-1995, and in recent years its share represented just under 70% of the total. It is important to note, however, that, as a share of the Federal Government budget, education spending by SEP grew from 13.3% in 1990 to an estimated 26% in 2001, indicating the strong commitment of the Government to education. The shares of both state and municipal governments in total education spending declined during the period.

Table 6: Sources of Spending on Education, 1990-1999

Year	Federal (SEP)	Federal (Other)	State	Municipal	Total Public	Private	SEP/Net Programmable Federal Government Spending (%)	Total Education /GDP (%)	SEP/ GDP (%)
(Percentage shares of total spending)									
1990	61.8	13.3	16.4	0.3	91.9	8.1	13.3	4.0	2.5
1991	66.6	12.8	15.1	0.3	94.8	5.2	15.4	4.3	2.9
1992	67.9	12.2	13.2	0.3	93.6	6.4	17.1	4.7	3.2
1993	69.8	12.5	11.6	0.3	94.2	5.8	18.9	5.3	3.7
1994	73.2	10.9	10.4	0.2	94.8	5.2	19.4	5.4	4.0
1995	76.0	9.2	9.4	0.2	94.8	4.7	20.3	4.9	3.7
1996	63.5	4.6	13.6	0.2	82.5	17.5	19.7	5.8	3.7
1997	64.5	4.6	13.1	0.1	82.4	17.6	19.0	5.8	3.7
1998	67.7	1.0	12.4	0.1	81.3	18.7	21.7	6.0	4.0
1999	68.0	0.8	12.4	0.1	81.4	18.6	21.7	5.9	4.0

Source: SEP, 2001.

Figure 1: Sources of Spending on Education, 1990-1999



Source: SEP, 2001

Spending per student at primary level more than tripled as a percentage of per capita GNP between 1990 and 1995 (Table 7). Per capita spending relative to per capita GNP also increased at secondary and higher levels, but less dramatically, more than doubling at secondary level and slightly less for higher education. This pattern reflects the emphasis given to improving quality as well as access to education throughout the 1990s, particularly at primary level.

**Table 7: Per capita spending on education, by level, 1990-2000
(As percentage of per capita GNP)**

Year	Basic	Upper Secondary	Higher
1990	0.0493	0.1221	0.3368
1991	0.0549	0.1236	0.3586
1992	0.0676	0.1297	0.4159
1993	0.0834	0.1518	0.4572
1994	0.0969	0.1750	0.4876
1995	0.0902	0.2046	0.4542
1996	0.0887	0.1825	0.4080
1997	0.0941	0.1611	0.3620
1998	0.1100	0.1459	0.3999
1999	0.1095	0.1387	0.3701
2000	0.1126	0.1332	0.3611

Source: Government of Mexico, "Primer Informe de Gobierno," Anexo, September 1, 2001.

The distribution of public spending on education is strongly progressive at primary level, though it becomes increasingly regressive at each higher level of education. One reason for this is that larger numbers of poor people drop out of school before reaching secondary or higher levels. A necessary condition for improving the equity of spending at higher levels, thereby improving equity overall, is to increase the numbers of poor people who have access to secondary education and beyond. The compensatory education programs seek to achieve this goal.

Economic Analysis of the Education Development Program

Methodology, Assumptions and Results. A cost-benefit analysis based on the initial targets of the EDP, estimated costs, opportunity costs derived from household survey data, was carried out at appraisal of Phase I. Assumptions included: maintenance costs of 2% a year; labor force participation rate of secondary school graduates of 50%, and an unemployment rate of 10%. The economic rate of return (ERR) was estimated at 18.2 percent based on private costs and 17.5 percent based on public and private costs. These were considered lower-bound results, as the externalities expected from basic education were not taken into account in the analysis. Sensitivity analysis showed that the ERR would remain greater than 10 percent if completion rates for primary education reached at least 84% and of secondary education 79% by 2003. As shown in Table 2, above, the completion rate for primary education has already exceeded the 2003 target, having reached 85.6% by 1999. Progress in improving completion rates at secondary level has been slower (Table 5, above). Quality improvements in lower-secondary education are included under Phases 1 or 2 of the Program, this indicates the will of the Government to address the issues affecting secondary education quality and efficiency.

Impact and Cost-Effectiveness of the Compensatory Programs. The *Program To Reverse the Lag in Education* (PARE), which began in 1991 with support from the Bank in four states (Chiapas, Guerrero, Hidalgo and Oaxaca), was designed to provide simultaneously a number of complementary interventions, which would produce an impact on educational outcomes. The combination of interventions were to effect changes in the behavior of teachers, principals, supervisors, parents and students, in addition to providing target schools with supplies, didactic materials and improved physical infrastructure. From its inception, its performance was monitored through statistical comparisons between the target, or *experimental*,

population (schools in the states of Chiapas, Guerrero, Hidalgo and Oaxaca) and a *control* group formed by students in comparable schools in the state of Michoacan, which was not within the scope of the program at that time. Special surveys were conducted yearly between 1992 and 1995, through which data were collected on a sample of schools in the four states participating in the PARE program and from Michoacán. The data obtained included detailed information on students, parents, school personnel and school characteristics. In addition, all students were given standardized achievement tests in Spanish and mathematics.

Monitoring data showed that not all schools benefited systematically from the intended combination of all interventions. As a result, the impact of the program was not clear in all cases. At the outset of Phase I of the Education Development Program, a number of experiments were carried out to test what the impact of the program would be if implemented as intended, with all interventions delivered to target schools without delays. To ensure the maximum impact of the Program, the monitoring system has been improved under Phase 2 of the Basic Education Development Project to ensure timely delivery of all program interventions. In addition, the methodology for selection of target schools was refined, permitting a more precise identification of those schools with particular need for extra help, based on poverty of the school population and on the size of the gap in basic education indicators (Annex 13 presents a summary of the targeting methodology). These measures are expected to increase the likelihood of achieving desired impact in all schools and on the system as a whole.

The focus of the yearly surveys was on rural and indigenous communities, since they were the target of the program and are the most disadvantaged groups, with the lowest educational attainment, poorest test scores, and highest incidence of school dropouts. The analysis was restricted to those schools that benefited from the entire complement of program interventions. The resulting sample consisted of 1,622 schools, of which 769 were indigenous and 853 were in rural non-indigenous communities. Performance was measured by scores on standardized Spanish tests applied at the beginning of the fourth grade before the program began and at the conclusion of the sixth grade, after close to three years of implementation.

Measured by their Spanish test scores, the performance of students in the participating schools is significantly higher in both rural and indigenous sub-samples (Table 8). Students in indigenous schools that participated in the program showed markedly poorer results before the program than their comparators in the control group who were outside the scope of the program, but outperformed the control group after three years of the program. In the rural sample, there was little difference in scores between participants and control groups before the program, while after three years, participants did significantly better.

Table 8: Summary Results of Student Test Performance, before and after the Program

Indigenous						
	Before		After		Difference	
	Students	Average test score	Students	Average test score	Total	Percentage
Experimental	564	14.6	356	29.1	13.9	95%
Control	205	23.2	125	26.8	4.1	18%
Total – t/test	769	9.46	481	2.24	6.92	73%
Rural						
	Before		After		Difference	
	Students	Average test score	Students	Average test score	Total	Percentage
Experimental	645	20.1	421	32.9	11.6	58%
Control	208	20.7	128	29.7	8.2	39%
Total – t/test	853	20.6	549	32.4	2.5	12%

The gain in performance is still significant even after accounting for the effects of differences in student and parental background, support of the school by parents, and quality of teachers, principals and supervisors. It should be noted that the model does not explain more than 6% (12%) of the variance in the difference in test scores between the fourth and sixth grades among students in rural (indigenous) schools. This may be partly a result of the small number of variables used in the model and partly because of the low reliability of the instrument used to measure the dependent variable (improvement in student performance): to the extent that student test scores fail to capture the true level of performance in the example, much of the influence of each of the explanatory factors may not be reflected in the results of the model.

Despite the shortcomings of the model, however, the explanatory variables do behave generally as expected, and the coefficient of the experimental variable is large and significant. In this experiment, the PARE program has a large positive impact on student achievement. Table 9 shows the marginal contribution of each explanatory variable in terms of standard deviations of the dependent variable (the gain in performance between the fourth and sixth grades). Indigenous schools fully served by the program had an average gain in test scores 25% higher than those that did not participate. Participating rural, non-indigenous schools also did better than non-participants, though by a smaller margin (about 12%). Several of the other supply-related factors (performance of teachers, principals and supervisors) partially reflect program impact, since several interventions are directed at strengthening the performance of these groups. Taking this cross-effect into account, it is estimated that the program could increase the average gain in test scores by one-half a standard deviation.

Table 9: Change in Students' Performance 1

<i>Difference in normalized test scores between 4th and 6th Grade</i>				
	Indigenous		Rural	
	Beta Coefficient	t-score	Beta coefficient	t-score
Control	0.245	4.698 ^a	0.115	2.695 ^a
Performance of 6 th grade teacher	-0.003	-0.060	0.075	1.691 ^c
Performance of 5 th grade teacher	-0.005	-0.102	0.107	2.485 ^a
Academic performance of school principal	0.171	3.709 ^a	0.138	3.040 ^a
Performance of supervisor	0.122	2.302 ^b	0.013	0.283
Parents & PTA participation in school	0.073	1.565 ^c	-0.134	-3.048 ^a
Student's educational background & performance prior to 4 th grade	0.044	0.984	0.062	1.441 ^d
R ² -adjusted		0.121		0.062
F		10.437 ^a		6.205 ^a
N	480		548	
Student's self-esteem at 5 th grade	-0.088	-2.032 ^b	-0.044	-1.039
Availability & quality of urban infrastructure	-0.167	-3.120 ^a	0.007	0.153
Memorandum item: Maximum total contribution of PARE program	0.531		0.448	

^a Significant at the 1 % level or more

^b Significant at the 5% level or more

^c Significant at the 10% level or more

^d Significant at the 20% level or more

The variables measuring the characteristics of students, parents, school personnel and facilities are numerical indices constructed to aggregate answers to as many as a dozen questions in the original survey. Nevertheless, several indices are needed to capture the complex set of interactions influencing student performance. Thus, the model reflected in Table 9 is a simplistic representation. In particular, it could be argued that if the external characteristics (family and community background, parental attitude towards and involvement in schooling, academic history, self-esteem, etc.) were adequately measured, the additional effect of the PARE program would be smaller. Alternatively, if the characteristics of the supply (teachers', principals' and supervisors' background, performance, attitudes, assiduity, pay, etc., as well characteristics of the school infrastructure and availability of textbooks, supplies, etc.) were captured more precisely, the impact of the program could be larger.

To make use of a wealth of information without introducing damaging multi-collinearity in the results, two sets of principal (orthogonal) components measuring, respectively, the characteristics of the demand and supply of schooling were constructed. Table 10 shows the results of this more complex model. The results are very similar to those shown in Table 9. It is encouraging that in this model, the impact of the program is larger and more significant. The coefficient of the factor capturing the conditions of supply is also large and significant, especially in the case of schools serving indigenous communities.

Table 10: Change in Students' Performance -2

<i>Difference in Normalized test scores between 4th and 6th Grade</i>				
	Indigenous		Rural	
	Beta Coefficient	t-score	Beta coefficient	t-score
Control	0.274	6.210 ^a	0.127	3.000 ^a
Factor: Characteristics of community & family	-0.009	-0.060	-0.181	-3.815 ^a
Factor: Characteristics of school & system	0.002	4.664 ^a	0.074	1.754 ^c
R ² –adjusted		0.124		0.035
F		23.599 ^a		7.713 ^a
N	480 schools		548 schools	
Memorandum item:				
Maximum total contribution of PARE program	0.531		0.448	

^a Significant at the 1 % level or more

^b Significant at the 5% level or more

^c Significant at the 10% level or more

^d Significant at the 20% level or more

It is still possible that small differences in test scores are very imperfect measures of relative capabilities and/or achievements. A final experiment was performed to attempt to cope with this issue. The samples were stratified into two sub-samples each: those with performance above and those below their respective medians. The results, shown in Table 11, are consistent with the previous two experiments. The program has a positive and significant impact, especially for the indigenous population.

Table 11: Change in Students' Performance -3

<i>Probability of testing above the median in 6th grade</i>				
	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Probability</i>
Indigenous schools				
Constant	0.991	0.217	4.572	0.0%
Control	1.272	0.246	5.162	0.0%
Factor - Characteristics of community & family	0.054	0.103	0.528	59.8%
Factor - Characteristics of school & system	0.630	0.104	6.056	0.0%
N	481			
Log likelihood	-295.562			
F-statistic	15.024			0.0%
Chi-square	60.095			0.0%
Obs with Dep=1	237			
Obs with Dep=0	244			
Ex-ante probability				49%
Estimated probability (at means)				49%
Estimated probability without PARE (control)				27%
PARE contribution - percentage gain probability				45%
Rural schools				
Constant	-0.396	0.183	-2.161	3.1%
Control	0.495	0.209	2.372	1.8%
Factor - Characteristics of community & family	0.233	0.086	2.713	0.7%
Factor - Characteristics of school & system	0.107	0.083	1.279	20.1%
N	549			
Log likelihood	-374.073			
F-statistic	3.112			1.5%
Chi-square	12.448			1.4%
Obs with Dep=1	271			
Obs with Dep=0	278			
Ex-ante probability				49%
Estimated probability (at means)				49%
Estimated probability without PARE (control)				40%
PARE contribution - percentage gain probability				19%

Table 12: Change in Students' Performance -4

<i>Probability of being in school in the 6th grade, having been in school in the 4th grade</i>				
<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Probability</i>
Indigenous Schools				
Constant	0.499	0.148	3.379	0.1%
Control	0.115	0.174	0.660	51.0%
Factor - Characteristics of community & family	0.125	0.078	1.599	11.0%
Factor - Characteristics of school & system	-0.067	0.076	-0.876	38.1%
N	769			
Log likelihood	-500.106			
F-statistic	15.597			0.0%
Chi-square	62.386			0.0%
Obs with Dep=1	493			
Obs with Dep=0	276			
Ex-ante probability	64%			
Estimated probability (at means)	64%			
Estimated probability without PARE (control)	62%			
PARE contribution - percentage gain probability		3%		
Rural Schools				
Constant	0.496	0.144	3.441	0.1%
Control	0.271	0.168	1.613	10.7%
Factor - Characteristics of community & family	0.184	0.076	2.419	1.6%
Factor - Characteristics of school & system	0.121	0.075	1.617	10.6%
N	825			
Log likelihood	-519.618			
F-statistic	23.752			0.0%
Chi-square	95.010			0.0%
Obs with Dep=1	549			
Obs with Dep=0	276			
Ex-ante probability	67%			
Estimated probability (at means)	67%			
Estimated probability without PARE (control)	62%			
PARE contribution - percentage gain probability	7%			

Table 13 summarizes the results of the various experiments to test the impact of the PARE program on test scores. The PARE program, fully implemented, could cause an increase in performance for the average student in a rural school of 19% to 38%. For indigenous students, the gain could be much larger, from 45% to 90%. If consideration is taken of the factors affecting supply, such as the performance of teachers, principals and supervisors, on the plausible assumption that this performance is in part a product of the program, the total impact could be even larger.

Table 13: Change in Students' Performance - Summary

<i>Marginal contribution of participating in the program</i>					
	Group	Mean of dependent variable	Unit	Estimated Coefficient, Participants	Marginal Contribution, Participants
Table 4	Rural	10.78	Gain in scores	3.644	33.8%
	Indigenous	11.36	Gain in scores	10.259	90.3%
Table 5	Rural	10.78	Gain in scores	4.043	37.5%
	Indigenous	11.36	Gain in scores	9.998	88.0%
Table 6	Rural	49%	Probability	0.495	19.0%
	Indigenous	49%	Probability	1.272	45.0%
Table 6a	Rural	67%	Probability	0.271	7.0%
	Indigenous	64%	Probability	0.115	3.0%

Note: For Tables 4 and 5, the marginal contribution is percentage gain to the mean. For Table 6, the contribution is the percentage gain to the initial probability of success, estimated at the means of the independent variables.

Impact of the Program on Dropouts. In addition to increasing the students' cognitive achievements, the PARE program also increases the probability that the student will continue in school. The two outcomes are probably linked: children who perform better are more motivated to continue, and their parents may be more inclined to allow them to continue in school. This is clearly the case for rural students, as shown in Table 14. Students supported by the program are 20% less likely to drop out of school, and the effect is just as large for the broader group of students who benefited from only a partial application of the program. Surprisingly, however, the result does not seem to hold for the indigenous population. One-third of the indigenous students who received the full program from 4th grade onward left school before completing the 6th grade. Their probability of dropping out was 12% greater than that of the comparable control group.

Table 14: Change in Students' Performance, Dropout

	Percentage of students who quit school by the end of the 6-th grade			
	<i>Complete program^a</i>		<i>Partial program^b</i>	
	Indigenous	Rural	Indigenous	Rural
	(%)	(%)	(%)	(%)
Experimental	32.9	28.4	36.2	31.1
Control	29.4	35.7	36.0	38.5
Difference	11.7	-20.5	0.7	-19.2
N	698	809	841	1006

^a Schools that received all PARE components simultaneously.

^b Schools that received some, but not all of the interventions.

This result deserves more analysis. One possibility is that high-achieving students in indigenous communities move to rural schools where they are immersed in a Spanish-speaking environment. On the other hand, a multivariant analysis of the probability that the student who was in school in the 4th grade was still in school in the 6th grade indicates that the program had a positive impact on both rural and indigenous schools (Table 14). The gain in probability is small, however, particularly for the indigenous population (a mere 3 percent increase).

Costs. Since PARE's activities are not independent of SEP's regular activities, estimating its costs is not clear-cut. Changes in behavior by teachers, principals, parents or supervisors may result from factors not related to the program's benefits. For example, teachers in a school benefiting from the PARE program may become more motivated and assiduous simply because they perceive the threat (or reward) of closer supervision by the educational authorities. The costs of the PARE program, as estimated by independent

consultants, are shown in Tables 15-16. Expenditure on indigenous schools was nearly 60 percent higher than in rural schools. The largest cost items were infrastructure and materials. Expenditure on teacher training and teacher incentives accounted for less than 14 percent of total spending.

Table 15: Per-pupil Expenditure - 1994

	<i>All schools</i> ^a	<i>PARE</i> ^b		<i>Cost increase</i>	
		<i>Indigenous</i>	<i>Rural</i>	<i>Indigenous</i>	<i>Rural</i>
Chiapas	1,983	606	338	30.5	17.0
Guenero	2,253	749	764	33.2	33.9
Hidalgo	2,143	1,127	637	52.6	29.7
Oaxaca	1,770	624	230	35.3	13.0
<i>Average</i>	<i>2,037</i>	<i>776</i>	<i>492</i>	<i>38.1</i>	<i>24.2</i>

^a Unit cost for primary schools in indigenous communities. SEP.

^b See annex table.

Table 16: Per pupil costs of the PARE Program – 1994 (Mexican pesos)

	<i>Biling- ual text- books</i>	<i>Library</i>	<i>Supplies</i>	<i>Training</i>	<i>Infra- structure</i>	<i>Teacer Incent- ives</i>	<i>Audio- visual Equip. & Materials</i>	<i>Super- vision</i>	<i>Didactic Materials</i>	<i>Total</i>
<i>Indigenous schools</i>										
Chiapas	21.5	3.5	2.0	45.6	215.2	-	111.3	47.0	159.5	605.7
Guerrero	20.2	3.2	4.1	50.1	282.1	45.8	101.1	103.2	139.4	749.1
Hidalgo	25.2	7.4	3.3	62.0	635.2	123.4	78.3	82.3	109.8	1,126.7
Oaxaca	9.2	4.6	3.5	50.3	279.7	52.8	139.3	29.2	55.6	624.1
<i>Average cost</i>	<i>19.0</i>	<i>4.7</i>	<i>3.2</i>	<i>52.0</i>	<i>353.1</i>	<i>55.5</i>	<i>107.5</i>	<i>65.4</i>	<i>116.1</i>	<i>776.4</i>
<i>Rural schools</i>										
Chiapas		7.3	3.2	32.7	32.6	21.2	136.4	39.4	65.4	338.1
Guerrero		4.8	6.4	40.8	333.0	4.0	97.9	139.9	137.5	764.2
Hidalgo		10.6	4.1	58.7	302.4	16.8	93.6	62.4	88.2	636.8
Oaxaca		6.1	4.4	42.9	-	-	94.2	46.5	35.7	229.7
<i>Average cost</i>		<i>7.2</i>	<i>4.5</i>	<i>43.8</i>	<i>167.0</i>	<i>10.5</i>	<i>105.5</i>	<i>72.1</i>	<i>81.7</i>	<i>492.2</i>

Cost-Benefit of the Program. As shown in Table 16, the PARE program increased the average per-pupil cost of education by 38% in indigenous schools, and by 24% in rural schools. A simple comparison between the gain in average test scores and the cost of the supplementary pedagogical actions under the PARE program (for the subset of schools that received all of the interventions and implemented them accordingly) shows a favorable relationship of benefits to costs for the indigenous population, which realized a 42% gain in average scores versus a 38% increase in cost, resulting in a benefit/cost ratio of 11% (Table 17). However, the ratio is negative for the rural population. Applying the simulated outcomes shown in Tables 9 and 12 and considering the maximum estimated impact for the indigenous population (a *maximum* gain in performance of 90% shown in Table 13) the benefit/cost ratio is 137:100. The equivalent ratio for the rural population (with a maximum gain in performance of 38% estimated in Table 13) is 58:100.

Table 17: Benefit/Cost Ratio of the PARE Program

	<i>Average Gain in Test Score</i>					Ratio
	Experimental	Control	Difference	Percentage gain	Increase in cost*	
<i>Indigenous schools</i>	13.9	4.1	9.8	42.3	38.1	11.02
<i>Rural schools</i>	11.6	8.2	3.4	16.5	24.2	-31.70

See Table 15.

Recent Developments. As noted above, surveys equivalent to those carried out in 1992-1995 have not been repeated since 1995. Moreover, selection of control groups has become more difficult as the program has been extended to more states. Nevertheless, data on schools receiving compensatory assistance from CONAFE is being correlated with achievement test results, and when available, these data will permit testing of the continued viability of the compensatory programs. In the meantime, several indicators of the continuing impact of the program are available. These include the changes over time in dropout and repetition rates in the states targeted under PARE and PAREB and the performance of indigenous schools assisted by CONAFE, compared with national averages and with schools not receiving CONAFE support. If continued progress has been observed and costs have not increased substantially, the results of the analysis may be considered as reliable.

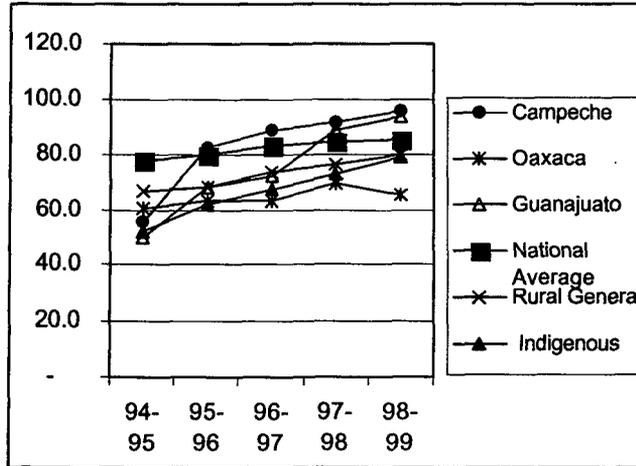
The improvements in dropout, repetition and completion rates shown in Tables 4 and 5, above, give a picture of the overall improvements in completion, dropout and repetition rates. The states with the poorest performance at the beginning of the decade experienced the greatest improvement. The most dramatic improvement overall in completion rates (which reflects the improvements in dropout and repetition rates) was achieved by indigenous rural schools that received CONAFE assistance, with the completion rate rising from just under 52 to nearly 79 percent between 1994/95 and 1998/99 (Table 18, Figure 2). Improvements were especially strong in the lower grades, when the risk of dropping out is highest in rural areas. For example, rural schools in Oaxaca assisted under PARE and later under PAREB showed an completion rate of 38 percent for grades 1-3 in 1991-1992. By 1998-1999, this rate had risen to nearly 65%, compared to the national average of 85.6%. In some states, such as Campeche and Guanajuato, CONAFE-assisted schools showed even more rapid improvement, exceeding the national average by the end of the period.

Table 18: Average Completion Rates, CONAFE-Assisted Schools and National Average

	School Year							
	Percentage of students completing grades 1-3							
	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99
National Average	71.6	72.9	74.2	77.7	80.0	82.9	84.9	85.6
General Rural				66.9	68.2	73.2	76.0	79.6
Indigenous				51.7	61.4	67.0	72.6	78.8
Grades 1-3								
Campeche				55.4	82.8	89.0	91.9	95.7
Oaxaca	38.0	56.1	56.5	60.3	63.4	63.2	69.5	64.9
Guanajuato				50.1	68.3	72.1	88.8	93.9

Source: SEP, CONAFE, 2000.

Figure 2: Completion rates, CONAFE-assisted schools and National Average



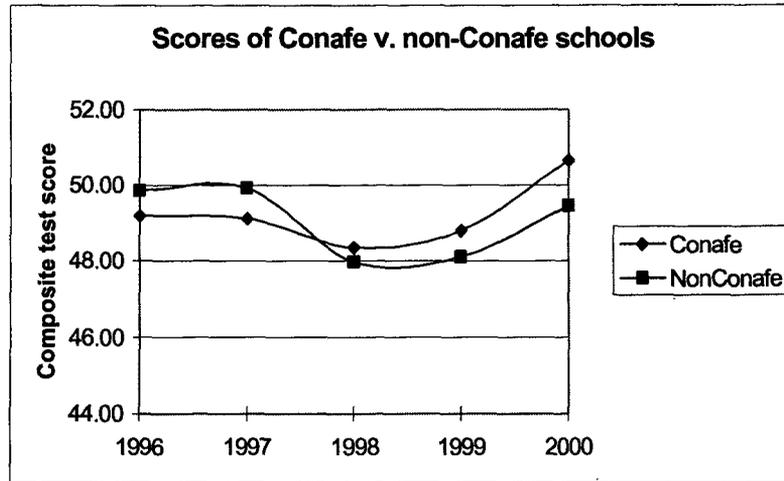
Source: CONAFE, November 2000.

Prospects for continued improvement. In recent years, the population under 6 years old has decreased by an average of 0.5 percent a year, while the 6-14 year age group has grown only 0.1 percent a year. This age group is expected to remain stable in the coming decade. This should facilitate efforts to improve coverage, permitting concentration on those areas that are currently underserved. In addition, since little investment in infrastructure for the expansion of capacity are anticipated, resources can be focused on enhancing the quality of primary education and improving student achievement.

Achievement.

Evidence is also strong that the program has continued to have a significant impact on achievement as reflected by test scores in Spanish and mathematics. For example, indigenous students in schools assisted by CONAFE tested lower in 1996 than students in schools that did not (indicating that CONAFE's targeting was effective in selecting schools at greatest disadvantage). By 1998, this pattern was reversed, and students in CONAFE-assisted schools continued to improve faster than the control group through 2000 (Figure 3).

Figure 3: Average Test Scores of Students in CONAFE-Assisted Schools and non-CONAFE Schools



Source: CONAFE, November 2000.

Initial Education. The real benefits of initial education are even more difficult to quantify than those of primary education. The stated objectives of the program are to improve children’s readiness for school at the proper age by helping parents improve their childrearing and early childhood education skills. This is expected to result in improved achievement in primary school, improved likelihood of staying in school and completing primary school, and improved likelihood of continuing to secondary school. What may be at least as important as the skills attained by the participants, however, is their increased willingness and ability to participate in the education process, as noted by many observers. If this effect is generally true, it can be hoped that this program would enhance efforts to involve parents in primary and secondary school parents’ associations, as well as the impact of that involvement on their children’s education. To date, no systematic evaluation of the initial education has been carried out to test the extent of these impacts or the cost-effectiveness of the program. However, the new Government shares the Bank’s concern on this issue and is strongly supporting plans to carry out a comprehensive evaluation of the initial education program under PAREIB-Phase 2, through the DGE. The Department of Evaluation of SEP will be collaborating with CONAFE to correlate achievement test data for primary students with data on participation in the initial and preschool education program. CONAFE’s cost accounting will also facilitate an economic analysis of the program.

Summary. Economic analysis of the PARE program found that it was strongly cost-effective in improving student performance when all of the necessary interventions were actually delivered. While the data necessary to update the analysis are as yet unavailable, there are strong indications that the positive impacts found after the initial four years of the program have been deepened and that they have been continued through the expansion of the compensatory program. Under Phase 2, an improved monitoring system is being utilized to ensure that all schools receive all of the interventions they need. The effectiveness of the interventions is also being enhanced by measures designed to ensure appropriate adaptation to local realities. In addition, the Government has taken several measures to increase the efficiency of the program, such as consolidating the training originally provided by CONAFE within the training programs provided by SEP. Therefore, it is reasonable to conclude that the program continues to be cost-effective.

Fiscal Impact. The table below shows the historical and projected federal expenditures on basic education relative to total federal expenditures and GDP.

Table 19: Expenditures in Education as a Share of GDP and Federal Expenses in current pesos

Fiscal Year	Federal Expenditures in Basic Education (MXN \$ billions)	Total Programmable Federal Expenditures (MXN \$ billions)	Share of Basic Education %	GDP (MXN \$ billions)	Share of Basic Education %
1993	27.7	207.3	12.4	1,256.2	2.0
1994	33.7	249.9	13.5	1,40.2	2.4
1995	40.5	290.2	13.9	1,837.0	2.2
1996	54.3	404.1	13.4	2,525.6	2.2
1997	71.8	526.9	13.6	3,174.3	2.3
1998	101.3	600.0	16.9	3,846.4	2.6
1999	119.5	710.5	16.8	4,583.8	2.6
2000	144.7	863.7	16.8	5,432.4	2.7
2001 (*)	163.0	881.7	18.5	5,688.5	2.9

(*) Figures subject to revisions.

Source: Mexico, Presidencia de la Republica. Informe de Gobierno. September 1, 2001.

Expenditures on basic education are expected to grow in the next several years, as the increased demand for secondary education is met. To the extent that enrollments at the secondary level continue to rise, these expenditures may rise further. Investment and recurrent expenditures resulting from the project are shown in the table below:

Table 20: Project Costs as a Share of Federal Budget in Basic Education

Fiscal Year	Federal Expenditures In Basic Education (MXN \$ billions)	Of which Project Costs (MXN \$ billions)	Project Costs As % of Expenditures In Basic Education
2002	180.6	0.257	0.142
2003	199.1	0.260	0.131
2004	217.4	0.244	0.112
2005	235.2	0.244	0.104
2006	247.0	0.093 (*)	0.038

Source: SEP, 2001

(*) Recurrent project costs, corresponding to an estimated 37% of total costs.

Assuming that recurrent costs (37%) of total project costs for Phase 2 and 3 would be continued beyond project execution (replacement of materials, infrastructure maintenance, incentives programs, etc.), recurrent costs would amount to about MXN \$0.093 billion per year, or about 0.038% of projected total

federal expenditures in basic education for 2005. Therefore, neither the counterpart fund requirements nor the incremental recurrent costs are likely to impose a significant fiscal burden.

End notes:

¹See, for example, World Bank, PAD, Basic Education Development Project, 1998, and López-Acevedo, et al, "The Evolution and Structure of the Rates of Returns to Education in Mexico 1987-1997): an Application of Quantile Regression" in *Mexico Earnings Inequality after Mexico's Economic and Educational Reform*, World Bank Report No. 19945-ME, Vol. 2, (2000).

²López-Acevedo, et al, "Earnings Inequality and Education Attainment after Mexico's Economic Reforms", IBID.

³The surveys were not conducted after 1995, making it impossible to evaluation the impact of the program over time. This problem is being addressed by CONAFE and the SEP Department of Evaluation by correlating test results with data routinely collected on schools by CONAFE.

⁴A few unexpected results are noted: First, among students attending indigenous schools, greater self-esteem at fifth grade and greater access to public services appear to be negatively correlated with performance. It has been suggested that this puzzling result may be due to the complex (and sometimes conflictive) nature of indigenous education. It may also be due to the excessive simplicity of the model already mentioned. Second, teachers' performance does not appear to have a significant impact on improvement in test results, but the performance of principals and supervisors does. This may be due to the generally poor quality of teaching in indigenous schools. Finally, in the rural sub-sample, parental involvement in the school appears to be negatively correlated with improvements in performance. One possible explanation for this is the possibility that parents of children at poorer quality schools participate more in school affairs, perhaps in response to significant problems. In fact the more isolated and poor a community, the more active parents have to be to get education services.

Annex 5: Financial Summary
MEXICO: Basic Education Development Phase II
Years Ending

	IMPLEMENTATION PERIOD						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required							
Project Costs							
Investment Costs	166.6	165.5	0.0	0.0	0.0	0.0	0.0
Recurrent Costs	98.6	96.4	0.0	0.0	0.0	0.0	0.0
Total Project Costs	265.2	261.9	0.0	0.0	0.0	0.0	0.0
Front-end fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing	265.2	261.9	0.0	0.0	0.0	0.0	0.0

Financing							
IBRD/IDA	150.0	150.0	0.0	0.0	0.0	0.0	0.0
Government	115.2	111.9	0.0	0.0	0.0	0.0	0.0
Central	115.2	111.9	0.0	0.0	0.0	0.0	0.0
Provincial			0.0	0.0	0.0	0.0	0.0
Co-financiers			0.0	0.0	0.0	0.0	0.0
User Fees/Beneficiaries			0.0	0.0	0.0	0.0	
Others			0.0	0.0	0.0	0.0	0.0
Others			0.0	0.0	0.0	0.0	0.0
Others			0.0	0.0	0.0	0.0	0.0
Others			0.0	0.0	0.0	0.0	0.0
Others			0.0	0.0	0.0	0.0	0.0
Total Project Financing	265.2	261.9	0.0	0.0	0.0	0.0	0.0

Main assumptions:

Years Ending December 31st.

	IMPLEMENTATION PERIOD						
	Year 1	Year 2					
Total Financing Required							
Project Costs							
Investment Costs	166.6	165.5					
Recurrent Costs	98.6	96.4					
Total Project Costs	265.2	261.9					
Total Financing	265.2	261.9					

Financing							
IBRD/IDA	150.0	150.0					
Government	115.2	111.9					
Central	115.2	111.9					

Total Project Financing	265.2	261.9
--------------------------------	-------	-------

(a) The implementation period and the operational period are the same; therefore only one table is shown; (b) recurrent costs include: consumable didactic materials, fund for school maintenance operated by the parents associations, travel expenses of school supervisors to visit schools, and project administration; (c) all other costs are classified as investment costs, namely, infrastructure and equipment, training, durable didactic materials, and technical assistance for education evaluation, school mapping, studies, and basic education innovation fund.

Annex 6: Procurement and Disbursement Arrangements

MEXICO: Basic Education Development Phase II

Procurement

Section I. Procurement of Goods and Works

Procurement of works and goods financed by the World Bank under the project would be carried out in accordance with World Bank's Guidelines for Procurement under IBRD Loans and IDA Credits (January 1995, revised in January and August 1996, September 1997 and January 1999) and the following provisions of Section I of this Annex. The executing agency for the project will be the *Consejo Nacional de Fomento Educativo (CONAFE)*, the same institution that implemented Phase I of the Program.

Grouping of contracts. To the extent practicable contracts for goods and works shall be grouping in bid packages estimated to cost US\$ 10,000,000 equivalent or more each.

Notification and advertising. The General Procurement Notice to be published in the *Development Business*, shall be updated annually for outstanding procurement. All invitation to bid shall be published in the "*Diario Oficial de la Federación*" and in *COMPRANET*. In addition, invitation to bid for each contract estimated to cost US\$ 10,000,000 equivalent or more shall be advertised in the *Development Business* in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines. To obtain expressions of interest for large consultant assignments (contracts expected to cost more than US\$ 200,000 equivalent) a specific procurement notice shall be also published in *Development Business*.

Section I-Procurement Methods

The methods to be used for the procurement describe below, and the estimated amounts for each method, are summarized in Table A. The threshold contract values for the use of each method are fixed in Table B.

Procurement of Works. Works financed under this project would include construction, maintenance and rehabilitation of about 22,600 educational facilities totaling US\$ 95.5 million equivalent. These are small works, distribute along the country and in very remote areas will require provision of materials and community participation provided by the Parent Association. Because of community participation in cash and/or in-kind labor contribution, normal procedures will be impractical to follow. These civil works estimated to cost up to US\$ 50,000.00 equivalent per contract would be procured under normal community commercial practices acceptable to the Bank.

CONAFE has begun to develop design criteria, acceptable to the Bank, to be followed for the award of these small contracts to ensure that: a) the quality of materials and workmanship is satisfactory and acceptable, b) the prices of these materials and any inputs are reasonable and realistic, and c) the standards and specifications governing these contracts are complied with fully. CONAFE's design criteria shall be presented to the Bank before the Loan is declared Effective.

Works also may be constructed by the municipalities that will sign an agreement with CONAFE satisfactory to the Bank accepting to procure the works following Bank's Guidelines and procedures. CONAFE should present to the Bank a standard agreement before the Loan becomes Effective. These works will be procured following National Competitive Bidding procedures (NCB), using Bank Standard

Bidding Documents (SBDs) agreed with the Bank; no ICB procedures will apply under this Loan because the works to be financed won't be of the interest of foreign contractors mainly for the dispersion of the works and the well developed construction industry in Mexico that guarantees an ample competition among local contractors. Work costing less than US\$500,000, up to an aggregated amount of US\$10 million equivalent may be procured through price comparison received in response to a written invitation to at least three contractors. The written invitation will include a detailed description of the works, including basic specifications, the required completion date, and a basic contract form acceptable to the Bank. Community participation contracts, costing less than US\$ 350,000 equivalent, shall be procured in accordance with procedures acceptable to the Bank.

Procurement of Goods. Goods procured under this project will include education materials (books, basic geometric sets, training materials, flip charts, typewriters, computers, software, optical reading test forms, and school furniture totaling US\$49.5 million equivalent. Major contracts for these goods will be procured following International Competitive Bidding procedures (ICB), using Bank Standard Bidding Documents (SBDs). Contracts for optical reading test forms, estimated to cost up to US\$ 2,000,000 equivalent per contract, up to an aggregated amount of US\$4,000,000 equivalent, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, shall be procured through limited international bidding. Contracts estimated to cost less than US\$ 500,000 equivalent per contract, up to an aggregated amount of US\$6.0 million equivalent of which Bank financing amounts to US\$4.0 million equivalent, may be procured using National Competitive Bidding procedures (NCB) and agreed Standard Bidding Documents. Contracts for goods that cannot be grouped into large bidding packages and estimated to cost less than US\$ 100,000 equivalent per contract, up to an aggregated amount of US\$3.5 million equivalent of which Bank financing amounts to US\$0.3 million equivalent, may be procured using shopping (National or International) procedures based on a request form for quotations acceptable to the Bank.

Section II - Employment of Consultants

Consultant services shall be procured in accordance with Guidelines for the use of Consultants by the World Bank Borrowers and the Bank as Executing Agency (January 1997, revised in September 1997 and January 1999) and the following provisions of Section II of this Annex. Consultant services will be contracted under this project in the following areas of expertise: training, design, construction supervision, and institutional development. These services are estimated to cost US\$227.0 million equivalent and would be procured using World Bank Standard Request of Proposals.

Firms. All contracts for firms would be procured using QCBS procedures except for small contracts for assignments of standard or routine nature and estimated to cost less than US\$ 100,000 equivalent that would be procured using LCS, up to an aggregate amount of US\$216.0.

Individuals. Specialized advisory services would be provided by individual consultants selected by comparison of qualifications of at least three candidates and hired in accordance with the provisions of paragraph 5.1 to 5.3 of the Consultant Guidelines, up to an aggregated amount of US\$11.0.

The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraphs. The short list of consultants, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Prior review: Each contract for works estimated to cost more than US\$ 350,000 equivalent procurement under NCB, and the first three contracts for goods procured under NCB, will be subject to prior review.

The prior review arrangements are presented in Table B.

Procurement plan. By November 2001, the Borrower shall present to the Bank for comments a procurement plan for project implementation which provided the basis of the aggregate amounts for the procurement methods. Each November, the Borrower would update the procurement schedule for the following year, including the ICB procedures, the smaller procurement, the consultancy and training services and the number and estimated costs of the sub-projects to be financed under the proposed loan following the model procurement plan.

Section III - Procurement Responsibilities and Capacity

A procurement capacity assessment for the project was carried out by Ms. Lea Braslavsky, Country Procurement Specialist, LCOPR, and approved by RPA on October 19, 2001. The National Development Bank (*Nacional Financiera-NAFIN*), one of the three financial intermediary institutions of the Mexican Government will be the borrower and will be responsible through its Special Financing Unit for: (i) reviewing all procurement procedures and bid evaluation reports submitted by CONAFE, (ii) give the no-objection for the award of contracts below the agreed threshold for Bank prior review; and (iii) maintaining all the corresponding records. NAFIN's performance under previous project was satisfactory. The Bank's Implementation Unit in Mexico will provide procurement advice to CONAFE and NAFIN as required and carried out the Bank's fiduciary functions delegated to it.

To assess CONAFE's procurement capabilities and possible risk on the implementation of the proposed project, a Bank's mission visited the CPU in Mexico City and four states offices (Guanajuato, Puebla, Veracruz and Zacatecas). These offices have ample experience in Bank operation because they satisfactory executed Phase I of the Program.

CONAFE through its State Delegations will carry out all procurement activities for the project and a CPU established in Mexico City during the previous project was in charge of preparing this phase. To ensure CONAFE's staff knowledge of World Bank procurement Guidelines and procedures, several procurement seminars were given by the Mexico Resident Mission to CONAFE's staff, of most of them from the CONAFE Delegations, during the implementation of the first project.

During project preparation, NAFIN and CONAFE have confirmed their will for ethical behavior and have expressed their commitment to adhere to competitive selection and transparency in all activities. The Operational Manual will include a chapter call "Code of Ethic" Based on the above procurement risk for the project is rated as "average".

Section IV: Procurement Monitoring

The CPU will prepare annually a Procurement Plan satisfactory to the World Bank and establish procedures for monitoring project execution and impact, procurement implementation, including monitoring of contracts. The CPU as well as NAFIN will maintain detailed records of procurement activities.

Review by the Bank. The proposed threshold for prior review by the World Bank are based on the procurement assessment of the project executive agency and are summarized in Table B. In addition to this review of individual procurement actions, the annual procurement plan will be reviewed and approved by the Bank, as well as procurement audits to be carried out during the life of the project.

Frequency of Procurement Supervision. Based on the overall risk assessment (average) the post-review

mission for the project shall be completed every 12 months and shall cover not less than 1 in 20 contracts signed.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US\$ million equivalent)

Expenditure Category	Procurement Method ¹			N.B.F. ³	Total Cost
	ICB	NCB	Other ²		
1. Works			95.50 (71.60)		95.50 (71.60)
2. Goods	49.50 (40.00)	6.00 (4.00)	3.50 (0.30)	54.00 (0)	113.00 (44.30)
3. Services			160.40 (120.30)	44.6 (0.00)	205.00 (120.30)
4. School Grants			66.60 (56.00)		66.60 (56.00)
5. Operating Costs			48.00 (4.80)		48.00 (4.80)
Front-end fee			3.00 (3.00)		3.00 (3.00)
Total	49.50 (40.00)	6.00 (4.00)	377.00 (256.00)	98.60 (0.00)	531.10 (300.00)

^{1/} Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

^{2/} Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management offices, training, technical assistance services, and incremental operating costs related to managing the project.

^{3/} Includes consumable educational supplies and primary teacher's incentives.

Prior review thresholds (Table B)

Table B: Thresholds for Procurement Methods and Prior Review¹

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works	<350,000	Lump-sum fixed-price contracts	First three
2. Goods	>500,000 50,000-500,000 <50,000	ICB, LIB NCB IS or NS (3 Quotations)	All First three None
3. Services			

Individual Consultants	>50,000	Individual Consultants	All
	<50,000	Individual Consultants	None
Consulting Firms	>100,000	QCBS	All
	<100,000	QCBS	Only TORs
4. Operating Costs	N/A	N/A	None

Total value of contracts subject to prior review:

US\$ 324.0 million
equivalent

Overall Procurement Risk Assessment

Average

Frequency of procurement supervision missions proposed: One every 12 months (includes special procurement supervision for post-review/audits)

¹ Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Disbursement

Allocation of loan proceeds (Table C)

Table C: Allocation of Loan Proceed

Expenditure Category	Amount in US\$ million	Financing Percentage
1. Works	70.00	75
2. Goods	43.30	75
3. Consultant Services and Training	118.00	75
4. School Grants	55.00	84
4. Operating Costs	4.70	10
Unallocated	6.00	
Fee	3.00	Amount due under Section 2.04 of the Loan Agreement
TOTAL	300.00	

Special Account. A Special Account in US dollars would be established at the Banco de México. The authorized allocation is US\$30.00 million, which will be limited at the early stage of the project to an initial deposit of US\$10.00 million. When the aggregate disbursements under the loan have reached US\$20.00 million, the initial allocation may be increased up to the authorized allocation. The Special Account will be monthly replenished and will be used for all transactions eligible for financing from the loan.

Retroactive Financing. The Bank has agreed to finance retroactively eligible project expenditures incurred as of November 1, 2001, up to 10 percent of the loan amount.

Financial Management. The financial management assessment (FMA) was carried out in May 14 through August 23, 2001, and updated on December 3, 2001. This assessment focused on the project's accounting system, internal controls, planning, budgeting and financial reporting system, selection of an auditor as well as the format and contents of the Project Management Report (PMR) to be quarterly prepared by CONAFE and submitted by the 30th. of January, April, July and October of each year. The FMA revealed that CONAFE cannot presently produce PMRs. (See World Bank, 2001, "Mexico Basic Education Development Phase II, Summary Risk Assessment Report on Financial Management," in the Project File).

After FMA discussions were initiated between CONAFE and the Bank, it was observed that neither PMR nor FMR can be generated to provide, with reasonable assurance, accurate and timely information as required by the Bank. Nevertheless, CONAFE meets minimum Bank financial management requirements, and an action plan to strengthen the MIS was agreed. The action plan focused on PMR but will be adjusted to concentrate on FMRs, which were recommended for CONAFE as they fit better with its needs of information for project management. These reports eventually will be used as supporting documentation for disbursements, contingent upon (i) agreement and (ii) compliance of Bank requirements.

Use of Statements of Expenditure. Traditional disbursement methods (SOEs, special commitments and direct payments) will be used until CONAFE and NAFIN are ready to adopt the FMRs-based disbursement methodology. NAFIN, as the financial agency for the project, would prepare the necessary documentation for prompt disbursements. Considering the size of the contracts, all works, operating expenditures and most of the consultant services, are expected to be disbursed through SOEs. Full supporting documentation will be required for all contracts for goods above US\$ 500,000.00, works above US\$ 350,000.00 except

for the first three contracts to be consistent with the prior review threshold, consultant firm contracts above US\$ 100,000.00, and individual consultant contracts above US\$ 50,000.00. All expenditures for training and operating costs will be disbursed by SOE.

CONAFE would maintain, for one year after the year in which the last disbursement takes place, all supporting documentation and separate project records, to reflect, in accordance with sound accounting practices, the operations, resources and expenditures of each project activity. Independent annual audit will be carried out based on: (i) International Standards on Auditing; (ii) current Memorandum of Technical Understanding on Auditing –MET; and (iii) applicable Bank's guidelines. The report will be submitted to the Bank within the six months after the end of each year.

Frequency of financial management supervision missions proposed: One every 12 months (includes the review and follow-up of annual audit reports).

TABLE D: Disbursement Schedule

(US\$ million equivalent)

Bank FY	Quarter Ending	Appraisal Estimate	Cumulative
FY 2002 (a)	Mar 31, 2002	80.0	80.0
	June 30, 2002	25.0	105.0
FY 2003	Sept 30, 2002	25.0	130.0
	Dec 31, 2002	25.0	155.0
	Mar 31, 2003	25.0	180.0
	June 30, 2003	25.0	205.0
FY 2004	Sept 30, 2003	25.0	230.0
	Dec 31, 2003	25.0	255.0
	Mar 31, 2004	25.0	280.0
	June 30, 2004	20.0	300.0

(a) Includes retroactive financing and first deposit in the Special Account.

**Annex 7: Project Processing Schedule
MEXICO: Basic Education Development Phase II**

Project Schedule	Planned	Actual
Time taken to prepare the project (months)		15
First Bank mission (identification)		07/31/2000
Appraisal mission departure	11/14/2001	11/28/2001
Negotiations	11/26/2001	02/04/2002
Planned Date of Effectiveness	03/25/2002	

Prepared by:

Preparation assistance:

Bank staff who worked on the project included:

Name	Speciality
Eduardo Vélez Bustillo	Education Specialist
Constance Corbett	Economist
Anna Sant'Anna	Sociologist
Lea Braslavsky	Sr. Procurement Specialist
Víctor Ordoñez	Financial Management Specialist
Maria-Valeria Junho Pena	Lead Sociologist
Ricardo Hernandez	Environment Specialist
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Mariangeles Sabella	Country Lawyer
Joseph Shapiro	Summer Intern
Julie B. Nannucci	Language Program Assistant
Gizella Díaz	Language Team Assistant

Annex 8: Documents in the Project File*
MEXICO: Basic Education Development Phase II

A. Project Implementation Plan

CONAFE (Consejo Nacional de Fomento Educativo). 1998. *"Plan de Implementación - Fase I"*.
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B. Bank Staff Assessments

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----- 1997d. Proyecto: Diagnóstico y Actualización de Sistemas de Trabajo y Diseño del Programa Estatal de Fortalecimiento Institucional -Propuesta Técnica. CENCADE Quintana Roo / Unidad Coordinadora Estatal para Abatir el Rezago Educativo del Estado de Q.R. January.
----- 1998^a. "Evaluación del Aprendizaje en la Educación Básica - Antecedentes y Resultados" January 23.
----- 1998b. "Normas para asignar el Reconocimiento al Desempeño Docente a Escuelas Multigrado de Educación Primaria General e Indígena."
----- 1998c. "Propuesta para la Reestructuración del Programa para Abatir el Rezago en Educación Inicial y Básica (PAREIB)". March.

- 1998d. Sistema De Gestión Financiera Del CONAFE Y A Nivel Estatal, Esquema De Operación De Los Programas Compensatorios. May.
- 1998e. Sistema de Gestión Financiera del CONAFE y a Nivel Estatal, Mecanismo de Operación Financiera De Proyectos Financiados Por Organismos Multilaterales. April.
- 1998f. "Subcomponente 1.2.1. Proyecto Escolar: Una Estrategia para Transformar Las Escuelas" March.
- 1998g. "Subcomponente II.1 Consolidación de los Sistemas Estatales de Evaluación Educativa". March.
- 1998h. "Subcomponente II.1.3. Estudios. Proyecto: Modelo de Educación Primaria para Niños Jornaleros Agrícolas Migrantes". March.
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Annex 9: Statement of Loans and Credits
MEXICO: Basic Education Development Phase II
06-Feb-2002

Project ID	FY	Purpose	Original Amount in US\$ Millions			Cancel.	Undisb.	Difference between expected and actual disbursements*	
			IBRD	IDA	GEF			Orig	Frm Rev'd
P060577	2002	MX Southeast Reg'l Development LIL	5.00	0.00	0.00	0.00	5.00	0.00	0.00
P065779	2001	FEDERAL HIGHWAY MAINTENANCE PROJECT	218.00	0.00	0.00	0.00	211.93	-6.07	0.00
P064887	2001	DISASTER MANAGEMENT (ERL)	404.05	0.00	0.00	0.00	396.15	38.77	0.00
P060908	2001	GEF MX-MESO AMERICAN CORRIDOR	0.00	0.00	14.84	0.00	14.28	2.55	0.00
P066321	2001	MX: III BASIC HEALTH CARE PROJECT	350.00	0.00	0.00	0.00	350.00	0.00	0.00
P071323	2001	Bank Restructuring Facility II	505.06	0.00	0.00	0.00	505.06	51.69	0.00
P070479	2001	MX Edo.de Mexico Structural Adjustm Loan	505.06	0.00	0.00	0.00	200.00	-304.69	0.00
P066674	2001	GEF MX-Indigenous&Community Biodiversity	0.00	0.00	7.50	0.00	6.74	1.84	0.00
P057530	2000	RURAL DEV.MARG.ARII (APL)	55.00	0.00	0.00	0.00	42.73	4.56	0.00
P060718	2000	ALTERNATIVE ENERGY	0.00	0.00	8.90	0.00	7.08	6.41	0.00
P066938	2000	MX GENDER (LIL)	3.07	0.00	0.00	0.00	3.07	1.24	0.00
P007610	1999	FOVI RESTRUCTURING	505.50	0.00	0.00	0.00	312.00	305.34	0.00
P048505	1999	AGRICULTURAL PRODUCT	444.45	0.00	0.00	0.00	155.56	45.88	-36.43
P055061	1998	MX: HEALTH SYSTEM REFORM TA	25.00	0.00	0.00	0.00	1.31	1.31	0.00
P007720	1998	MX: HEALTH SYSTEM REFORM - SAL	700.00	0.00	0.00	0.00	150.00	150.00	0.00
P007711	1998	MX RURAL DEV. MARG.AREA (APL)	47.00	0.00	0.00	0.00	30.16	21.83	0.00
P044531	1998	KNOWLEDGE & INNOV.	300.00	0.00	0.00	0.00	195.37	61.21	0.00
P049895	1998	MX: HIGHER ED. FINANCING	180.20	0.00	0.00	0.00	144.48	68.31	0.00
P007700	1997	COMMUNITY FORESTRY	15.00	0.00	0.00	0.00	6.07	4.86	0.00
P007689	1996	MX: BASIC HEALTH II	310.00	0.00	0.00	0.00	30.62	30.62	30.62
P007713	1996	WATER RESOURCES MANA	186.50	0.00	0.00	0.00	120.35	99.28	39.23
P034490	1995	MX: TECHNICAL EDUC/TRAINING	265.00	0.00	0.00	69.69	51.26	120.95	90.92
P007701	1994	ON-FARM & MINOR IRRI	200.00	0.00	0.00	30.00	11.93	41.93	11.93
P007710	1994	N. BORDER I ENVIRONM	368.00	0.00	0.00	313.36	23.62	336.99	61.13
P007648	1993	MX MEDIUM CITIES TRANSP	200.00	0.00	0.00	63.00	56.03	119.03	96.03
Total:			5791.89	0.00	31.24	476.05	3030.81	1203.84	293.42

MEXICO
STATEMENT OF IFC's
Held and Disbursed Portfolio
OCT-2001
In Millions US Dollars

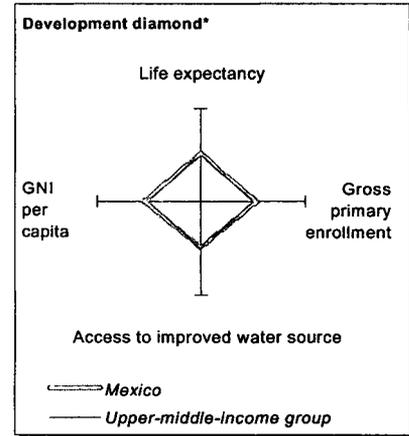
FY Approval	Company	Committed				Disbursed			
		IFC		Quasi	Partic	IFC		Quasi	Partic
		Loan	Equity			Loan	Equity		
1998	CIMA Puebla	7.00	0.00	0.00	0.00	3.50	0.00	0.00	0.00
1994	CTAPV	3.16	0.00	1.90	0.00	3.16	0.00	1.90	0.00
0	Chiapas-Propalma	0.00	0.82	0.00	0.00	0.00	0.82	0.00	0.00
1997	Comercializadora	2.63	0.00	1.88	5.00	2.63	0.00	1.88	5.00
2001	Compartamos	1.00	0.66	0.00	0.00	1.00	0.66	0.00	0.00
1999	Corsa	12.07	3.00	0.00	0.00	12.07	3.00	0.00	0.00
2001	Ecomex	5.00	0.00	1.50	0.00	3.00	0.00	1.50	0.00
2000	Educacion	6.50	0.00	0.00	0.00	4.90	0.00	0.00	0.00
1997	Fondo Chiapas	0.00	4.18	0.00	0.00	0.00	0.54	0.00	0.00
1998	Forja Monterrey	12.07	3.00	0.00	12.07	12.07	3.00	0.00	12.07
1991/96	GIBSA	18.93	0.00	10.00	63.67	18.93	0.00	10.00	63.67
1993	GIDESA	3.75	0.00	0.00	0.00	3.75	0.00	0.00	0.00
1996/00	GIRSA	45.00	0.00	0.00	60.00	45.00	0.00	0.00	60.00
1993	GOTM	0.49	0.00	0.00	0.00	0.49	0.00	0.00	0.00
1997/98	Gen. Hipotecaria	0.00	1.20	0.00	0.00	0.00	1.20	0.00	0.00
0	Grupo BBVA	0.00	2.67	0.00	0.00	0.00	2.67	0.00	0.00
1998	Grupo Calidra	10.67	6.00	0.00	8.33	10.67	6.00	0.00	8.33
	Grupo FEMSA	0.00	8.09	0.00	0.00	0.00	8.09	0.00	0.00
1989	Grupo Minsa	12.00	10.00	0.00	18.00	12.00	10.00	0.00	18.00
1997	Grupo Posadas	25.00	0.00	10.00	0.00	25.00	0.00	10.00	0.00
1992/93/95/96/99	Grupo Sanfandila	8.09	0.00	0.00	3.61	6.76	0.00	0.00	2.95
1998	Heller Financial	0.00	0.32	0.00	0.00	0.00	0.32	0.00	0.00
1994/96/98/00	Hospital ABC	30.00	0.00	0.00	14.00	1.76	0.00	0.00	1.24
2000	ITR	14.00	0.00	0.00	4.00	14.00	0.00	0.00	4.00
2000	Innopack	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
2000	Interceramic	5.00	0.00	4.00	0.00	5.00	0.00	4.00	0.00
1994	InverCap	0.00	0.07	0.00	0.00	0.00	0.06	0.00	0.00
2000/01	Merida III	29.59	0.00	0.00	72.15	29.59	0.00	0.00	72.15
1998	Mexplus Puertos	0.00	1.41	0.00	0.00	0.00	1.41	0.00	0.00
1995/99	NEMAK	0.00	0.00	1.51	0.00	0.00	0.00	1.51	0.00
1996/99/00/01	Pan American	0.00	9.00	0.00	0.00	0.00	9.00	0.00	0.00
2000	Punta Langosta	1.69	1.00	0.00	2.85	1.69	1.00	0.00	2.85
1998	Rio Bravo	50.00	0.00	0.00	59.50	50.00	0.00	0.00	59.50
2000	Saltillo S.A.	35.00	0.00	0.00	43.00	35.00	0.00	0.00	43.00
2000	Servicios	10.50	1.90	0.00	10.00	10.50	1.90	0.00	10.00
2000	Su Casita	0.00	10.62	0.00	0.00	0.00	10.62	0.00	0.00
2001	Sudamerica	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
1999	TMA	2.53	0.00	2.10	8.76	2.53	0.00	2.10	8.76
1997	Toluca Toll Road	5.29	0.00	0.00	0.00	5.29	0.00	0.00	0.00
1992	Vitro	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1991/92	ZN Mxc Eqty Fund	0.00	25.30	0.00	0.00	0.00	14.15	0.00	0.00
1998	Apasco	10.80	0.00	0.00	43.20	10.80	0.00	0.00	43.20
1988/91/92/93/95	Ayvi	9.29	0.00	0.00	0.00	9.29	0.00	0.00	0.00
1998	BANAMEX	75.71	0.00	0.00	8.24	75.71	0.00	0.00	8.24
1990/92/96									
	Total Portfolio:	544.69	126.79	32.89	436.38	508.02	111.16	32.89	422.96

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic
1999	BANAMEX LRF II	50.00	0.00	0.00	0.00
1999	Baring BMPEF FMC	0.00	0.00	0.06	0.00
2001	BBVA-Bancomer CL	100.00	0.00	0.00	0.00
1998	Cima Hermosillo	7.00	0.00	0.00	0.00
2001	Ecomex	3.50	0.00	0.00	0.00
2000	Educacion	3.20	0.00	0.00	0.00
2001	GFNorte-CL	50.00	0.00	0.00	100.00
2001	Greenmanor	7.00	0.00	0.00	0.00
2000	Innopack	15.00	0.00	0.00	0.00
2001	La Colorada	4.30	6.00	0.00	18.30
2001	PanAme-La Colora	0.00	0.00	1.20	0.00
2001	Su Casita	0.00	2.40	0.00	0.00
Total Pending Commitment:		240.00	8.40	1.26	118.30

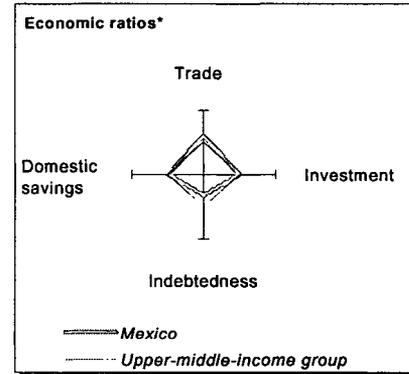
Annex 10: Country at a Glance

MEXICO: Basic Education Development Phase II

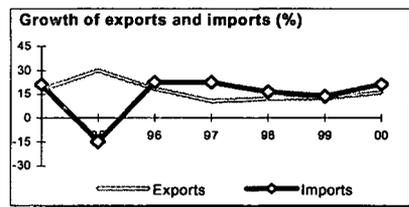
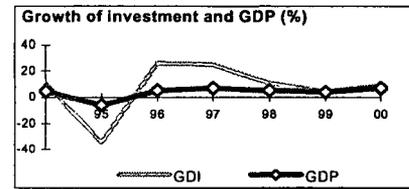
	Mexico	Latin America & Carib.	Upper-middle-income
POVERTY and SOCIAL			
2000			
Population, mid-year (millions)	98.0	516	647
GNI per capita (Atlas method, US\$)	5,070	3,680	4,620
GNI (Atlas method, US\$ billions)	497.0	1,895	2,986
Average annual growth, 1994-00			
Population (%)	1.5	1.6	1.3
Labor force (%)	2.5	2.3	2.0
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	74	75	76
Life expectancy at birth (years)	72	70	69
Infant mortality (per 1,000 live births)	29	30	28
Child malnutrition (% of children under 5)	8	9	..
Access to an improved water source (% of population)	86	85	87
Illiteracy (% of population age 15+)	9	12	10
Gross primary enrollment (% of school-age population)	114	113	107
Male	116	..	106
Female	113	..	105



	1980	1990	1999	2000	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
GDP (US\$ billions)	223.5	262.7	479.4	574.5	
Gross domestic investment/GDP	27.2	23.1	23.5	23.3	
Exports of goods and services/GDP	10.7	18.6	30.9	31.4	
Gross domestic savings/GDP	24.9	22.0	21.9	21.5	
Gross national savings/GDP	22.4	20.3	20.5	20.1	
Current account balance/GDP	-4.7	-2.8	-3.0	-3.1	
Interest payments/GDP	2.0	2.2	2.1	2.0	
Total debt/GDP	25.7	39.8	35.0	26.9	
Total debt service/exports	45.4	20.9	25.1	32.7	
Present value of debt/GDP	..	..	33.9	26.1
Present value of debt/exports	..	..	102.6	77.8
(average annual growth)					
GDP	1.1	3.1	3.8	6.9	4.3
GDP per capita	-1.0	1.4	2.3	5.4	2.3
Exports of goods and services	7.0	14.6	12.4	16.0	8.5



	1980	1990	1999	2000
STRUCTURE of the ECONOMY				
(% of GDP)				
Agriculture	9.0	7.8	4.7	4.4
Industry	33.6	28.4	28.8	28.4
Manufacturing	22.3	20.8	21.1	20.7
Services	57.4	63.7	66.5	67.3
Private consumption	65.1	69.6	67.1	67.5
General government consumption	10.0	8.4	10.9	11.0
Imports of goods and services	13.0	19.7	32.4	33.2
(average annual growth)				
Agriculture	0.8	1.8	2.0	2.1
Industry	1.1	3.8	4.2	6.6
Manufacturing	1.5	4.4	4.2	7.1
Services	1.4	2.9	3.7	7.4
Private consumption	1.4	2.4	4.3	9.5
General government consumption	2.4	1.8	3.9	3.5
Gross domestic investment	-3.3	4.6	4.1	8.8
Imports of goods and services	1.0	12.3	13.8	21.4

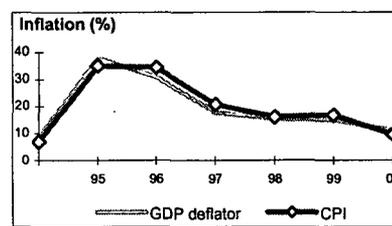


Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

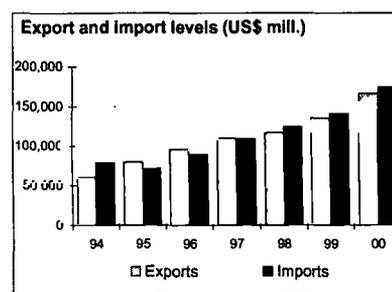
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	26.7	16.6	9.5
Implicit GDP deflator	33.4	28.1	14.9	10.9
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	27.4	25.3	20.9	21.8
Current budget balance	4.1	0.9	1.5	2.0
Overall surplus/deficit	-3.6	-2.6	-1.1	-1.1



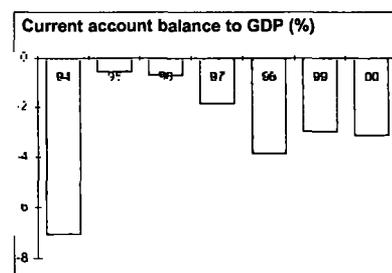
TRADE

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total exports (fob)	16,284	40,711	136,391	166,455
Oil	10,441	10,104	9,928	16,383
Agriculture	1,528	2,162	3,926	4,217
Manufactures	3,802	27,828	122,085	145,334
Total imports (cif)	19,342	41,593	141,975	174,458
Consumer goods	2,448	5,099	12,175	16,691
Intermediate goods	11,720	29,705	109,270	133,637
Capital goods	5,174	6,790	20,530	24,130
Export price index (1995=100)	134	99	98	106
Import price index (1995=100)	67	90	99	102
Terms of trade (1995=100)	201	110	99	103



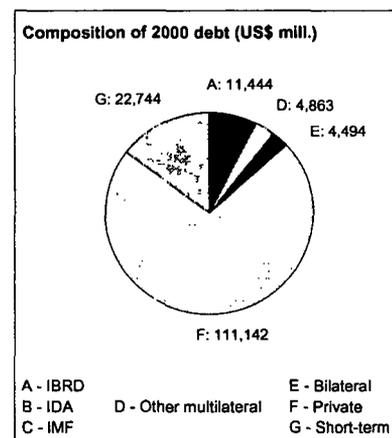
BALANCE of PAYMENTS

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Exports of goods and services	22,600	48,732	148,083	180,167
Imports of goods and services	27,430	51,535	155,465	190,494
Resource balance	-4,830	-2,803	-7,382	-10,326
Net income	-6,438	-8,626	-13,306	-14,747
Net current transfers	833	3,978	6,313	6,994
Current account balance	-10,434	-7,451	-14,375	-18,079
Financing items (net)	11,453	10,999	14,969	20,901
Changes in net reserves	-1,019	-3,548	-594	-2,822
Memo:				
Reserves including gold (US\$ millions)	3,052	9,909	31,829	33,595
Conversion rate (DEC, local/US\$)	2.00E-2	2.8	9.6	9.5



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	57,378	104,442	167,626	154,687
IBRD	2,063	11,030	11,027	11,444
IDA	0	0	0	0
Total debt service	10,958	11,311	39,760	63,038
IBRD	255	1,552	2,155	2,220
IDA	0	0	0	0
Composition of net resource flows				
Official grants	14	54	..	..
Official creditors	795	4,168	-1,708	-525
Private creditors	-524	-582	13,181	-5,059
Foreign direct investment	2,156	2,549	11,915	13,286
Portfolio equity	0	563	3,901	478
World Bank program				
Commitments	625	2,562	1,671	1,130
Disbursements	422	3,326	844	1,647
Principal repayments	89	801	1,323	1,330
Net flows	333	2,525	-479	318
Interest payments	166	751	832	890
Net transfers	167	1,774	-1,311	-573



**Additional
Annex 11**

Indigenous Peoples Development Assessment

MEXICO: Basic Education Development Phase II

A. Impact Evaluation

Summary. This annex presents the Plan for Indigenous Peoples Education Development for the Phase II of PAREIB and assesses the success of indigenous education in the 1996-2000 period and the impact of CONAFE's education compensatory program. The assessment first overviews the project plan; second, it sketches the situation of indigenous peoples in Mexico; third, it discusses stakeholder consultations carried out during the preparation of the PAREIB Program, and fourth, it presents the impact of the program on indigenous student test evaluations. Consultations with stakeholders find that they held positive opinions of CONAFE, particularly its value for community participation. Evaluation finds that indigenous students have benefited from the CONAFE compensatory Program including the PAREIB Phase I, and that the project has no adverse effect on indigenous people. Generally, this assessment finds that an effective program is already functioning, and that the successful performance of the program in the past bodes well for further improvements in the education of indigenous students in the future.

Plan Overview. CONAFE's compensatory education program targets schools in poor and rural communities, including all indigenous primary schools. Thus, although PAREIB has no special component for indigenous education, it represents an important tool to improve indigenous education countrywide. To best target these communities, project strategy is based on informed participation of indigenous peoples. During the preparation of PAREIB, specialized staff identified local preferences early on through direct consultation and analyzed issues affecting the education of indigenous peoples through social impact assessment.¹ Additionally, the Borrower has prepared an Indigenous Peoples Development Plan that is consistent with Bank policy, and is reproduced in Section B of this Annex. The plan is culturally appropriate and responsive to indigenous needs, emphasizing bilingual education, appropriate teacher training, supply of educational materials, parents participation and infrastructure improvements. In prior projects, CONAFE has offered teaching materials in indigenous languages, in addition to recognizing both indigenous and mestizo cultural heritage in didactic content. These activities are now an integral part of the national program of the General Directorate of Indigenous Education (DGEI), which oversees all indigenous education in Mexico. CONAFE's strong institutional capacity, based on 30 years of compensatory education experience, ensures its ability to fulfill this plan. Furthermore, the plan ensures effective mechanisms for local participation and evaluation. The evaluation of the program's impact on basic indigenous education, presented herein, uses a sample of indigenous students for the period 1996-2000, provided by the General Directorate of Evaluation (DGE) at SEP. As of September 2001 and throughout PAREIB Phase II, CONAFE will begin collecting annual data on every indigenous student to allow continued monitoring and evaluation of student performance.

Indigenous beneficiaries. Phase II of PAREIB benefits just over 1 million indigenous primary school students. Indigenous children represent 20% of total PAREIB beneficiaries (6.2 million), or more than twice the proportion of indigenous people in the national population:

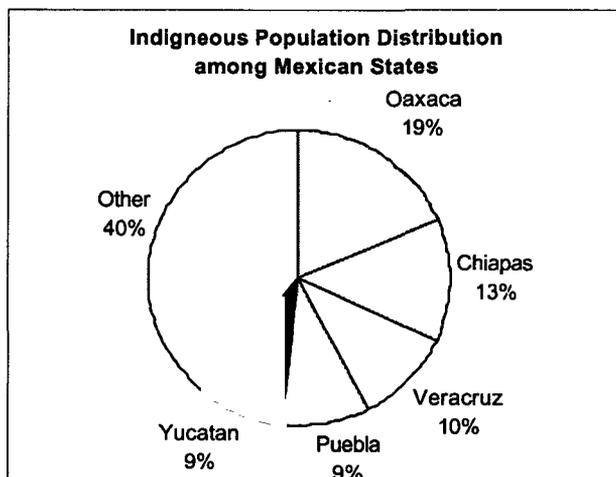
Table 1: Number of PAREIB Beneficiaries who are Indigenous

Level	Beneficiaries	Type of Intervention
Initial	73,899	Ten month training to parents of 0-4-year-old children
Preschool	255,271	Parent associations receive training to participate in the education of their children; educational materials are provided to students and schools
Primary	793,606	Teacher training and technical assistance at classroom level; educational materials, school infrastructure improvements, universal achievement testing in every grade, school equipment, training to parents associations.
Subtotal	1,048,455	
Lower-Secondary (<i>telesecundaria</i>)	274,926 some are indigenous	Infrastructure improvements and school equipment in rural <i>telesecundaria</i> schools

Legal Framework. The 1992 Constitution recognizes that Mexico has a multicultural population of indigenous origins. It affirms as a duty of the law to promote the “development of [indigenous] language, culture, customs, resources, and social organization, and to generally guarantee to indigenous peoples full access to the states’ jurisdiction.” Several states of Mexico have legally recognized the obligation to offer bilingual-multicultural education to indigenous students. More broadly, the World Bank has recognized the importance of including indigenous peoples in social development (OD 4.20, September 1991). The UN has drafted a declaration on the rights of indigenous peoples, which emphasizes access to high-quality education. The International Labor Organization has also adopted a convention that recognizes the social rights of indigenous people, including education (No. 169, June 1989).

Indigenous Population. Two definitions can identify a person who is “indigenous” – either a speaker of an indigenous language, or a person whose household head speaks an indigenous language. Whereas the first definition addresses the bilingual aspect of indigenous education, the second definition addresses the intercultural aspect of indigenous education. Ten percent of Mexico’s population lives in a household where the head speaks an indigenous language, and 7.3 million indigenous language speakers fall into one of 62 indigenous linguistic groups (INI 1999). The states of Oaxaca, Chiapas, Veracruz, Puebla, and Yucatán account for over 60 percent of indigenous language speakers (Figure 1). Numerically, the most important groups are the Náhuatl, Maya, Mixteco, Zapoteco, Otomí, and Tzotzil. Many indigenous communities are rural and poor – over 80% of indigenous people live in a locality of less than 500 people, and highly indigenous settlements have an illiteracy rate of 47%, nearly four times the national average of 12.4% (INI 1997, 2001).

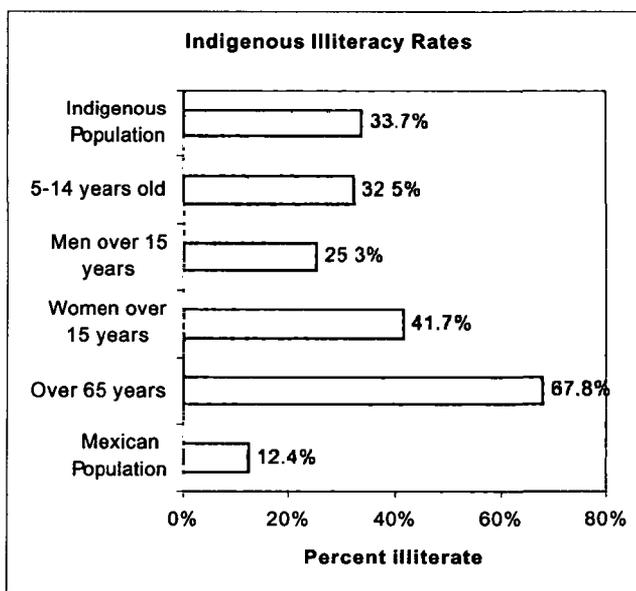
Figure 1



Source: INEGI, Census 2000.

Spanish Knowledge. About 80 percent of indigenous people identify themselves as Spanish speakers. They learn much of this Spanish in schools—among indigenous children aged 5-9, 60 percent speak Spanish; among indigenous children age 10-14, 85 percent speak Spanish, and among indigenous children aged 15-19, over 90 percent speak Spanish. In 2000, about 360,000 children aged 5-14 were monolingual in their indigenous language (INEGI 2000). Spanish knowledge also displays a marked disparity between sexes and states (Table 2). Despite this progress, nearly a third of indigenous school-age children remain illiterate (Figure 2).

Fig. 2



Source: INI 2001

Table 2: Percent of indigenous people that speak Spanish, selected states

	Men	Women	Age 5-9	Age 10-14	Age 15-19
Chiapas	71 %	51 %	37 %	69 %	76 %
Edo. Mexico	98 %	94 %	88 %	99 %	99 %
Oaxaca	84 %	75 %	61 %	88 %	92 %
Puebla	89 %	80 %	71 %	91 %	94 %
Quintana Roo	94 %	89 %	73 %	93 %	97 %
Veracruz	90 %	81 %	72 %	91 %	94 %
Nationally	86 %	77 %	60 %	85 %	90 %

Source: INEGI 2000

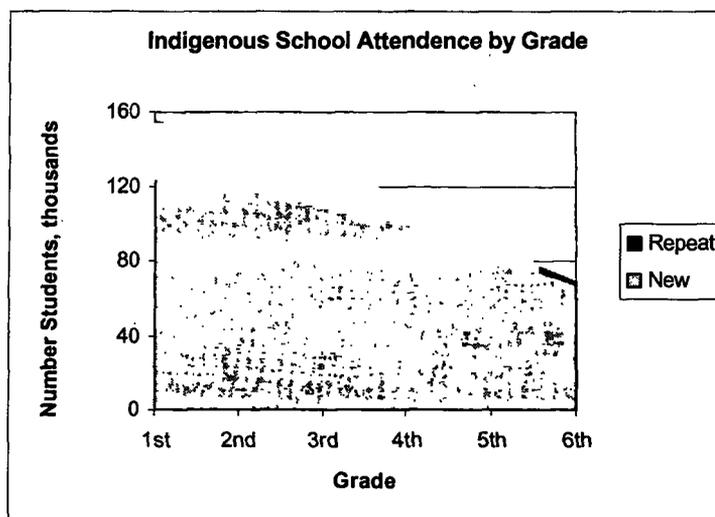
Bilingual Education. Rural education in Spanish began in 1920, and bilingual education began in the 1970s. With the creation of the General Directorate of Indigenous Education, bicultural education began in the 1980s, in which indigenous students learned from both their own and *meztizo* history and culture. Intercultural instruction began in the 1990s, in which non-indigenous students learn their own and also indigenous culture. Instruction today occurs in the indigenous language for the first two years of primary school. Teachers introduce Spanish beginning in the third grade, and by sixth grade instruction is primarily in Spanish. Bilingual education has created a demand for bilingual indigenous teachers, many of whom have completed only ninth grade and lack teaching certification (Schmelkes, 2001).

The Bilingual System. The diversity of indigenous languages necessitates locally-based solutions. For the fifteen languages that have fewer than 100 children speakers, bilingual teachers must come from the community that speaks the language (INEGI 2000). Procuring textbooks and teaching materials for such languages is an additional challenge. In 1995, 40,000 bilingual instructors taught 930,000 indigenous children (INI 1997). In 1998, the educational system offered textbooks in 33 languages and 52 dialects (Quintanilla 2001). Nonetheless, 31% of officially bilingual schools are in reality monolingual in Spanish (INI 1997).

Education Structure. Primary level education in Mexico includes three different structures: general education, indigenous education, and community education.³ At the secondary level, five modalities educate indigenous students: general, technical, distance (*telesecundaria*), worker education (*para trabajadores*), and community. Either a state or the federal government may provide education.

Education Access. Almost 30% of children in highly indigenous localities do not attend school, and only 20% of bilingual schools have over five teachers. Indigenous children are less likely than non-indigenous children to have access to good educational services; children of temporary migrants are less likely than other children to have access to any formal education at all (World Bank 1999). At the national level, 60% of students complete primary education, compared with 30% in bilingual schools (Figure 3). Of 10 indigenous children that enter school, only two complete fourth grade (INI 1997).

Figure 3



Source: INI, *Estado del desarrollo*, 2000.

// "Repeat" are enrolled in a grade after having already been enrolled in it at least once; "new" students are completing a grade for the first time.

Consultation Findings.⁴ In the preparation of PAREIB Phase 1, Bank and government staff interviewed about 500 stakeholders in Oaxaca and Chiapas, including students, teachers, parents, government ministers, education researchers, and representatives of local NGOs. Interviews found that the high number of students who leave school are hampered in their learning process. Students leave school because of (a) economic reasons, such as the cost of transportation and uniforms or necessity of work, (b) family migration, (c) parents with little education who place little value on the education of their children, (d) health problems, and (e) teachers monolingual in Spanish who are unable to communicate with indigenous children. Parents who were monolingual in an indigenous language felt that indigenous education should be bilingual, but considered learning Spanish to be essential for their children. Many also felt that education was equally important for male and female students, and that existing gender inequality in education attainment should not obstruct efforts to further help female students. Parents often offered their time to support local schools. Respondents generally held positive opinions of CONAFE, in part because of its emphasis on community participation.

Student Performance. SEP and CONAFE have kindly provided databases of indigenous student testing from the Evaluation of Public Education (EVEP) for 1996-2000 and CONAFE indigenous school targeting for the same period. SEP data is a sample of 5.4% of indigenous sixth graders, which represents 0.56% of all indigenous primary students. Since 1996, the learning of indigenous students in CONAFE schools has been improving slowly.⁵ Nonetheless, scores for indigenous students in every year have been significantly below scores for other students, and this gap is slow to close. Scores of indigenous students on EVEP have remained relatively constant in Spanish. Math scores were constant through 1999 and then jumped by three points in the year 2000 (Table 3). The slight improvement that has occurred among indigenous students has taken place among both low and high achievers on national tests (Figure 4). Furthermore, indigenous student scores have improved by .88% or .43 points per year, whereas national scores have improved by only .16% or .08 points annually. Although both growth rates are slow, indigenous students

are gradually catching up to their peers (SEP and CONAFE).

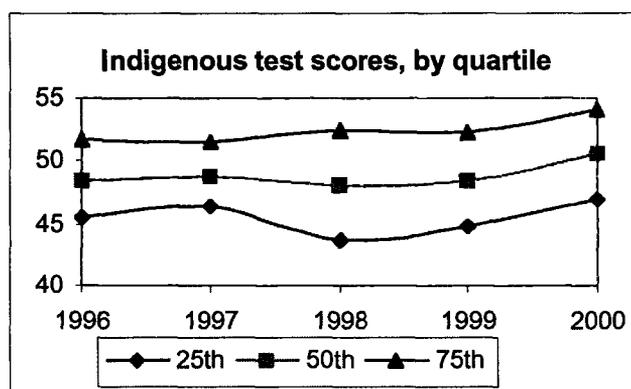
Table 3: Indigenous v. national test scores

	Spanish		Math	
	Indigenous	National	Indigenous	National
1996	50.56	53.7	47.43	50.7
1997	51.88	54.9	46.30	48.8
1998	51.60	54.1	45.38	50.2
1999	49.71	54.0	47.64	50.9
2000	50.55	-	50.86	-

a/ Scores from the Evaluation of Public Education (EVEP) of the Secretary of Education (SEP).

b/ Tests were administered in sixth grade and addressed material learned in fifth grade.

Figure 4 ^{a/}



a/ Scores are the average of Spanish and mathematics scores on the Secretary of Public Education (SEP) Evaluation of Public Education (EVEP).

School Performance. The lag among indigenous students does not appear in all learning institutions. In every year of evaluation, several schools exhibited markedly higher scores than the national average (Table 4). Although the existence of outlier achieving schools is typical among education statistics, the fact that such indigenous schools exist indicates that success in indigenous education is achievable. The approaches of these schools to bilingual education and other challenges of indigenous education might serve as models for other institutions.

Table 1: Highly successful indigenous schools that receive CONAFE support

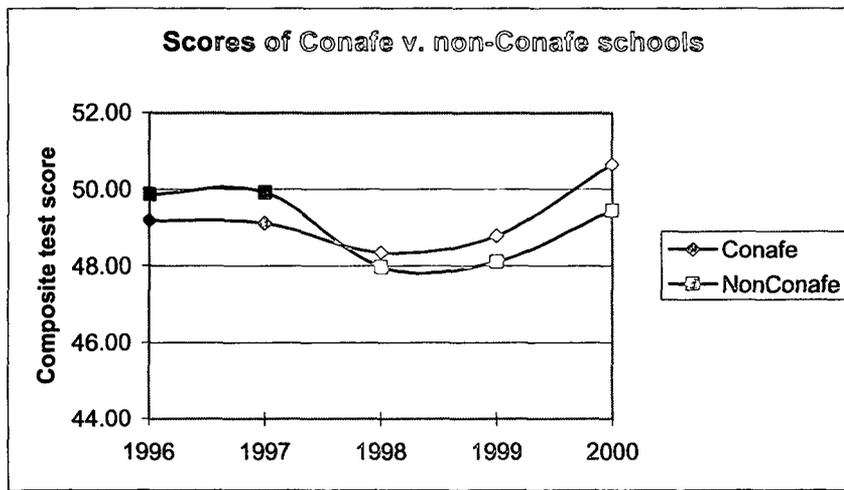
	School ID	Score	State
1996	07DPB2522J	64.4	Chiapas
	31DPB0021B	64.1	Yucatan
	27DPB0086Z	62.2	Tabasco
1997	16DPB0105R	72.9	Michoacan
	31DPB0033G	65.7	Yucatan
	30DPB1025F	65.2	Veracruz
1998	16DPB0107P	87.4	Michoacan
	24DPB0083E	82.8	San Luis Potosi
	21DAI0031T	67.1	Puebla
1999	23DPB0012L	67.5	Quintana Roo
	31DPB0203K	66.9	Yucatan
	31DPB0115Q	65.4	Yucatan
2000	21DPB0084G	81.2	Puebla
	24DPB0235T	71.8	San Luis Potosi
	04DPB0013W	68.2	Campeche

1/ Among primary schools with five or more indigenous students.

2/ Score is average of Spanish and mathematics scores on the Secretary of Public Education (SEP) Evaluation of Public Education (EVEP).

State performance. Although a single test is an imperfect measure of learning and achievement, SEP's exams in Spanish and mathematics do allow rough comparison between states. A few states have excelled in improving indigenous student scores. Based on existing data from 1996 to 2000, indigenous CONAFE students in Guerrero, Baja California, Sinaloa, and Morelos all exhibited annual improvements of 3% or more (Table 5). As a general statistical matter, cases with the worst performance tend to show the highest percentage improvement. But states with the best improvement did not have the worst performance during this period, suggesting that the improvement is substantive. Excluding Baja California in 1999 and Sonora in 1998, in no year did indigenous students in a single state outperform their non-indigenous peers. Although the performance of indigenous students in Chiapas has actually worsened and that of students in Yucatan, Michoacán, Durango, and Nayarit has stagnated, indigenous students in all seventeen other states have significantly improved in the last four years. At the beginning of the program, CONAFE schools did have slightly lower achievement than other schools. As time has progressed, however, CONAFE schools have improved more quickly, and in 1998, 1999, and 2000 – during the implementation of PAREIB Phase I -- their scores exceeded the scores of non-CONAFE schools (Figure 5).

Figure 5



B. Strategy for Reaching Indigenous Peoples (IPDP)

I. Scope

Ten percent of Mexico's population lives in a household where the head speaks an indigenous language, and 7.3 million indigenous language speakers fall into one of 62 indigenous linguistic groups. Indigenous groups concentrate in five states, namely, Oaxaca (19%), Chiapas (13%), Veracruz (10%), Puebla (9%), and Yucatán (9%) which, together, account for over 60 percent of indigenous language speakers (INEGI, Census 2000). Numerically, the most important groups are the Náhuatl, Maya, Mixteco, Zapoteco, Otomí, and Tzotzil. All indigenous groups in Mexico will benefit from the project.

The project consists of a compensatory education program supporting initial education, preschool, primary and lower secondary schools located in the poorest rural and excluded urban areas, in 31 states, or the entire country except the Federal District. A total of 6.2 million children benefit from the project, of which 1.1 million are indigenous children, distributed as follows:

- 73,899 families of indigenous children age 0-4 year or approximately 88,679 children
- 255,271 indigenous preschool children in 7,665 preschools
- 793,606 indigenous primary school children in 9,142 schools

At the lower-secondary level, indigenous children attending rural *telesecundaria* schools also benefit from the project. Because SEP does not classify lower-secondary schools as indigenous and non-indigenous, it is not possible to determine the exact number of indigenous students attending *telesecundaria*.

Excluding lower-secondary school children, indigenous children benefiting from the project represent 19 percent of all beneficiary students, or almost two times the percentage of indigenous peoples in the Mexican population.

II. Legal Framework

The 1992 Constitution recognizes that Mexico population is multicultural in composition due to its indigenous origins. It affirms as a duty of the law to promote the “development of [indigenous] languages, culture, customs, resources, and social organization, and to generally guarantee to indigenous peoples full access to the states’ jurisdiction.” Several states of Mexico have legally recognized the obligation to offer bilingual-multicultural education to indigenous students. More broadly, the World Bank has recognized the importance of including indigenous peoples in social development (OD 4.20, September 1991). The UN has drafted a declaration on the rights of indigenous peoples, which emphasizes access to high-quality education. The International Labor Organization has also adopted a convention that recognizes the social rights of indigenous peoples, including education (No. 169, June 1989).

III. Baseline Data

Considering this is the second phase of an APL, a baseline study was conducted and its key findings were discussed in Annex 11 “Indigenous Peoples Development Assessment” of the Project Evaluation Document (PAD). Primary education in Mexico includes three administrative structures: general education, indigenous education, and community education. The criteria employed by SEP to make this classification considers all primary schools servicing municipalities with 80% or more indigenous population as indigenous primary school. At the lower-secondary level, five modalities educate indigenous students: general, technical distance (*telesecundaria*), worker education, and community, but a formal distinction between indigenous and non indigenous schools does not exist.

IV. Consultations

In the preparation of PAREIB, Phase I, Bank and government staff interviewed about 500 stakeholders in Oaxaca and Chiapas, including students, teachers, parents, government, ministers, members of Congress, education researchers, and representatives of local NGOs. In Oaxaca, these consultations covered, inter alia, education authorities and members of the education committees of Mixteca, Mixes, and Zapoteca communities, and community-based organizations of the following groups: (i) Mixes; (ii) Mixtecos; (iii) Zapotecos; (iv) Chocholtecos; and (v) Chinantecos. In Chiapas, consultations were made with supervisors of the *Escuelas Bilingues Federales* Tzeltales y Tzotiles, among other stakeholders.

During the preparation of PAREIB-Phase II, the Indigenous Peoples Profiles (see, World Bank (1999). “Indigenous Peoples Profile.” Green Cover Report No 18899-ME, February 10; World Bank (2001). “Indigenous Peoples, Ethnic Identity and Poverty in Mexico Urban Profile: An Exploratory Study.” Green Cover Report No. 22054-ME, June 12) were a main source of information on indigenous peoples education needs and priorities. Data from these studies, were complemented by regular consultations between CONAFE, education authorities responsible for indigenous education, and parents of indigenous students attending primary schools.

Results of the consultative processes found that basic education is a high priority for indigenous peoples. It is not because education is not considered important that indigenous children are not in schools, but rather because of conditions related to their poverty or the inadequacy of the school system, which the current project addresses. A high number of indigenous students who leave school are hampered in their learning process. Students leave school because of (a) economic reasons, such as the cost of transportation and uniforms or necessity of work, (b) family migration, (c) parents with little education who place little value

on the education of their children, (d) health problems, and (e) teachers monolingual in Spanish who are unable to communicate with indigenous children. Parents who were monolingual in an indigenous language felt that education is equally important for male and female students, and that existing gender inequality in education attainment should not obstruct efforts to further help female students. Parents often offer their time to support local schools, through Parent School Associations and generally held positive opinions of the compensatory education programs of CONAFE, particularly for its emphasis on community participation.

Throughout the implementation of PAREIB Phase I, CONAFE carried out continuous consultations with indigenous peoples with regard to their education needs primarily through: (a) Parents Schools Associations in indigenous primary schools; and (b) Education Authorities at state and federal levels, responsible for the indigenous schools. The results of these consultations have been incorporated in the design of PAREIB Phase II.

V. Needs Assessment

Analyses carried out in preparation of PAREIB Phase II, indicate that learning achievements of indigenous primary schools still fall short of the national average. Nevertheless, since 1996, indigenous students in schools covered by CONAFE compensatory programs registered marked improvements in their learning achievements. As indicated in Annex 11 of the Project Appraisal Document (PAD) for PAREIB-Phase II, during the 1996-2000 period, test scores of indigenous students in Spanish have remained relatively constant, at about 51.0 compared to the national average of 54.1. In mathematics, the scores of indigenous primary students improved from 47.4 in 1996 to 50.9 in 2000, actually reaching the national average. At the beginning of the program, CONAFE schools did have slightly lower achievement than other schools. As time has progressed, however, indigenous schools supported by the project, have improved more quickly, and in 1998, 1999 and 2000 – their scores exceeded the scores of rural primary schools not supported by CONAFE. These results indicate that efforts need to continue in order to guarantee to indigenous students quality basic education.

It is important to note that indigenous students do not show a lag in learning achievements compared to the national average in all indigenous schools. In every year of the evaluation, several indigenous schools exhibit markedly higher scores than the national average. The fact that these successful indigenous schools exist indicates that success in indigenous education is achievable. The approaches of these successful schools to bilingual education might serve as models for other schools. It is also worth noting that several states have excelled in improving indigenous student scores. Based on existing data from 1996 to 2000, indigenous students in Guerrero, Baja California, Sinaloa, and Morelos exhibited annual improvements of 3% or more.

Some of the specific needs of indigenous primary students were identified in prior projects and addressed in the context of PARE (1991-1997) and PAREB (1994-2001) projects. These special needs were:

- trained bilingual teachers;
- bilingual textbooks;
- school libraries containing books of cultural and regional relevance to indigenous groups;
- special attention to indigenous migrant students;
- special attention to indigenous students attending general schools; and,
- a model of lower secondary education appropriate to the indigenous and isolated rural communities.

Several initiatives addressing those needs through CONAFE compensatory programs, are now streamlined as part of the national basic education policy. For example:

- Textbooks in 33 indigenous languages and 52 dialects, covering the first three grades of primary school, are now systematically provided, free of charge, by SEP through the Directorate General for Indigenous Education (DGIE),
- Teachers are trained to develop teaching materials appropriate to particular local dialects;
- Regionally specific books are supplied by SEP to the school libraries free of charge,
- In service training for primary teachers in bilingual education continue to be provided by SEP and by CONAFE, since it was learned that due to the rotation of teacher in isolated rural areas, such training has to be constantly reviewed;
- Special attention to migrant children, which was piloted under PAREIB Phase I, is now part of SEP policy for basic education and an integral part of CONAFE's community education program;
- Special attention to indigenous students attending general primary schools, piloted under PAREIB Phase I, gave rise to a generalized multicultural approach to basic education, which is formalized in the National Education Program as one of the important policy guidelines for basic education; and,
- The innovative *postprimaria* lower-secondary program, adjusted to rural communities, has been incorporated as part of the regular CONAFE community education program, and the evaluations of this program by indigenous parents, education promoters and external scholars has been consistently positive.

VI. Strategy for Local Participation

One important reason why CONAFE has been so successful in meeting the education needs of indigenous peoples, is its systematic participatory operational methodology. One main tool used by CONAFE to ensure continuous and meaningful participation of stakeholders, is its policy of creating and supporting School Parents Associations in all schools. Presently, all indigenous primary schools contemplate have an active School Parents Association. Parents Associations manage school funds to carry out routine school maintenance and are entrusted with purchasing complementary school materials. Often School Parents Associations execute school infrastructure improvements under contract with CONAFE. Parents Associations participate in the School Council, where they contribute to the planning and administration of the school. Parents are systematically informed of the progress of their children. The information provided to parents will be based in actual learning achievements tests in PAREIB Phase II. The School Parents Associations have proven, since 1995, to be an effective instrument to promote active local participation and their involvement in school management has been expanded over time.

VII. Specific Project interventions in Indigenous schools and communities

In PAREIB Phase I, project activities in indigenous schools respond to the expressed needs of indigenous peoples in the basic education sector, as they did in previous program phases and projects.

Initial and preschool indigenous children will benefit from the training of promoters and teachers, from the

provision of appropriate didactic materials, and from the creation of School Parents Associations in preschools.

At the primary level, indigenous students and schools will benefit from the following project interventions:

- Infrastructure improvements, including additional classrooms, sanitary services and complementary facilities for school supervision and teacher training;
- Equipment, consisting in school furniture and sports equipment;
- Didactic materials, including student packages of school utensils, and well as basic didactic materials for the classroom (bilingual and other textbooks are provided by SEP);
- In service teacher training, in multigrade pedagogic techniques and bilingual education, multicultural approach to teaching and learning, as well as national/regional courses. Starting with PAREIB Phase II, teacher training will be complemented by technical assistance to teachers in the classroom provided by technical pedagogic assistants;
- Improvement in school management through modernization of supervision and assistance to supervisors and sector chiefs to facilitate frequent visits to the schools;
- Performance incentives for primary teachers, provided for those teachers who (a) attend the full school calendar and keep the specified class hours, as certified by School Parents Associations; (b) prepare diagnostic reports at the beginning of the school year to serve as basis for the evaluation of students through the *Proyectos Escolares*; (c) provide remedial education to students who are lagging behind their peers, in after school hours during at least three days per week; (d) participate in training programs; (e) collaborate with parents associations; and (f) develop educational activities with the community; and,
- Institutional strengthening and the implementation of the Basic Education Innovation Fund by the states, which will improve basic education for indigenous and non-indigenous children, indirectly, through more effective and efficient local education systems.

VIII. Estimated Project budget directly benefiting indigenous students

Although the indigenous students directly benefiting from the project represent approximately 19 percent of all beneficiary students, the share of indigenous schools in total project cost is estimated at 27% or the equivalent of US\$ 142.6 million. This is so, because experience indicates that indigenous schools generally require more infrastructure investment than general schools. These resources will be used basically during school years 2001-2002 and 2002-2003. The project implementation period is 2.5 years.

IX. Monitoring and impact evaluation arrangements

All primary schools, including indigenous schools, will be intensely monitored during the implementation of PAREIB Phase II, and a comprehensive evaluation of the program will be carried out at the completion of Phase III.

In Phase II, all students of all primary grades will be tested on an yearly basis, and their scores in Spanish and Mathematics will be compared with state and national scores. Results will be disaggregated for indigenous and non-indigenous schools. The results of individual tests will be disseminate in every school, while the national learning achievement test scores will be published in the SEP WEB Page. In addition, basic educational indicators such as dropout rates, repetition rates, completion rates, and failure rates will be systematically collected by SEP every year, and these statistics will be disaggregated by indigenous and non-indigenous schools. Furthermore, during project implementation, Parents Associations will be asked to contribute their views as to the progress of the education of their children and will be encouraged to participate in the School Projects (*Proyectos Escolares*), designed in each school to address the specific needs of the schools and their students. A rigorous evaluation of the operation of the Networks for Quality Education, which will provide technical assistance to teachers in the classroom, will also be a source of information in the monitoring and evaluation of the project, and of its impact in indigenous schools.

X. Project Impact on Indigenous Peoples

The preparation of PAREIB and the experience of PAREIB Phase I, suggests that the three phases of the program will have beneficial impacts on indigenous students, particularly those attending primary schools, whose completion rates are expected to rise in comparison with national averages, showing increments that are greater than those observed in non-indigenous primary schools supported by the program. This anticipated impact will be carefully evaluated at the completion of the program.

The impact of the project on indigenous primary schools, will be measured over a period of eight school years (1995-1996 through 2002-2003), and results will be compared with the national average for these years. Measurements include: dropout rates, repetition rates, failure rates, and completion rates; as well as learning achievements in Spanish and Mathematics. The reason why an 8-year period is selected to evaluate the impact of the project has to do with the duration of the primary cycle (6 years) and the need to follow beneficiary students from the first through the sixth grade.

In addition, the territorial educational planning which will be carried out during project implementation, will be an important tool to identify clusters of indigenous peoples as yet without access to basic education, and to provide the basis to remedy this situation.

Lastly, it should also be noted that the project will not have any negative impact in indigenous peoples cultures. On the contrary, the project promotes indigenous cultures through educational activities carried out in the schools, and the multicultural approach to basic education. Likewise, indigenous land tenure will not be affected, since the project does not include new construction in new sites.

Endnotes:

¹ The World Bank (1998). Annex 5, "Social Assessment Summary – Indigenous Peoples Development Assessment" in Project Appraisal Document for a Basic Education Development (PAREIB) Project. May 7, 1998. Report No. 17535-ME

² A "highly indigenous" settlement has over 70% indigenous language speakers.

³ The Secretary of Public Education oversees general education; the General Directorate of Indigenous Education oversees indigenous education, which is a sub-program of general education, and CONAFE oversees community

education.

⁴ Further discussion of the consultations appears in World Bank Report No I7535-ME Annex 5 p. 47-48, the 1998 Project Appraisal for the original PAREIB loan.

⁵ References to “indigenous students” in the following pages include only students in schools with CONAFE support, with the exception of the explicitly labeled “CONAFE targeting” section.

⁶ The school ID number is a unique identifier of primary schools used by CONAFE and SEP.

**Additional
Annex 12**

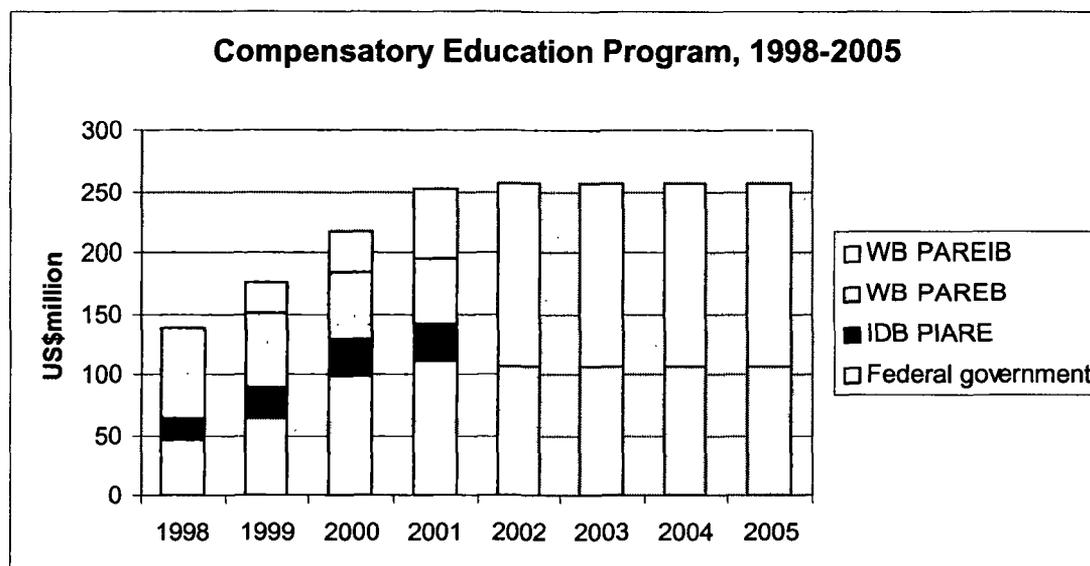
Phasing of APL Activities

MEXICO: Basic Education Development Phase II

The APL seeks to help the Government rationalize and integrate its compensatory education program. The Bank and IDB funded Phase I of the Program, which used a mix of policy objectives and targeting criteria, which resulted in dividing country according to the different procedures of the two banks, which in turn, lead to duplication of administrative structures. Phase II will be exclusively financed by the GOM and the Bank, moving towards the desired rationalization and integration.

An increase in the Government's planned spending on this Program accompanies the change in the financing plan. During the 1998-2000 period, total program expenditures increased from US\$139 million (85 percent) to US\$257 million per year. Different financing structure, and a larger budget, dictated corresponding changes in the APL phasing and loan amounts. The proposed Phase II and Phase III now cover two school-years each, and the estimated loan for each Phase is \$300 million, although the indicative loan amount for Phase II has been kept at the original US\$210.0 million figure, pending evaluation of Phase II. Shorter APL phases not only allow the Bank to finance an adequate share of the entire national program, but also permit more frequent and in-depth evaluation of program implementation.

Past and projected financing for the compensatory education program appears below.



I. Changes in APL - Development Objectives and Program Design

The development objective of the APL (PAREIB) have not changed, i.e., the improvement of the quality of basic education for the poorest and most education backward Mexican children. Given this objective, the program is considered an important instrument to reduce poverty in Mexico, and to diminish inequality by raising the bottom end of the education system, thereby ultimately improving the education system as a whole.

With respect to specific interventions programmed in the APL, the original design for APL2 and APL3 has been slightly modified, to incorporate lessons learned during APL1, as indicated below.

APL Phase II Original Description	Revised
Implementation Agency: CONAFE	No change
Implementation Period: 2001-2003	2002-2004. The closing date for APL1 was extended by 6 months to December 2001. The APL2 implementation period is programmed for 2.5 years
Total Project Cost: US\$ 370.0 M (for 14 states in primary education)	US\$ 528.1 M due to expansion of primary coverage education from 14 to 31 states
Loan Amount: US\$ 300.0 M	Unchanged
Parallel External Financing from IDB covering 17 states	Financing from IBRD and GOM only. The GOM decided to integrate all compensatory programs under PAREIB with financing from IBRD.
Geographic Coverage: 31 states	National: 31 states
Targeting Criteria: School and communities ranked in the bottom half of the marginality index	The same targeting criteria will be applied countrywide (see Annex 13). The only modification is that schools located in the 250 poorest micro regions of the country, which have been defined as priority regions by the Government, will all be targeted, instead of only a majority of them.
APL2 program description: continue and expand on activities under APL1, covering additional targeted schools and communities and expanding the innovative programs successfully piloted in the first phase (rural secondary education, migrant children education, children in urban marginal areas, and inter-cultural school interventions). APL2 will also pick up where the existing loan (PAREB Ln. 3722-ME) leaves off, continuing support for initial, preschool, and primary education in addition to the activities covered under Phase I. Phase II would also provide the opportunity to rationalize and integrate the various compensatory programs both in terms of organization and financing.	<p>This program description has basically not changed. But the following adjustments were made: instead of expanding the pilot programs successfully piloted in APL1, these program were incorporated as part of the regular operations of the education sector, as follows:</p> <ul style="list-style-type: none"> (a) the <i>postprimaria</i> program was incorporated in CONAFE's community education program; (b) the migrant children education program was incorporated in the regular basic education program carried out by SEPES; (c) the inter-cultural school interventions were generalized to all general primary schools; (d) the program for children 9-14 in marginal urban areas was not piloted; instead, SEP decided to study the appropriate interventions for this population group (more on this subject under "Triggers"). <p>Second, support for primary schools, which was originally limited to 17 states, now covers all 31 states.</p>
APL3 Original Description	Revised
Implementation Agency: CONAFE	Unchanged

Implementation Period: 2004-2006	2004-2006
Total Project Cost US\$ 260.0 M	US\$ 524.3 M
Loan Amount: US\$ 210.0 M	US\$ 210.0 M, subject to revision upon completion of APL2
Parallel External Financing from IDB	Financing from IBRD and GOM only
Geographic Coverage: 31 states for initial, preschool and <i>telesecundaria</i> , and for 17 states for primary education.	31 states for all levels of initial and basic education.
Targeting Criteria: Same as APL2	Same as revised APL2
Program Description: continue implementation of the government's compensatory education program, based on (i) a full review of the targeting mechanism to ensure that program activities continue reaching the neediest population, and (ii) an adaptation of executing mechanisms to reflect the decentralization experience and increased institutional capacity of the stated developed under the previous phases.	No change is anticipated at this time in the description of the program for APL3.

II. Triggers

This section presents a comparison of proposed triggers for APL2 and APL3, showing the original triggers approved in June 1998 by the Board, and the proposed triggers, with comments on why changes are being proposed.

(a) Triggers Approved by the Board in June 1998 for APL2 and Compliance Status

Triggers for Component 1:

1. 60% of civil works implemented
2. 80% of goods implemented
3. 60% of training plan implemented
4. 80% of targeted schools are implementing *Proyectos Escolares*

Status: Full Compliance. The targets for all physical indicators have been met or surpassed. In the case of *Proyectos Escolares*, the model has been expanded to cover all primary schools. Regarding training, experience indicated that besides training courses, additional interventions were needed to help teachers apply in the classroom the skills provided by the training.

Triggers for Component 2:

5. Evaluation system: Progress report, baseline study, and action plan, including dissemination strategy
6. Regional planning: Basic system installed at central level, action plan

Status: Full Compliance. The actions programmed for the evaluation and the regional planning systems were satisfactorily completed. The action plans for further development of evaluation and planning

activities, prepared during APL1, will be carried out during the implementation of APL2.

7. Progress reports and action plans for pilot programs

Status: Partial Compliance. Three pilot program on: (a) education of migrant children; (b) inter-cultural program for indigenous children in general schools; and (c) rural secondary education (*Postprimaria*), were successfully carried out. The action plans for the expansion of these successful pilots, recommended that such expansion should be made in the context of the regular education sector program, and not to be financed by APL2.

The pilot program for children age 9-14 in marginalized urban areas, who are out of school, was not carried out. The main reasons for the non-implementation of this pilot are: (a) the lack of an appropriate implementation agency; and (b) the lack of relevant research results to guide the interventions to be tested in the pilot. The pilot was not properly designed. However, the issue addressed by the pilot continues to be highly relevant. During APL2, design deficiencies of this pilot shall be compensated by a study of basic education in marginalized urban areas of Mexico City, under the responsibility of the Under-Secretariat of Education for the Federal District (SSEDF). In parallel, SEP has created a working group to research the conditions of urban children age 9-14 who are not in school, aiming at defining the appropriate policies to address their educational needs.

8. Institutional Development Fund (FDI): (a) 60% of funds disbursed; (b) Participation by at least 15 states; (c) Progress report, and (d) action plan for improving/accelerating activities

Status: Partial Compliance. The Institutional Development Fund (FDI) was originally conceived in two parts. The first part consisted of a "Basic Fund" to be invested by CONAFE in the states, with the objective of providing technical assistance to the SEPEs for the preparation of Strategic Plans (Planes Rectores), through which the states would be able to identify and seek support for the educational and institutional challenges they face in formulating and implementing basic education programs and strategies for compensatory education. This implementation of this Basic Fund was satisfactory, and a total of 20 states prepared their Maters Plans, i.e. three additional states than the ones directly supported by APL1.

The second part of the FDI was designed as a competitive fund to support the institutional development initiatives identified in the Strategic Plans. This competitive fund would be disbursed by CONAFE to the states, based on the evaluation by CONAFE of the technical assistance proposals presented by each state. The evaluation criteria to be used in judging the proposals was consolidated in a formula, devised to indicate the general allocation of funds resources between states. This formula proved to be extremely complex, as it intended to combine equity and efficiency considerations, in addition to the assessment of the actual merit of the proposal. The complexity of the formula, combined with a deficient dissemination of the operational guidelines of the fund among the states, resulted in a series of misunderstandings on the part of the states. The proposals received were, for the most part, requests for additional funds to carry out routine administrative functions of the SEPEs. More importantly, because CONAFE is not a normative agency for the sector, its relative authority to apply the FDI operational guidelines proved insufficient vis-à-vis state authorities. In sum, the initial attempts to operate the competitive part of the FDI indicated that it was poorly designed and required extensive revisions in order to be successful. At this point, decision was made to postpone the implementation of the redesigned competitive fund for APL2.

Revised Basic Education Innovation Fund in APL2. SEByN considers a competitive fund instrument an effective means to promote education federalism, and diversify basic education interventions according to the specific needs of each state, based on innovative policy proposals developed by the states. In line with

this objective, APL2 would implement a number of important revisions to the competitive fund, referred to as Basic Education Innovation Fund:

- (i) The objectives of the fund are clearly stated as covering: (a) improvements in the basic education teaching process and learning achievements in reading, writing, mathematics, and sciences; (b) interaction between the school and the families of the students; (c) education interventions for street children, migrant children, and handicapped children; (d) inter-cultural and bilingual education; (e) organization and operation of the administrative system for basic education. (No such definition was available in APL1);
- (ii) An evaluation group was established, comprising the directors of SEP's Under-Secretariat for Basic and Normal Education (SEByN) and the Director General of CONAFE. This group is responsible for evaluating the proposals received from the states, for supervising the implementation of the subprojects, and for evaluating their impact in terms of efficiency gains and policy development (again, no such committee was formally established to evaluate FDI).
- (iii) The criteria to evaluate the impact of the subprojects funded is clearly stated in the guidelines, and consist of efficiency measures and policy impact measures (the original FDI did not have impact evaluation criteria);
- (iv) The number of proposals is no longer left open, but reduced to 3 per state, among which the evaluation committee will choose the best subprojects. This will allow proper attention to be devoted to each proposal. Within each state, proposals can be originated by a variety of institutions, as for example an individual school, an NGO, a research university, or a unit within the SEPE, as long as it is presented by the state. The important aspect is that the 3 proposals selected by the state receive the full support of the State Public Education Secretariat (SEPE) prior to their presentation at the federal level. If there are no acceptable proposals in a given state, the state will not receive the benefits of the fund in that particular year, and assistance will be provided for the production of improved proposals;
- (v) The competition is not between states, but between proposals within each state; and,
- (vi) There is a clear division of functions between SEByN and CONAFE, as they cooperate in operating the fund. SEByN responds for the technical aspects of the fund operations, while CONAFE is responsible for its financial management. The operational guidelines for the fund, will be published as part of the Operational Manual for the project, and will be fully disseminated among the states.

These revisions are expected to ensure clarity of purpose and efficiency in the implementation of the fund during APL2.

9. Framework for compensatory programs maintained according to terms of Government letter

Status: Full Compliance. The APL, the new Administration, which took office in December 2000, has included the APL program in its National Education Program, and has expressed full ownership and support for the program. Moreover, the government has confirmed its commitment to the strategy and specific components of the APL, by sending to the Bank a Policy Letter, reproduced as Attachment 1.

10. Assessment of effectiveness and use of targeting mechanisms

Status: Full Compliance. We are glad to report that the targeting mechanisms designed for APL1 proved effective. However, it became evident that their implementation was less than effective so long as other criteria were used for targeting primary education in the states not financed by PAREB. The integration of the compensatory education program under APL2 allows for the standardization of the target mechanisms countrywide. The fine targeting which allows for the identification of not only those schools located in the poorest communities but also those schools that present the worse education indicators, has proved valid and efficient. In micro regions of the country with the highest poverty indicators, coverage of all schools is recommended, following poverty reduction policy priorities dictated by the federal government.

11. Beneficiary assessment being carried out

Status: Full Compliance. CONAFE carried out yearly beneficiary assessment, through its dialogue with the SEPEs and the active participation of parents associations in primary schools. The results of these periodic assessments, are routinely incorporated in the design of the annual investment program. Especial care was taken, during the preparation of APL2, to assess the impact of the program on indigenous students. Annex 11, shows that indigenous students learning achievements have significantly improved as a result of program interventions, and such improvements are taking place at a faster rate than those observed in non-indigenous schools, although achievement scores among indigenous students still average below the national scores.

12. Progress under CONAFE financial management improvement action plan

Status: Full Compliance. An in-depth financial management assessment of CONAFE was carried out during the preparation of APL2. The results of this assessment show that the project implementation agency has satisfactory financial management systems and procedures. Nevertheless, to further enhance CONAFE's financial management capacity, the Bank recommends the upgrading of CONAFE's management information system in order to support the production of Project Management Reports (PMRs), on a quarterly basis, starting six month following effectiveness of the APL2 loan.

13. Financial management capacity in, and action plans completed for, all participating states with respect to the compensatory programs

Status: Full Compliance. All participant states have benefited from technical assistance in procurement and financial management during APL1. As a result, both procurement and financial management assessment carried out during the preparation of APL2 show satisfactory results. This development indicates that compensatory education programs can be managed efficiently at state level, which is one of the key objectives of the Program. It should be noted, that technical assistance in financial management and procurement has also been extended to the 14 states that were not formally covered by PAREB, ensuring the readiness of these states to participate in APL2.

14. Evidence of utilization of improved evaluation system in at least 15 states

Status: Full Compliance. All states participate in the national learning achievement education system for primary and lower secondary education. Improvements in the participation of the states in these periodic evaluations have resulted from implementation of APL1, when technical assistance was provided to improve the administrative structure for evaluation at state level; and training of specialists in various fields

necessary for effective evaluation was successfully carried out. A major improvement in the evaluation system achieved during APL1 was that all test results are now available in the SEP-DGE Web page, allowing the full disclosure of results and the informed participation of civil society in the basic education sector policy process. What is missing, and will be taken up in APL2, is the strengthening of the analytical capacity of the states, to allow them to make the best use of the information provided by the periodic national learning assessment tests. Dissemination of test results at the school level, along with pedagogical recommendations on how to improve the quality of education, will be the most important innovation of APL2 in the area of evaluation of education outcomes.

15. Evidence of preparation of Strategic Plans by at least 15 states

Status: Full Compliance. As mentioned above, 20 states have completed their Strategic Plans for institutional development, or 3 additional states than those directly benefiting from APL1. Nevertheless, the actual impact of these strategic plans is not clear, especially considering the less than satisfactory array of proposals to implement plan recommendations, observed in the FDI competitive fund. For this reason, the technical assistance provided to the states in APL2 will focus on specific policy issues related to the rationalization of the management of basic education, with the specific goal of minimizing duplication of functions at state levels and reducing wastage of resources.

16. Evidence of adequate counterpart funds

Status. Full Compliance. The original APL proposed a US\$ 790.0 M program, with IBRD financing of US\$ 625.0 M (80%) and parallel financing from IDB in the amount of US\$ 393.0 million. The availability of counterpart funding has not been a problem during implementation of APL1. The revised resource allocation proposes an overall program of US\$ 1,225.0 M over a period of 9 years (June 1998 through June 2006), with IBRD financing for Phases I and II of US\$ 415.0 M. For Phase III, the original IBRD financing amount of US\$ 210.0 M is likely to be increased given the larger scope of the program. Assurance that the full amount of necessary counterpart funds will be allocated to the federal education budget has been given and is satisfactory. Although the GOM anticipates budget cuts on the short run, in response to the current economic recession, in the education sector, the budget for the compensatory basic education program has been and will be protected. The necessary cuts are being made in other sectors areas of federal spending.

(b) Triggers Approved by the Board in June 1998 for APL3 and Revised Triggers for APL3

Overall Comment. One of the important lessons learned from APL1 is that APL triggers should include a very small number of overall indicators, of two types: sector outcome indicators, such as improvement in completion rates; and policy implementation indicators, such as fostering school autonomy and decentralization. This observation has led the project team to reduce the number of triggers for APL3 from nine originally proposed, to six, and have these triggers focussed on the core priority operational and policy issues.

Phase III Triggers

Original:

1. Dropout in the preschool and primary levels in targeted populations reduced by 0.79% and 0.4% respectively
2. Completion rate at the primary and lower secondary levels in targeted populations increased by 3% and 3.9% respectively.

3. Failure, repetition, and dropout rates at the lower secondary level in targeted populations reduced by 2.2%, 0.6% and 2.5% respectively.
4. Framework for compensatory programs maintained according to terms of Government letter in Annex 2
5. Assessment of effectiveness and use of targeting mechanisms
6. Satisfactory progress under state-level financial management improvement action plans
7. Evidence of preparation of Strategic Plans by at least 25 states
8. At least 10 states are fully and directly executing compensatory programs, under norms set by SEP/CONAFE
9. Evidence of adequate counterpart funds.

Revised:

The original indicators combine important and less important education outcomes; they also do not disaggregate performance by subgroups; and they do not provide a base line from which to measure the desired outcomes. Thus, we propose two basic indicators, as follows:

1. Education Indicators:
Improvement in completion rates at targeted primary school, including:
 - A 23 percent improvement in completion rates of indigenous primary schools, from 64.2 percent in 1995-1996 to 79.0 percent in 2002-2003;
 - A 4 percent improvement in completion rates of non-indigenous primary schools, from 81.6 percent in 1995-1996 to 85.2 percent in 2002-2003;
 - Increase by 15.9 percent in the enrollment rate in telesecundarios, from 562,637 students in 1998-1999 to 652,105 students in 2002-2003.
2. Policy Indicators:
 - Increased school autonomy, through improved mechanisms for participation of directors, teachers, and parents associations in the management of the schools. Specifically, an increase of 20 percent in the number of schools targeted by the program that have operative parents associations.
 - The policy framework for compensatory programs is maintained.
3. Technical Indicators;
 - Completion of the study that evaluates the implementation of the Network for Education Quality in Primary Education;
 - Completion of the study on basic education in marginalized schools in the Federal District.

**Additional
Annex 13**

Targeting

MEXICO: Basic Education Development Phase II

Background. Compensatory education programs use various targeting methodologies to determine proper beneficiaries. In the past decade, the Mexican Government has refined this methodology. The original methodology began with geographical targeting to the four poorest states – Chiapas, Guerrero, Hidalgo, and Oaxaca – then focused on increasingly smaller geographical areas, to ensure inclusion of the neediest and most remote schools and exclusion of schools not needing benefits. In addition, the Government used specific criteria to program scope. Beginning in 1990 under the PARE project, all rural schools in the four targeted states met the targeting criteria and received program support (rural schools are those in localities with fewer than 2500 residents). The initial education program (PRODEI) used the CONAPO municipal poverty index to target the poorest rural and urban municipalities in ten Mexican states. PAREB also focused on the poorest communities and introduced educational performance criteria into the targeting formula. PAREB covered the 10 poorest states, in addition to the four in PARE, and targeted municipalities with the most widespread poverty and worst levels of primary school completion. The compensatory programs now covered the poorest 511 municipalities in the country. PIARE covered the states that neither PARE or PAREB supported. IDB-financed PIARE project targeted all single-teacher, multi-grade schools, and those schools in the poorest municipalities with the highest rates of failure in first grade. Every compensatory program included all indigenous primary schools in rural areas.

In 1996 the government refined these targeting methodologies, making the school as the basic unit to be targeted, in order to reach the poorest and worse-performing schools. The analysis consisted of a comparison among all public schools in the country with respect to several education and socioeconomic indicators, permitting the identification of the schools in the worse social and educational conditions. This refinement was possible, due to significant improvements on the information base on Mexican schools. The government introduced additional indicators of education performance at the school level, resulting in a targeting methodology that combines poverty and educational performance data into a single index.

PAREIB Targeting Methodology: Ranking of Schools and Communities by Poverty and Educational Performance.

The definition of the target schools in all phases of PAREIB uses a single set of targeting criteria for the compensatory programs in all 31 states. Variables in the ranking index, chosen for their reliability, consistency, availability, and absence of autocorrelation, are:

- *Poverty*, measured by the CONAPO poverty index, which reflects per capita income of the school's locality, infrastructure and housing characteristics, health conditions, literacy, educational attainment of the population, and the availability of basic infrastructure;
- *Organizational-administrative school characteristics*, measuring the school population and its student-teacher ratio;
- *Educational performance*, measuring failure, repetition and dropout rates.

The first three variables (poverty, school population and the student-teacher ratio) measure the school's conditions, while the last three measure educational performance. The objectives and interventions for a level of education determine the weights of these variables for that level. To facilitate this weighting, the index converts all variables to standardized values. The following paragraphs summarize variable characteristics.

Initial Education. Since initial education interventions are addressed to the parents of children aged 0-4, the target are the poorest communities with preschool and/or primary education services. PAREIB uses the CONAPO poverty index to select the communities to be served. When poor communities lack a formal school but demand initial education services, CONAFE encourages local authorities to establish a preschool.

Preschool. The efficiency indicators for the primary level are not relevant at the preschool level, where attendance is not mandatory. The preschool index combines the poverty index with the student-teacher ratio and dropout rates at pre-school level. Weights and value ranges of these indicators appear below:

**Table 1: Weights and values of indicators used in poverty-performance index:
Pre-school level**

Variable	Weight (%)	Minimum Value	Maximum Value
Poverty	60	0.7	3.0
Complexity (student-teacher ratio)	20	0.25	1.0
Dropout rate	20	0.5	1.0
	100	1.45	5.0

Primary. The primary level index combines all the above variables into a single index with the following weights:

**Table 2: Weights and values of indicators used in poverty-performance index:
Primary level**

Variable	Weight (%)	Minimum Value	Maximum Value
Poverty	26.1	0.7	3.0
Density (student population)	8.7	0.25	1.0
Complexity (student-teacher ratio)	13.0	0.25	1.5
Failure rate	17.4	0.5	2.0
Repetition rate	17.4	0.5	2.0
Dropout rate	17.4	0.5	2.0
	100.0	2.5	11.5

Secondary. The secondary level (grades 7-9) is part of basic education, which is mandatory for all children. Compensatory programs at this level focus on "television secondary schools" (*telesecundarias*), which serve mainly rural areas and have the lowest levels of efficiency and student performance. At the secondary level, simply focusing on school population indicators and the student-teacher ratio may be misleading due to the prevalence of specialized, part-time teachers. Therefore, an adjusted secondary level index takes these circumstances into account, as shown below:

**Table 3: Weights and values of indicators used in poverty-performance index:
Secondary level**

Variable	Weight (%)	Minimum Value	Maximum Value
Poverty	29.3	0.7	3.0
Complexity (student-teacher ratio)	2.4	0.25	1.0
Teacher to group ratio	9.8	0.25	1.0
Failure rate	19.5	0.5	2.0
Repetition rate	19.5	0.5	2.0
Dropout rate	19.5	0.5	2.0
	100.0	2.5	11.25

Application of the Targeting Methodology.

The appropriate index for each level sorts schools at that level by quartiles, with the fourth quartile being the worst-off; sorting results appear below.

Table 4: Number of schools Targeted in Phase 2, by Level and Quartile

Quartile	Pre-School		Primary		Secondary
	Indig.	Non-indig.	Indig.	Non-indig.	
4	2,970	5,057	5,399	11,918	1,152
3	4,409	1,350	1,879	10,088	2,126
2	276	807	1,241	5,469	446
1	10	443	623	661	512
	7,665	7,657	9,142	28,136	4,236
Total	15,322		37,278		4,236

General Selection Criteria. Funding at all levels gives priority to the 250 micro-regions (constituting 476 municipalities) identified as priority zones for all government poverty-reduction programs. Nearly all priority municipalities are indigenous and rural. The Project will primarily focus on rural areas, which tend to have the highest poverty and lowest educational performance. The indices of Tables 1-3 guide selection of beneficiary communities and schools; a summary by education level appears below.

Summary

Initial Education. The initial education program, a ten-month training for parents of children aged 0-4, targets rural communities of 500-2,500 inhabitants. To optimize the program's impact on the educational performance of its beneficiaries, attendance in preschool and timely enrollment in primary school must follow the training. So beneficiary communities must have access to an existing or planned-to-exist preschool. The presence of a preschool also increases the likelihood that parents' initial education training will encourage parents' participation in their children's education. In communities that lack a preschool but express interest in the initial education program, the Program may request municipal authorities to provide access to preschool services. In communities where the Program has already offered initial education and where the participants request additional training, the Program would support half the costs of continuing the program.

Preschool (3 years). Of the 66,000 institutions offering preschool, PAREIB will target 15,322 schools or 23 percent, selected as follows:

- (a) Indigenous schools in quartile 3 and 4;
- (b) Non-indigenous schools in quartile 4, and
- (c) All schools in the 250 priority micro-regions.

The program would include about 490,000 preschool students.

Primary (grades 1-6). Of the 93,677 primary schools countrywide, PAREIB will target 37,278 or 40 percent, selected as follows:

- (a) All indigenous schools in rural areas;
- (b) All rural schools in the 250 priority micro-regions;
- (c) Non-indigenous rural schools in quartiles 3 and 4, and 50% of the rural schools in worse conditions in quartile 2; and,
- (d) Marginal urban schools in quartile 4 that have been receiving benefits under previous compensatory programs (1,597 schools). For the selection of primary schools, “urban” refers to localities of between 2,500 and 15,000 inhabitants.

The Program would include about 4,216,000 students, including sustainability schools described below.

Sustainability Strategy for Primary Schools. In PAREIB Phase II, primary schools that have received compensatory benefits in the past and now fall in the bottom half of quartile two would receive half the ordinary compensatory support package, to help continue their improvements.

Lower-Secondary (grades 7-9) -TV-Secondary type (*Telesecundaria*). Mexico has 15,025 *Telesecundarias*, of which 12,764 are located in rural areas. In the first phase of PAREIB, 6,061 rural *telesecundarias* were targeted, and Phase II will target a total of 4,236 schools, selected as follows:

- (a) All rural *telesecundarias* in priority micro-regions; and
- (b) *Telesecundarias* in quartiles 3 and 4 in other rural municipalities.

About 275,000 students in these schools will benefit from improved infrastructure and/or computer equipment.

Total. In all, the project will benefit approximately 5 million children of preschool through secondary school and about 1.3 million children under four years old. Ideally, this re-targeting strategy to identify the most disadvantaged schools will enhance the educational impact of the compensatory programs.

¹A school is rural if its locality has fewer than 2500 residents.

Additional Annex 14

World Bank Education Sector Strategy

MEXICO: Basic Education Development Phase II

I. Background

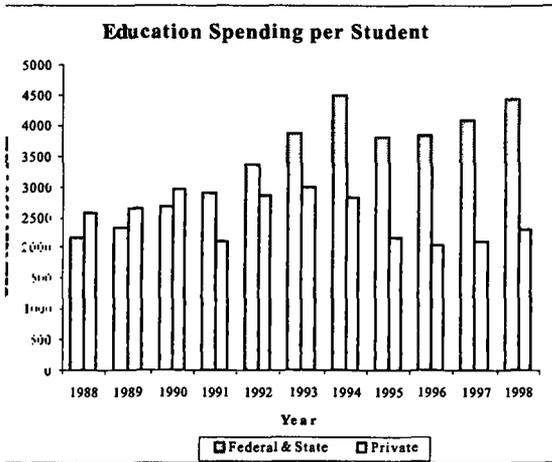
Mexico is in a period of change. These changes include an increase in political participation, decentralization of decision making, increased participation in the global economy, technological innovation, and a new public-private relationship. All of these changes have the potential to impact the population, positively or negatively. The impact will be negative if the new and improved opportunities are not open to a wide segment of the population, especially the poor.

Convinced of the importance of education, Mexico has set some targets, and has already achieved important goals. They include (a) practically universal primary education; (b) rapid expansion of lower secondary education, with formal educational attainment reaching nearly eight years; and (c) a program to allow every adult access to lifelong learning opportunities. The average schooling level in Mexico increased by roughly one year per decade during 1960–80 (from 2.76 to 4.77 years) and by two years in the decade between 1980–90. In 1999 it was higher than seven years. The acceleration in schooling during the 1980s, in turn, was the product of concerted efforts to increase education coverage: primary school net enrollment rates increased from 91 to 98 percent over this period, yielding virtually complete coverage in the first two grades. In the same period lower secondary net enrollment expanded from 48 to 58 percent, and in the 1990s the government made a significant effort to reach universal coverage in lower secondary (to complete nine years of basic education). There is a good gender balance in enrollment in basic education in Mexico. The result of these improvements is that the share of workers with less than primary education decreased from almost half of the labor force in 1984 to 36 percent in 1994, while the share of workers with at least a completed secondary education increased from 26 to 39 percent.

Another important achievement is the trend in the 1990s of an increased allocation of resources to the education sector, moving from 3.3 percent of GDP in 1989 to 5.1 percent in 1999, which helped the country reach quantitative goals. Total public education spending per student in Mexico increased steadily in the 1990s, in spite of the increase in total student population. The federal government currently accounts for 84 percent of total sector spending, mostly through state transfers, at a time when private sector spending is decreasing (see Figures 1 and 2).

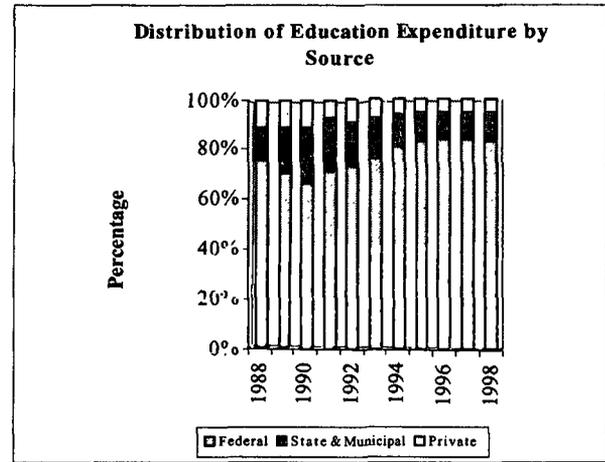
An additional achievement is that public expenditure for basic education (primary and lower secondary) has increased from 59 percent in 1996 to about 65 percent in 1999, moving from 2.0 percent of GDP in 1993 to 2.6 percent of GDP in 2001. Expenditure for upper secondary and higher education levels has been declining, signaling that public spending on education has become more egalitarian in per capita terms. In the early 1980s federal spending per university student was 10 times higher than spending per primary students. Now it is closer to 5 times.

Figure 1



Source: IV Informe de Gobierno, 1998.

Figure 2



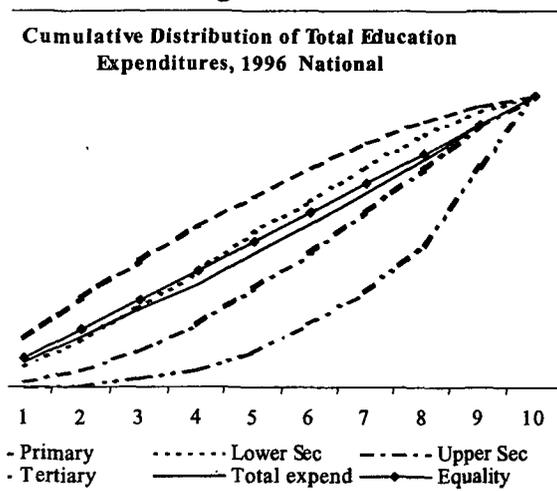
Source: IV Informe de Gobierno, 1998.

II. Financial Resources

Efficiency in use of resources. Although federal spending for the education sector has been growing in real terms, and in spite of the above-mentioned trend to support more basic education, a benefit-incidence analysis shows that there is still an unequal distribution of public resources in the education sector. Public spending on education in Mexico clearly benefits the poorest at the basic education level, but it is also true that upper secondary and higher education public spending clearly benefits the higher-income groups. Figures 3 and 4 compare the cumulative distribution of the various education levels with the distribution of per capita annual total and federal public educational expenditures to show that public expenditure is progressive for primary and lower secondary, and regressive for upper secondary and, especially, higher education. Public education expenditure benefits the rich disproportionately. At the national level, public expenditure seems quite equal, as shown by the fact that the expenditure line lies very close to the 45-degree diagonal.

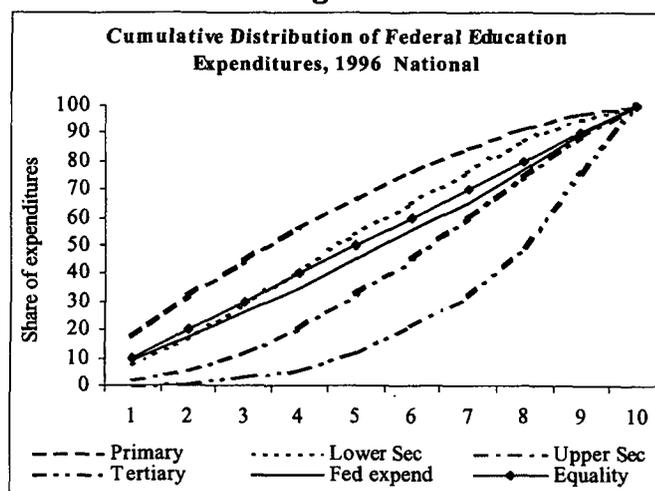
When disaggregated by region, the benefit-incidence analysis shows that the public expenditure in the Central region of Mexico follows the national pattern. In the South and Tabasco public expenditures tend to be more progressive for primary and lower secondary than for the country as a whole. Even the case of public investing in upper secondary tends to be neutral. For the North public investment in lower secondary, upper secondary, and higher education is more regressive than in the rest of the country.

Figure 3



ENIGH 1996 and DGPPyP, SEP.

Figure 4



Source: ENIGH 1996 and DGPPyP, SEP.

The need for targeting in the sector. The study of the impact of federal transfers on enrollment and transition, based on analyses of Mexico's household income and expenditures surveys (ENIGH) as well as state panel data, further reveal that increased spending for public education can have and did have significant effects on enrollment and educational transition. Three points are worth highlighting here. First, although the effects of Federal education transfers are significant, the size of their impact with respect to an average child is quite modest, implying that a large increase in educational spending would be required to achieve universal completion of lower secondary education. The estimated elasticities of lower secondary enrollment range from .03 to .15. Second, the effectiveness of supply-side interventions depends on local conditions. Table 1 shows that the elasticity of secondary enrollment rate with respect to Federal education transfers per child in Hidalgo is about six times as much as in the Distrito Federal. Third the effectiveness of Federal transfers can be increased considerably with appropriate targeting of additional Federal education transfers to schools in rural and poor communities. The reason is that the response rate of lower secondary enrollment with respect to Federal education spending is higher among rural and poor children than among their well off urban counterparts. An explanation for this finding is that schooling decision of poor and rural families are more sensitive to cost of education and, therefore, to its reduction. Hence, it appears that providing supplementary or compensatory educational programs that are targeted to these children can improve not only equity but also efficiency – in terms of enrollment and student flow.

**Table 1. Enrollment Rate Elasticity Relative Federal Transfers
Per Child:Lower Secondary**

State	GDP/person	Elasticity
Hidalgo	8.89	0.14
San Luis Potosi	9.50	0.137
Guerrero	8.02	0.132
Nayarit	9.65	0.131
Zacatecas	6.93	0.107
Oaxaca de Juárez	6.10	0.107
Queretaro	13.67	0.107
Campeche	30.45	0.106
Durango	9.88	0.096
Quintana Roo	24.89	0.093
Tabasco	10.01	0.092
Yucatán	9.87	0.09
Puebla	8.21	0.088
Morelos	13.81	0.086
Tamaulipas	12.16	0.081
Veracruz	8.45	0.079
Tlaxcala	7.63	0.078
Michoacan de Ocampo	6.92	0.074
Coahuila	15.27	0.072
Colima	15.76	0.067
Chiapas	5.89	0.062
Baja California Sur	14.96	0.061
Guanajuato	9.35	0.06
Aguas Calientes	12.59	0.06
Chihuahua	12.62	0.057
Sinaloa	10.91	0.057
Sonora	15.29	0.047
Baja California Norte	14.37	0.046
México	10.89	0.045
Jalisco	13.05	0.038
Nueva Leon	22.12	0.035
Distrito Federal	33.71	0.024
National average	13.08	0.073

Based on this information, it should be a priority to achieve more equity in access to education services targeting the neediest. A relation between poverty and education is evident in Mexico when comparing access to levels of education with poverty levels. All enrollment indicators decline when one moves from the non-poor to the poor. Children from non-poor households enter the school system and stay

in school for a longer time than those from poorer households. There is a wide education gap between the children of the poor and the children of the rich in terms of the differential enrollment rates at various age levels, and this is true independently of gender, location, or region in the country (Attachment A, see tables A.1, A.2 and A.3). The differences are more noticeable at higher levels of education.

To further understand the relation between education and poverty, and given the strong emphasis on poverty alleviation in Mexico, we can see that the probability of being a poor household head in Mexico is associated with living in a rural area, being female, and being older. Education exerts a very powerful negative effect on the probability of being poor—every year of additional education decreases by 5 percent the chance of a household being classified as poor (see Attachment A, table A.4).

Distribution of benefits from public education spending. Opportunities for improving overall educational equity can be gleaned from the distribution of Federal education transfers which constitute about 84 percent of total public education expenditure. Because of near universal primary enrollment and the use by rich families of private schools, per child benefit from primary public school subsidy by the Federal government is strongly pro-poor. In contrast, public spending on upper secondary and university education are strongly pro-rich, while lower secondary education is pro-middle class, as indicated in the last section.

The reason for this is two-fold. First, due to low school participation rate among the low income groups in post-compulsory education, the share of poor children is low at this level of education; in fact, it is minuscule in tertiary education (see Attachment). Because of this pattern, coupled with the fact that public subsidy per student in these higher levels of education is several times greater than in primary education, Federal education spending on the whole favors the well-off.

The above analysis probably overestimates the progressiveness of public spending on primary schools and underestimates its regressiveness at higher levels of education. The reason is that it assumes uniform per student cost within each level of education. In fact, certain population groups (like children of urban middle class families) likely go to better funded public schools.

Another opportunity for improving equity relates to the distribution of Federal education spending per child on basic education among states. This issue has been of great interest to policy makers because of its relevance to the design and implementation of the Government's decentralization policy. To analyze this issue, a fixed-effect model, using state panel data was estimated (see Table 2). The results show that consistent with the priority Government is giving to the rural sector, states that are less urbanized get substantially more Federal education transfers per child. Holding urbanization rate and other variables constant, however, it appears that states with a high poverty rate tend to get significantly less Federal financial assistance per child. Moreover, those states with relatively more indigenous population do not appear to be getting more Federal expenditure per child.

Table 2. Determinants of Per Child Federal Education Transfer Among States, 1990-1995, by level of Education Fixed-Effect Model

Dependent: federal spending per Child (FEDP)	Primary		Lower Secondary	
	Co-efficient	t-value	Co-efficient	t-value
Independent Variables:				
Lag FEDP	.428	4.87	.170	1.54
State revenues	-.0263	-1.34	-.107	-2.49
Marginality index	-.0382	-2.17	-.103	-2.62
Urbanization rate	-1.903	-3.48	-1.783	-1.34
Percent indigenous	.0133	0.23	.0277	0.22
Gross enrollment ratio	.1006	0.37	.529	1.43
Year 2 dummy	-.147	-2.69	.155	-2.04
Year 3 dummy	.013	0.32	0.67	1.11
Year 4 dummy	.016	0.66	.193	4.44
Year 5 dummy	.145	7.93	.303	9.71
Year 6 dummy (omitted)				
_constant	8.112	3.46	8.276	1.44
Adjusted R square	0.928		0.773	
Sample size	158		158	

Source: Bank staff estimate based state panel data

1/ The variables are in natural logarithm except for the dummy variables for year.

External efficiency of primary, secondary, and higher education. Private returns to education in Mexico are substantive. Those of primary education have steadily fallen over the years from about 40 percent in the 1980s to about 15 percent in the 1990s, as a result of the near-universal coverage of primary education, but they are still significant. Lower and upper secondary have also fallen, but to a lesser extent. They were around 20 percent in the early 1990s. The private returns to university education have fallen and risen with the economic growth of the economy, but are still high. Regarding social returns, those for higher education are slightly lower than those for primary education (12 percent), and than those for lower and upper secondary education (around 15 percent in both cases), but still relatively high at about 11 percent in the early 1990s. Private returns to technical education are also substantive in Mexico, mainly after some minimum threshold of basic general education.

External efficiency indicators show that Mexico has reached a point where the secondary level of education must be expanded, just as the government is trying to do. Indicators also show that primary education quality needs further improvements. After all, and for reasons of positive social externalities, universal primary education of good quality should be an overriding consideration that goes beyond measured (internalized) monetary costs and benefits.

Because there is little room for increased public spending in Mexico, it is necessary to look carefully at the imbalances between investment and recurrent expenditures by, among other things, rationalizing human resources in the sector and analyzing personnel expenditures; and better allocating and using available education resources, including more intensive use of private sector financing and exploration of increased sub-national contributions to education.

III. Conclusions

There are several implications of the above financial analysis:

First, it is unlikely that in the foreseeable future sufficient resources would be made available to the education sector to enable the Ministry of Education to fully meet the education challenge. Hence, it is necessary to have clear priorities. The government will have to face a trade-off between the educational improvement of one group of children and that of another. It will also have to balance the competing claims of basic and post-basic education on public resources.

Second, achievement of rapid and sustained economic growth will be critical. It is needed to increase public revenues and enable families to spend more of their own money to raise and improve their children's education.

Third, a multi-pronged, long term education strategy is necessary to achieve those objectives. On this point, there is need for a strategic plan for the next decade and experimentation with non-conventional approaches.

Finally, there is need for greater resource mobilization and better use of available resources.

Given these findings, the Bank strategy to collaborate with Mexico in the education sector can be summarized as follows:

The Bank has supported the Compensatory Education Programs since 1991. Through these programs, the Government of Mexico (GOM) is precisely trying to make more efficient use of the public resources at the same time that equity gains are achieved. By focusing on the poorest communities by investing additional resources on pre-school, primary and lower secondary education the GOM is moving in the right direction.

There is no theoretical appropriate proportion of GNP or public spending that should be devoted to education. More educational achievement could be obtained with the same public resources, in particular by focusing public spending on the lower levels of education and increasing its internal efficiency while relying more on private financing at the higher levels. This is precisely the policy the Bank is supporting with the Compensatory Programs (PAREIB APL), where we are only spending an additional 10 percent of the unitary cost per student with significant improvements in internal efficiency and academic achievement. This program, financed by the federal government, is a way to canalize education investment to the poorest communities and is implemented by CONAFE, a federal agency, in coordination with the states education secretariats, that prepare annual work plans for the compensatory program.

In addition, the Bank is also supporting operations that are trying to improve the efficiency of public spending in education. For example, with the Financing of Higher Education project whose general development objective is to assist the GOM in promoting equity and quality in the preparation of university graduates (improving access to higher education, particular to academically able but financially needy students and developing more effective financially sustainable student loans institutions), the Bank is helping the GOM in finding alternative financial resources to increase enrollment, whether they are used at private or at publicly funded institutions. Should the project be successful, the operation of a viable student loan scheme which offers greater opportunities to low income students will allow the GOM to rely increasingly on private higher education to promote expansion at that level without a significant increase in

public funding.

To complement our strategy in the education sector, the Bank has been working with the GOM to improve efficiency of technical and vocational education through several projects by rationalizing the role of the public sector in technical and vocational education: (a) by ensuring that training is closely linked to effective employment demand (this objective has been the focus of three projects supporting CONALEP and PEMTyC, (b) by expanding private training (PEMTyC), and (c) by using training to promote equity (PROBECAT and CIMO).

Finally, the Bank is also dealing with educational issues at the state level. The first operation that the Bank had with a state (Estado de Mexico – EdoMex), supporting the GOM in strengthening its decentralization reform process (Estado de Mexico Structural Adjustment Loan) includes key education sector measures in the policy conditionality to support the state with the financial and technical means to provide key social services, that have been decentralized with transfer of the budget to the states. This particular operation is helping Mexico to ensure macroeconomic stability, which is essential for reducing poverty, and to increase the resources for education services to the poor. The program includes, among others, the following actions: raising taxes and improving enforcement, commercializing appropriate state assets, strengthening the state pension system, and also rationalizing expenditure for education and health.

Education accounts for about 60 percent of programmable state spending, net of debt service and municipal transfers. Coverage of basic education is good in EdoMex, with almost all children attending primary schools and significant recent increases in the number attending secondary. Despite the successes in reducing the number of students repeating grades or dropping out, many of the students completing primary and secondary school have not obtained the knowledge and skills envisaged in the curriculum or needed to succeed in the job market. In 1993 the Federal Government turned over almost all of its basic education activities to the state; at that time, EdoMex already had its own parallel system of comparable size, albeit relatively concentrated in rural areas. EdoMex, more than most states, has expanded the coverage of basic education, and still today has one of the highest per student expenditures in the federation.

The federal and EdoMex education systems continue to operate independently within the state, each with a full administrative superstructure and no effective coordination between them, even in planning. Competing for students on the basis of quality of instruction could be good, but the system does not work that way. The former federal system gets earmarked resources from the Federal Government on the basis of the cost of the pre-1993 system, with adjustments negotiated on the basis of inflation and state population, and implicitly political influence. The federal Secretary of Education negotiates teacher wages with the national union. Allocation of teachers within the former-federal system is supposedly based on demand factors, like number of students, although union rules limit the impact of such factors. The state system is even more explicitly driven by the supply of teachers, who are effectively guaranteed a job if they graduate from teachers' schools (*escuelas normales*). In addition, they are allowed to choose their work location after a few years seniority, often choosing administrative positions or urban schools that are already relatively well staffed.

In addition, teachers are not held accountable for educational outcomes and often not even for their own attendance, especially in rural areas. The supervisors are union representatives. Because of the volume of resources going to the sector, the EdoMex Secretary of Finance has effectively managed its budget, reallocating some of the federal education transfers to the state part of the sector and, at times, even outside the education sector. The EdoMex Secretary of Education lacks real responsibility for outcomes in

the sector because so many of the critical decisions are taken by others—the state and federal teachers' unions, the federal Secretary of Education, and the state Secretary of Finance.

Reform of this large and complex sector will start with measures to control its overall dimensions—real outlays and teacher recruitment—and will take initial steps to rationalize its organization and increase accountability for performance and efficiency. First, to protect this critical sector during the adjustment process, the education budget, in real per-student terms, will not be reduced from its 2000 level. Second, to end the traditional practice of letting the supply of normal-school graduates drive the personnel process, the state will set specific teacher recruitment targets (and limits) based on the number of students (demand for education) and will achieve a more even distribution of student/teacher ratios across rural and urban schools and across educational levels. These policies will follow the national standards, which are already in place in most states, but not in EdoMex. They will provide a systematic basis to assure that schools in high poverty areas get at least the standard allocation of teachers per student. The new practice of publishing the territorial allocation of education spending, by municipality, will generate complementary pressures for equal treatment. The Inter-Secretarial Finance Committee will also issue a formal instruction to put the state and (formerly) federal schools under a single, unified personnel management system, which will address another area where EdoMex lags behind most other states. Third, the 2001 budget law will specify performance and impact indicators for the public education system, and will grant the *Secretaría de Educación* authority in the management of its budget, so that the agency can be held accountable to achieve the expected results. The Government will propose a law to make these innovations permanent. While more detailed education reforms will need to follow in EdoMex and across the nation, with direct involvement from the Federal Government. Schools in EdoMex are included as beneficiaries of the PAREIB APL II project. , it is critical to accelerate the reform process in the nation's largest state, which as of now lags well behind best practice in the country, and which can provide a model for assistance to other states. Adjustment operations at the state level may be used as an instrument to correct equity in the distribution of federal resources.

IV. Options for the future.

Basic Strategies. Despite Mexico's notable educational achievement in the 1990s, much remains to be done. First, data indicate that student learning needs further improvements. This is evident from the low standardized learning achievement test scores of many students. Second, observers have pointed out that what students learn is largely limited to rote memorization, regurgitation of facts, and mechanical application of formulae. Observers also argue that teaching quality needs improvement. Many students are not learning how to think and develop knowledge in school. Third, many students, particularly those in poor, rural, and indigenous communities, continue to be left behind by their more fortunate peers who go to relatively better schools.

The country needs to confront this learning issue. Improving student learning equitably in both the quantitative and qualitative senses is fundamental to the future of Mexico and its ability to fully take advantage of accelerating technological progress and global competition. It is also essential for bringing about greater equity by ensuring that the return to education, which continues to be the most important instrument for poverty alleviation, is kept high.

To meet the above challenge, the states would have to develop their own vision and strategy based on school-level realities. Decentralization reform has given the states the responsibility for the development of their basic education system and opportunities to accommodate national norms, and to try out new ways of ratcheting up the performance of its schools that are consistent with local realities. In this regard, they need to be more aware of the critical issues facing schools and to find solutions that, to ensure

sustainability, take into account the views of school stakeholders (students, parents, teachers, principals, supervisors, and state education officials). Without changes in school practices and the way children learn, the expected fruits of decentralization in terms of sustained improvements in student learning will not fully materialize.

Based on these issues, the central education development challenges that Mexico faces are: (a) to selectively expand accessibility at the initial and preschool and higher education levels Relative to its level of economic development Mexico has a very low coverage of higher education.; (b) to improve the quality of education throughout the system; (c) expand access to education as a key element for reduction of poverty and social inequality; (d) to invest in the skills and education of the labor force to better adapt to rapid economic and technical changes which would reinforce the country's economic competitiveness; and (e) to support the decentralization process at the state level, aiming at higher efficiency in the use of resources.

Strategic Objectives

Some broad objectives are to:

- Enhance the international competitiveness of Mexico by creating a highly educated and flexible labor force.
- Address the requirements put forward by the emergence both of an information society and of a knowledge-base economy.
- Promote equity and poverty reduction.
- Advance democracy through the broad-based participation of an educated and informed citizenry.
- Build community cohesion, tolerance and social trust in a multicultural environment.
- Enhance governance in education by modernizing and professionalizing the education administration.

More specific objectives are to:

- Increase lower secondary education enrollment to 75 percent.
- Encourage enrollments in cost-effective, demand-designed, technical/vocational education.
- Increase higher education participation to levels comparable with countries of similar economic development.
- Eradicate adult illiteracy and establish the foundations of a life long learning strategy whereby every working adult will periodically engage in deliberate education or training activities.
- Stimulate effective multicultural policies in the schools, especially within the context of bilingual education.
- Improve learning achievement of basic education students.

Disseminate IT-supported strategies in basic and secondary schools.

Reduce educational inequality by focusing on educational deficits of poor and indigenous populations.

Two Strategic Pathways to Educational Improvement

For World Bank assistance, a comprehensive approach to education strategy would be desirable, given the diversity of local conditions, the causes of education deficits, and the needs of children across socioeconomic and demographic lines. Within this general approach, interventions options can be classified into supply-side and demand-side measures.

Supply-side Measures. These interventions are directed at the expansion of supply and improvement in the quality of education services. Examples include: (a) federal education transfers to finance public schools and teachers; (b) diversified compensatory programs, as we are already doing with PAREIB APL II, and rural and indigenous programs; (c) strengthening teacher support and professional development; (d) distance education technology (*Telesecundaria*); (e) textbook programs; (f) public education system decentralization; (f) strengthening adult education.

Demand-side Measures. These interventions are directed at reducing the cost of education to the family and change their attitudes. They include: (a) providing children and their parents resources for their education (for example, PROGRESA); (b) promoting mass media campaigns to promote education; (c) further supporting student loans programs for higher education as provided by ICEES and SOFES.

Until recently, almost all government interventions to improve education have been on the supply side. The one exception is PROGRESA. Public education expenditure on supply-side interventions can be effective, but its impact is limited by a number of factors. These include: (i) the nature of the supply and demand constraints limiting learning achievement and educational attainment; (ii) the design of intervention and choice of inputs to finance; (iii) the quality of implementation; and (iv) the institutional context, structure of incentives, and management capacity.

Agenda for Investment Development

A comprehensive education agenda should include the following elements This agenda is complemented with ESW design to: (i) identify cost-effective ways to improve quality of education; (ii) identify issues in the sector and ways to solve them, including definition of investment operations, participation in adjustment operations; and, (iii) improve technical dialogue with the Federal and State Governments . As an example of studies that the Bank has conducted during the last years in Mexico we have the following topics: Education and Earnings Inequality in Mexico; Earnings Inequality after Mexico's Economic and Educational Reform; Mexico's Preschools: Coverage, Equity and Impact; Gender Differences in Education in Mexico; Technical Education and Training modernization: Evidence from Private Firms and Workers; Advancing Educational Equity and Productivity in the Context of Decentralization; and, Transforming Schools into effective and Efficient Learning Centers. This FY we are working on a study on Quality of Basic Education.:

Federal lending. The federal level should address: (a) demand for greater coverage of preschool education including ECD; (b) equity in delivery of preschool and basic education; (c) expansion of demand for secondary education; (d) relevance of curricula in basic education for rural and indigenous areas, and in technical education; (e) quality of teaching and learning environment; (f) effective use of key modern

technology (IT, science education, etc.); (g) effective standards setting supported by quality assurance and assessment systems; (h) external efficiency in technical and higher education; (i) access of low-income households to higher education by releasing demand constraints; (j) school autonomy and community participation in education management; (k) consolidation of strategic roles at the federal government level, including standard setting; (l) management capacity needs of state governments; (m) improved regulation and stimulation of more private delivery in education and training; and (n) strengthening adult education programs supporting supply and demand approaches.

State lending (via federal government). At the state level, the following issues of institutional capacity should be addressed: (a) develop state sector policy; (b) prepare, implement, and assess projects; (c) rationalize human resources; and (d) improve the efficiency of resource allocation.

ATTACHMENT- STATISTICAL TABLES

Table A.1. Total and Public Enrollment by Poverty Level, Gender, & Education Level, in Percentages

Poverty Level	Male		Female		Total	
	All	Public	All	Public	All	Public
Primary (611 years old)						
Extreme	93.5	93.5	93.2	93.2	93.3	93.3
Moderate	95.7	95.7	96.4	96.4	96.0	96.0
Non-poor	96.1	95.5	96.2	96.0	96.1	95.7
Total	94.8	94.6	95.0	94.8	94.9	94.7
Lower Secondary (124 years old)						
Extreme	38.7	38.6	37.0	36.6	37.9	37.6
Moderate	65.1	64.9	64.7	64.9	64.8	64.9
Non-Poor	78.1	77.2	80.2	80.4	79.1	78.8
Total	58.4	57.3	58.4	57.6	58.4	57.4
Upper Secondary (187 years old)						
Extreme	14.4	13.1	14.5	12.6	14.5	12.9
Moderate	37.4	35.4	34.4	31.4	36.0	33.5
Non-poor	53.4	47.2	62.9	53.7	58.0	50.1
Total	35.1	31.1	37.9	31.4	36.4	31.2
University (1824 years old)						
Extreme	1.7	1.7	1.9	1.4	1.85	1.6
Moderate	6.7	6.2	6.1	5.8	6.4	5.9
Non-poor	23.8	17.4	20.2	14.9	22.0	16.1
Total	13.3	9.8	10.8	8.2	12.0	8.9

Source: World Bank calculations based on ENIGH, 1996.

MEXICO



- National capital
- State capitals
- Principal cities or towns
- Divided highways
- Selected main roads
- Railroads
- Rivers
- Principal airports
- State boundaries
- International boundaries

KILOMETERS 0 100 200 300 400 500
 MILES 0 100 200 300

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