Investing in Youth

PERU

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Investing in Youth: Peru

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Foreword

The OECD is proud to contribute to Peru's endeavour to design and execute a comprehensive approach for improving the employment and employability of younger generations. The report *Investing in Youth: Peru* has been prepared by the OECD Secretariat in response to a request from the Government of Peru as part of the OECD-Peru Country Programme.

The report puts forward specific policy options, based on the practices and reforms that have worked well in other countries. It provides an in-depth analysis of the obstacles to improve labour market outcomes for Peruvian youth and discusses the most promising labour market and social policies to remove them. The report also proposes viable policy strategies for promoting employment and employability among those young people under-represented in the labour market, notably school drop outs, women and indigenous and Afro-Peruvian youth.

In 2013, the OECD launched the OECD Action Plan for Youth, which provides a new framework for consolidating its experience on youth issues by assessing youth challenges from a concerted strategic perspective to develop education systems and labour market arrangements that work together well. The OECD is working closely with countries to implement the comprehensive measures of this Action Plan in their national and local contexts and to provide peer-learning opportunities for countries to share their experience of policy measures to improve youth employment outcomes. Investing in Youth: Peru is the fourth report to extend the Action Plan to emerging economies, following Brazil, Tunisia and Kazakhstan.

The report has been prepared with financial support from the Government of Peru, which the OECD gratefully acknowledges. Several projects and policy reviews are being undertaken by the OECD to underpin the main objective of the Country Programme, which is to support Peru's reform agenda in five key areas: removing barriers to growth, improving public governance, fighting corruption, developing human capital and protecting the environment. We look forward to continuing a fruitful collaboration with the Government of Peru.

The OECD is ready to continue supporting the reform agenda of Peru, as well as that of the other Latin Amercian and Caribbean countries, by helping design, develop and deliver "Better Policies for Better Lives".

The report was prepared by Alessandro Goglio (project leader), Karolina Kozlowska, and Marie-Anne Valfort with contributions from Virginia Robano. Editorial assistance was provided by Liv Gudmundson and Lucy Hulett. Valuable comments were provided by Andrew Bell, Paula Cerutti, Ricardo Espinoza, Elizabeth Fordham, Alexandre Kolev, Angel Melguizo, Veerle Miranda, Mark Pearson, Stefano Scarpetta, Sebastian Königs, Daniel Trujillo and several other colleagues at the OECD. The authors would also like to give a special thanks to Lorena Alcázar Valdivia (Grupo de Análisis para el Desarrollo, GRADE), Maria Balarin Bonazzi (GRADE), Norma Belén Correa Aste (Pontificia

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Acronyms and abbreviations

ALMPs	Active Labour Market Policies
ATs	Technical mentors - *acompañantes técnicos*
BSG	Business Savings Group
CAF	Development Bank of Latin America
CCT	Conditional Cash Transfer
CEDLAS	Center for Distributive, Labour and Social Studies - *Centro de Estudios Distributivos, Laborales y Sociales*
CTS	Compensation for the Length of Service - *Compensation por Tiempo de Servicio*
DEMUNA	Municipal Ombudsman for Children and Adolescents - Defensoría Municipal del Niño y del Adolescente
ECD	Early Childhood Development
ECEC	Early Childhood Education and Care
ECLAC	Economic Commission for Latin America and the Carribbean
EIB	Intercultural Bilingual Education - *Educación Intercultural Bilingüe*
ENAHO	National Household Survey - *Encuesta Nacional de Hogares*
EPL	Employment Protection legislation
EUR	Euro
GDP	Gross Domestic Product
GRADE	Group for the Analysis of Development - Grupo de Analisis para el Desarrollo
HEI	Higher Education Institution
IADB	Inter-American Development Bank
ICT	Information and Communication Technology
IEF	Ethical Family Income - Ingreso Ético Familiar
ILO	International Labour Office
INEI	National Statistical and Informatics Institute - Instituto Nacional de la Estadistica e Informatica
INDECOPI	National Institute for the Defence of Competition and Protection of Intellectual Property - Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual
IPA	Innovation for Policy Action
IUSA	Individual Unemployment Savings Account
JA	Jobseeker Allowance
LAC	Latin America and the Carribbean
MIDIS	Ministry of Development and Social Inclusion - Ministerio de Desarrollo e Inclusion Social
MTPE	Ministry of Labour and Employment Promotion - Ministerio De Trabajo y Promoción del Empleo
NEET	Not in Employment nor in Education or Training
OSEL	Socio-Economic and Labour Observatories - Observatorios Socio Económicos Laborales
PEN	Peruvian Sol
PES	Public Employment Service
PPP	Purchasing Power Parity
PISA	Programme for International Student Assessment
PIAAC	Programme for the International Assessment of Adult Competencies
PRONABEC	National Scholarships and Educational Credit Program - Programa Nacional de Becas y Crédito Educativo
PRONOEI	Non-School Initial Education Programs - Programas No Escolarizados Educación Inicial
SENAJU	National Youth Secretariat - Secretaria Nacional de la Juventud
SENATI	National Industrial Work Training Service - Servicio Nacional de Adiestramiento en Trabajo Industrial
SIIS	Integrated System for Social Information - Sistema Integrado de Información Social
SME	Small and Medium Enterprise
SOVIO	Vocational Orientation and Employment Information Services - Servicios de Orientación Vocacional e Información Ocupacional
STEM	Science, Technology, Engineering and Mathematics
TECSUP	Technical education organisation
SUNEDU	National oversight body for university education - Superintendencia Nacional de Educacion Superior

	Uviversitaria
USD	US Dollar
VAWG	Violence Against Women and Girls
VET	Vocational Education and Training

Executive summary

Peru's youth labour market has achieved a number of important outcomes, and currently youth employment rate is higher than both the average of OECD countries and many Latin American countries. The combination of almost two decades of remarkable economic growth and policies targeted at the most vulnerable groups contributed considerably the progress of aggregate employment outcomes.

Notwithstanding these favourable patterns, numerous challenges remain. Low-skilled youth, young women and youth with a disadvantaged background face particularly high risks of being left behind in the labour market. Despite recent improvements, income inequality is high and poverty has risen recently, using the benchmark provided by the national poverty level. A large share of the youth workforce with a lack of right skills and a sizeable informal sector hinder the transition to more productive, better-paid and better-quality jobs for Peruvian youth.

At the same time, giving youth opportunities to become well-integrated into the world of work is a very pressing challenge. Today's high proportion (and number) of youth in the Peruvian working age population is set to decline in the near future. Accordingly, the opportunities to benefit from the growth dividend associated with the demographic bonus will fade away.

Peru requires a comprehensive policy approach to tackle the difficulties that many youth face in fully integrating the world of work. This should include measures to both tackle the economic, regulatory and administrative barriers to their employment in quality formal jobs, and to produce better outcomes for youth by providing them with the right activation and social incentives to seek employment and equipping them with relevant skills. It should also include targeted measures to the most vulnerable youth.

The OECD therefore recommends that policy makers in Peru:

- Strengthen social dialogue to improve labour market policies so to contribute to reduce the dualism of the labour market between permanent and temporary contracts, thus encouraging employers to hire young workers. Experience with the *Ley Pulpín*, the controversial law that in 2015 aimed to reform the youth labour market before being repealed for lack of consensus, highlights the importance of social dialogue in Peru.
- Ensure that incentives to the firm sector do not alter economic activity in unintended ways, particularly by exacerbating the effects of strong sized-based thresholds. These thresholds encourage the small and medium sized enterprises to remain small, hindering the expansion of youth employment.
- Expand and increase the efficiency of the public employment services (PES) by strengthening recruitment and training programmes for caseworkers. Current administrative barriers that hamper the engagement of the Peruvian business sector in on-the-job training programmes should be removed.

- Re-design the unemployment benefit scheme, possibly combining a system of individual saving accounts with a common solidarity fund and including elements that encourage job search.
- Improve social assistance programmes, gearing them better to the needs of jobless youth deprived of unemployment benefit, while at the same time making recipiency conditional upon active job search.
- Strengthen the role of policy co-ordination to achieve better outcomes through expanding horizontal collaborations among ministries and vertical collaborations across levels of government. This also includes with regard to educational and vocational training policies to raise skills outcomes.
- Continue efforts to increase the enrolment and learning performance of students of disadvantaged background. For example, the programme *Decidiendo para un futuro mejor* (Deciding for a better future), devised by MineduLAB to inform students about the potential returns to education, could be scaled up. One action that could result in a signification reduction of the opportunity cost of sending children to school is the removal of existing barriers of access to conditional cash transfer benefits from the programme *Juntos*. This would require potentiating Peru's branchless banking network.
- Engage in ambitious policies to tackle the vulnerability of young Peruvian women with a particular emphasis on: (i) Reinforcing the willingness of female adolescents to stay in education, including through efforts to strengthen the conditionality of the programme *Juntos*; (ii) Organising high-quality school-based sexual education programmes to combat teenage pregnancy; (iii) Alleviating motherhood penalty in adulthood and facilitating female participation in the formal labour market through improving children access to early childhood education and care.
- Combat discrimination against indigenous and Afro-Peruvian youth with a particular emphasis on: (i) Improving the implementation of the *Educación Intercultural Bilingüe* programme (Intercultural Bilingual Education); (ii) Introducing quotas for Afro-Peruvians in the *Beca 18* scholarship programme, as it is already the case for indigenous students from highlands and Amazonian communities; (iii) Setting out targets for indigenous and Afro-Peruvian in the Active Labour Market Programmes offered by the PES; (iv) increasing the share of indigenous and Afro-Peruvian among PES caseworkers.
- Boost job opportunities for rural indigenous youth by implementing a nationally co-ordinated strategy to help rural populations engage in new and more profitable entrepreneurial activities, such as, for example, tourism, fish farming and organic farming.

Assessment and recommendations

Peru faces a major challenge to help youth getting a better start in the labour market, but time is pressing

Over a quarter of Peru's working age population (ages 15-64) is young (15-24), compared to under a fifth on average among OECD countries. While the share of youth in the working age population in Peru is expected to fall to just above 20% by 2050, this will still be relatively high by OECD standards and will place Peru towards the high end of what is forecast for many Latin American and Caribbean (LAC) countries. The fall in the share (and number) of youth in the working age population will ease some of the pressure on the labour market for youth in the decades to come. At the same time, it will mean that the share of working age population in the overall population will gradually shrink. Therefore, the opportunities to benefit from the "growth dividend" associated with the demographic transition will fade away.

The youth labour market in Peru depicts a contrasting picture. About 56% of Peruvian youth were in employment in 2017, which compares to 42% across the OECD. In the comparison with other Latin American countries, Paraguay, Bolivia, Ecuador, and Argentina, where the shares of youth in the working age population are fairly similar to that of Peru, had much lower youth employment rates (between 30 and 50%). However, the aggregate pattern masks differences. Young Peruvian women have significantly lower employment rates than young men (52.1% compared to 60%), a gap almost entirely explained by the higher inactivity rates of young women (43%, compared to 34.6% for young men). Indeed, the unemployment rates for the two groups differ only marginally (8.5% as compared to 8.4%, respectively). In addition, youth labour market outcomes vary significantly across Peruvian regions. They are weaker for young people living in the more deprived inland areas of the South, the Andean highlands and the Amazon regions.

Employment outcomes of youth with tertiary education are no better than of their peers with lower education. If any, high skilled youth (i.e. graduates) face an even higher risk of unemployment. In 2017 their unemployment rate was 14.6%, compared to 8.7% for medium skilled (i.e. those with only a secondary education degree) and 7.3% for unskilled youth. This comparatively high unemployment rate reflects the fact that the number of students graduating with tertiary education qualifications has considerably increased over time in Peru. An over-supply of university graduates in relation to demand may be expected to lead to considerable over-qualification since highly educated youth must accept positions that require less education. Although research on the returns to education indicates that obtaining a tertiary qualification in Peru is worth the investment, this evidence varies depending upon the fields of study and the quality of education institution.

The situation of limited employment opportunities for many Peruvian youth translates into low levels of well-being (OECD, 2017). Close to 34% of Peruvian youth affirm that

they find it difficult, or very difficult, to get by with their present household income. This evidence compares to an OECD average of about 20% and places Peruvian youth towards the worse-off end of the LAC countries. In turn, the inability to cope financially is mirrored by low levels of self-reported well-being and life satisfaction.

In order to place these socio-economic indicators in broader context, the Gini index, a standard, nationwide measure of income inequality that ranges from 0 (when everybody has identical incomes) to 1 (when all income goes to one person), has declined from 0.52 in 2005 to 0.44 in 2015. Although this massive improvement places Peru at the low end of the LAC comparison, the index remains high compared to the OECD average and progress has stagnated in recent years. Achievements on the broader front of the fight against poverty have also been impressive. Almost two decades of remarkable economic growth have reduced the percentage share of the Peruvian population living in poverty from about 30% to 10% (using the measure of USD 3.2 a day). Although this is a stronger decline than across the LAC countries, recent data using the benchmark of the national poverty level show that the share of individuals living below PEN 338 per month (at which this benchmark is fixed, approximately equal to USD 103) has increased by one percentage point in 2017. This was the first rise in a decade, with poverty being particularly high for the rural population.

The lack of quality jobs is an important source of concerns

Much like most other emerging economies, the main challenge in Peru is not the lack of jobs, since open unemployment tends to be relatively low. Rather, the lack of quality jobs raises greatest concerns. In part, this reflects the weakness of social insurance scheme, which makes unemployment unaffordable and pushes many youth workers into jobs of "last resort".

The decline in both the overall and youth rate of informality has been rapid and sustained over the past decade. However, Peruvian youth remain significantly more exposed to the risk of being employed in the informal sector than adult workers, or in other unprotected work in the formal sector. Based on the definition of informality, according to which a worker is considered informal -- among other possible situations -- if she does not contribute to the pension system and therefore she will not have the right to a pension when retired, around 65% of Peruvian youth employees (20-24) work under informal conditions, which compares to an average of 53% for all dependent workers. Youth individuals from vulnerable populations, particularly in the poor rural areas, the least educated, women and teenagers are more likely to have an informal occupation.

The analysis of the youth who are neither in employment, nor in education, or training -- the so-called NEETs, or *ninis* using the Spanish acronym -- provides additional insights about the drivers to strongly unequal youth labour markets in Peru. These youth form a group at high risk of marginalisation and exclusion from the labour market, especially the longer they remain outside the world of work. Approximately 22% of Peruvian youth between 15 and 29 were NEETs in 2016, a figure that compares to 13.9% for the OECD average. Most other LAC countries do also fare better than Peru. The NEET rate has increased in Peru since 2010, unlike many other regional and OECD countries. Estimates suggest that the gross labour cost that could have been generated by the NEETs in Peru in 2014 - roughly the measure of the forgone productivity associated to this particular group - ranges between 1.5 and 2.5% of Peru's GDP. By comparison, the same estimates for the OECD range between 0.9 and 1.5% of the OECD GDP in the same year.

An integrated policy framework to support inclusive labour markets for Peruvian youth

Following a detailed account of policy challenges (Chapter 1), this OECD report *Investing in Youth: Peru* provides advice on how to set out comprehensive actions for giving youth a strong start in the labour market. To this end, it reviews a broad range of labour market and social policies for:

- *Removing demand-side barriers*: Chapter 2 discusses the economic, legal and administrative weaknesses that affect the ability and willingness of the employer sector to hire youth. It focusses on the cost of hiring at the minimum wage, the segmentation of the labour market and the administrative burdens to starting a business. Although addressing informality is not a specific objective of the Chapter, some of the insights developed could complement the reflections currently underway in Peru and promoted by the MTPE.
- *Improving the employability of Peruvian youth*: Chapter 3 sets out the policies that could help bringing into jobs as many young job seekers and inactive people as possible. Engaging youth in the formal labour market requires ensuring that they face the right incentives to seek employment, while at the same time relying on the supportive role provided by: (i) good-quality public employment intermediation services and active labour market programmes; and (ii) unemployment insurance and social assistance schemes conditioned on active job search in the formal sector. Additionally, it involves tackling the misalignment between the supply and demand for skills, which hampers the smooth integration in the labour market of youth job seekers.
- *Targeting the most vulnerable youth*: Chapter 4 complements the previous chapters by providing a zoom into the policies for three groups of vulnerable youth: early school leavers, women and indigenous and Afro-Peruvian youth. Poverty raises the probability of becoming a NEET. Yet, poverty can also affect negatively the probability of being a NEET, by exacerbating the need to engage in subsistence employment. For youth coming from extremely poor families the latter effect may dominate. In this case, children will more likely drop out from school while in early ages. The exposure to this risk is particularly strong for women and indigenous and Afro-Peruvian youth. The analysis carried out in Chapter 4 is a contribution to the strategic vision of the MTPE, which considers that differentiated policies have an important role to play in order to support the impact of the general policies to strengthen the employability of at risk groups.

Overall, the report provides an integrated overview of the role that institutions and policies play in helping youth to access better quality and more rewarding formal sector jobs, particularly focussing on the most vulnerable youth. Evaluations and lessons from international experiences are used to formulate recommendations tailored to Peru.

Removing demand-side barriers that hinder the willingness of the employers to hire youth

Peru's labour taxation is not high compared to the OECD average. For the average worker in Peru, the tax wedge - the difference between the total labour cost and the workers take home pay, measured as a percentage of the total labour cost - is 23.4%, compared to 35.9% for the OECD average. This wide gap reflects the extent of the

personal income tax in the OECD; in Peru low income workers - including at the minimum wage - are exempt from personal income tax. For the average worker the combined social insurance contribution, levied on the employee and the employer, is 23.4% in Peru, a level slightly higher than the OECD average (22.5%). Measured at the level of the minimum wage the difference is wider, however, with the two rates being 23.4% and 20.5%, in Peru and the OECD average, respectively.

Addressing overly complex firm regulations

One source of unbalances that stands out in Peru is the strong segmentation of the private sector into different categories of enterprises, each subject to a specific labour cost scheme. Special tax rules for promoting the creation of micro and small enterprises were introduced by Peru in 2003. These include a combination between tax incentives and reduced labour obligations for such firms (Act No. 28015 on the Promotion and Formalization of Micro- and Small Enterprises of 2003). As a result, there exist three categories of private enterprises in Peru today, the micro enterprises, the small enterprises and a broad class of other enterprises. Each category is subject to a distinct labour cost scheme. These complexities appear exacerbated by the regulations concerning paid annual leave, profit sharing and family allowances, which also vary significantly across categories of enterprises.

Binding labour cost regulations that are contingent upon the size of the enterprises may engender asymmetries in the distribution of firms (Garicano, Lelarge and Van Reenen, 2016). Many highly productive firms that would have been larger without the regulation will likely refrain from expanding to avoid the higher labour costs induced by the change of the legal threshold. When they decide to expand, they will do so by splitting into small units, at the cost of considerable efficiency losses. Recent work on Peru by Dabla-Norris, Jaramillo Mayor, Lima and Sollaci (2018) find that size-dependent policies may even led to increase labour informality, since some firms ultimately prefer to hire informal workers to avoid the regulation. Taken together, these patterns can result in substantial productivity and employment gaps with firms producing too little output and using too few workers (Restuccia and Rogerson, 2008; Bartelsman, Haltiwanger and Scarpetta, 2013).

Youth job seekers are likely to lose the most from these asymmetries. Evidence from a wide range of countries at different levels of per capita incomes (including Peru) shows that rates of job creation are higher amongst small young firms, provided that they are allowed to grow (Haltiwanger, Jarmin, and Miranda, 2013; Ayyagari, Demirguc-Kunt and Maksimovic, 2014). In addition, small young firms are particularly likely to hire young job seekers since these typically have just attained education and therefore can carry the most up-to-date technical skills at a relatively low cost (Ouimet and Zarutskie, 2014). Therefore, they might be particularly attractive to young firms aiming to develop new products and/or methods of production.

Policy insights for creating a more balanced system of firms' incentives

The question as to whether or not to maintain the current size-based threshold structure goes beyond the scope of this report. In fact, addressing it properly would require a thorough examination of the overall system of tax policies and tax arrangements in Peru, assessing the benefits and the disadvantages of various alternative approaches. However, the findings of the recent report by the OECD on the *Taxation of SMEs in OECD and G20 countries* (OECD, 2015) may be of some relevance to guide Peru's policy thinking when developing and implementing a more balanced and coherent system of firms'

incentives. Particularly, the report underlines that a high degree of caution is needed to ensure that tax preferences or simplification measures do not introduce further distortions. These distortions can result in incentives to alter economic activity in unintended ways to benefit from special tax rules, horizontal inequities in the treatment of different firms or individuals depending on their characteristics. They can also stem from the creation of additional barriers to SME growth owing to sized-based thresholds, which provide incentives to remain under that threshold, whether artificially or by restraining growth.

Making the minimum wage pay

Youth workers are primary candidates to be paid at the minimum wage in countries where this wage floor is enforced, reflecting a shorter work experience (Cahuc, Carcillo and Zylberberg, 2014). However, the level of the minimum wage must be appropriately set. Too low a minimum wage may result in undesirable low wages for youth workers whose bargaining power is relatively weak and therefore may induce them to prefer an occupation in the informal sector. By contrast, if set too high the minimum wage leaves little room for rewarding youth workers in line with their productivity, and may again lead to more informal work or reduced working hours for some (Neumark and Wascher, 2008).

In Peru the minimum wage is defined as a single value with national coverage, which implies that it does not vary according to age. It is calculated on a monthly basis, assuming a maximum limit of 48 hours per week. The minimum wage has not been increased "mechanically" throughout the years but rather prudently and in a way broadly in line with labour-market conditions.

While the real value of the minimum wage should not be allowed to erode in years to come, the prevailing long-term stance that prioritises avoiding important (real) increases should be maintained. This conclusion is supported by the results of recent analysis, which points to the fact that formal employment in Peru, if not strongly affected, tends to respond negatively to changes in the minimum wage (ILO , 2017; Céspedes and Sánchez, 2013; Jaramillo, 2012; Palomino Samaniego, 2011; Del Valle, 2009; Céspedes Reynaga, 2006). Furthermore, these studies conclude that the risk of unemployment following a rise of the minimum wage is higher among youth workers.

Strengthening the attractiveness of the minimum wage to Peruvian employers

The ratio of net minimum wage to the median wage is considerably higher in Peru than in the average OECD country. It ranges from 60% in micro-enterprises to 66% in small enterprises and 72% in firms under the general regime. By contrast, this ratio is 55% in the OECD average. No OECD country shows a ratio greater than that which prevails in Peru for firms under the general regime, with the exception of Turkey. Accordingly, the ratio is high also in comparison to Mexico and Chile.

Future policies should ensure that the minimum wage remains attractive to Peruvian youth job seekers but also that the minimum wage is set in a way that does not create a disincentive for employers to hire workers formally. Mechanisms that link minimum wages with productivity or price levels can help reduce such disincentives. A related action would be to allow for a differentiated minimum wage across different regions in Peru so that they are more closely linked to actual levels of worker productivity and/or price levels in the region.

One approach used by many OECD countries and other Latin American countries consists in the introduction of a legal subminimum wage for young people. This scheme

could allow for progressive increases of the minimum wage up to the standard minimum wage, as is the case for instance in Australia and the Netherlands. By avoiding large jumps in labour costs from one level to the next, the advantage of this approach is twofold: i) to limit risks of job separations around the point of eligibility to the standard minimum wage; and ii) to help youth workers remain on a path of gradual career progression.

Tackling labour market dualism

Employment protection legislation (EPL) refers to the procedures and costs involved in dismissing workers on permanent contracts and hiring them on temporary ones. It aims to protect employees against unfair dismissals and earnings reductions at the time of job loss and to shield them from precarious jobs (e.g. the overuse of temporary contracts). While protecting workers in the context of poor job quality is a high priority in Peru, an excessively strict or poorly designed EPL can hamper the economy by discouraging the flow of workers from less productive jobs to more productive and better quality jobs. Job creation can be reduced as a result, with youth workers being particularly exposed to this risk. Productivity growth can also be affected and the duality of the labour market can be accentuated. EPL should therefore be used judiciously and effectively in combination with other measures that protect workers themselves, rather than specific jobs.

The strictness of EPL on permanent contracts in Peru reflects the difficulty to proceed to individual and collective dismissals. The provision on collective dismissals grounded on economic, technological and structural reasons applies when it involves at least 10% of a firm's employees in Peru. One main reasons explaining the strictness of this regulation relates to the fact that starting from this threshold the fulfilment of complex compliance procedures, involving employers, trade unions, or workers' representatives, and the Labour Administrative Authority, is required in order to launch a collective dismissal. The regulation applies across all firms, irrespective of their size, thus including small firms, which are the large majority in Peru. In many OECD countries, employers who proceed to collective dismissals are subject to only a notification requirement. Concerning individual dismissals, one particularly constraining regulation from the perspective of the employers relates to the limited chances to have dismissal decisions recognized as "justified" -- ranging from the proof of misconduct or incapacity, to adverse economic circumstances -- if the dismissed worker brings the case to court. Whenever the court rules the dismissal as "unfair", the reinstatement is nearly automatic and prevails over the options of compensation, which discourages hiring formally in the first place. Reinstatement is less typical in many OECD countries, and even rarer in Latin American benchmark countries.

It is important to underline that the Peruvian law involves more than ten types of temporary contracts today and allows the recourse to temporary contracts for some permanent tasks related to the core activities of the firm. At the same time, Peru's restrictions on the maximum cumulated duration of successive temporary contracts are broadly in line with the regulation prevailing in the OECD countries. However, the administrative requirements governing the authorisation of a temporary work agency are highly demanding. Once operational, these agencies have to meet some very strict periodic reporting requirements.

The high protection of Peruvian workers on permanent contracts can discourage employers from hiring youth on this type of contracts for fear of not being able to adjust to employees' misconduct or incapacity, or changes in demand and technology. This

implies that employers would rely on temporary contracts as "dead ends", rather than stepping stones during the transition to a permanent job, with particularly harmful effects on the creation of more stable youth jobs. The function of these contracts as on the "job training" and "screening tool" of young job seekers, would be reduced and the duality of the labour market would increase as a result. Indeed, the probability for young people (15-24) in Peru to work under a permanent contract is half than that of the working age population (21% *vis-a-vis* 42%). By contrast, it is only one third lower in the mean OECD country (62% *vis-a-vis* 87%).

Tackling the strictness of EPL on permanent contracts can therefore be an important lever to reduce the large proportion of Peruvian young workers who are either trapped in precarious jobs in the formal sector, or are entirely excluded due to high informality. For collective dismissals grounded on economic, technological and structural reasons, today's cumbersome compliance procedures preventing the recourse to these dismissals could leave the way to a simpler notification requirement. For individual dismissals, a number of outstanding legal barriers that prevent employers from the possibility to plea for a justified dismissal could be relaxed. The recognition of adverse economic circumstances among the reasons justifying a dismissal is a primary candidate. Moreover, the high penalty following an unfair dismissal could be reduced with a view to aligning it more closely to the standards prevailing in OECD countries. Recent reforms undertaken by a number of OECD countries go in this direction (Estonia, Spain Slovenia and Italy). Regarding temporary contracts, Peru could benefit from a reduction of the administrative barriers that discourage the creation of temporary work agencies. There also seems to remain scope for expanding the circumstances under which Peruvian firms can use temporary contracts for permanent tasks related to the core activities of the firm. At the same time, the maximum cumulated duration should be fixed by regulation as a way of preventing young workers from being trapped in precarious jobs, but also ensuring that the employers can screen youth workers for future permanent hiring.

In designing policies to improve the EPL setting, policy makers typically face some key trade-offs. In particular, the effect of relaxing employment protection on permanent contracts may not be the creation of more and better quality jobs for youth, if temporary contracts are eased at the same time. Indeed, the overall effect could be that, as a way of benefiting the smaller cost of terminating an employment relationship at the end of a fixed-term contract, firms will adjust by substituting temporary for permanent workers. To counter the risk of this offsetting effect, several OECD countries have introduced measures recently to reduce incentives for employers to hire people on temporary contracts when not justified by the temporary nature of the tasks. For example, as part of a broader strategy to rebalance job protection, Italy introduced a standard contract in 2015 with employment protection increasing with tenure.

Complementary strategies to address barriers to firm creation

In addition to the creation of more supportive regulatory settings for social security contributions, for minimum wages and for employment protection, the establishment of a friendly administrative environment to firm creation is also essential to support youth employment. Critical to this end is that Peru pursues the efforts to simplify the administrative procedures to formally register companies and, hence, promote firm creation. Since 2004, Peru has reduced the number of procedures to start a business from ten to six, the expected number of days to fulfil the required procedures from 98 to 26 and the overall cost from 40% to 10% of income per capita. These reforms must be continued by (i) having government agencies substitute to notaries and municipalities in the

registration process in order to limit anti-competitive practices and (ii) creating an online one-stop shop for firm registrations. More progress is needed to establish the "e-government" that the Strategic Plan for Electronic Commerce 2012 – 2021 is longing for. One notable step in the right direction was the launch by the MTPE in 2018 of *Formalizate Peru*, an integrated platform to orient and accompany workers and employers in the process of formalization for both labour and business.

Lessons from the past: The importance to strengthen social dialogue

In December 2014, a *Special Youth Labour Scheme* was proposed to reduce non-wage labour costs paid by small enterprises and firms under the general regime when they hire young people between 18 and 24. Under the new scheme, a substantial cut of employers' social security contributions was foreseen: contributions to health insurance would be subsidised by the Peruvian State, while contributions to unemployment benefits would be eliminated. At the same time, the scheme envisaged to abolish existing entitlement of young workers to bonuses and profit sharing. Furthermore, paid annual leave would drop from 30 to 15 calendar days for youth employed under the general regime.

Seen as favouring employers at the expense of young people, the law was bitterly opposed by Peruvian youth and was finally abandoned. This example points to the need for ensuring a strong social dialogue framework that supports the identification of reform needs while at the same time ensuring protection (OECD, 2017). Together with the rigor and quality of ex-ante evaluation analysis, social dialogue is essential to create a consensus for reform and to the effective implementation of policy decisions once agreed upon.

Summary of key recommendations for removing demand-side barriers to youth employment in Peru

Demand-side barriers to youth employment relate to economic, legal and administrative constraints that affect the ability and willingness of employers to hire young people. The OECD suggests to:

Contain the cost of hiring young workers

- In line with the key findings of the recent report by the OECD on the *Taxation of SMEs in OECD and G20 countries*, ensure that incentives to the firm sector do not alter economic activity in unintended ways, particularly by exacerbating the effects of strong sized-based thresholds. These thresholds encourage the small and medium sized enterprises to remain small, hindering the expansion of youth employment.
- While the real value of the minimum wage should not be allowed to erode in years to come, the prevailing long-term stance that prioritises avoiding important (real) increases should be maintained.
- Future policies should ensure that the minimum wage remains attractive to Peruvian youth job seekers, but also that the minimum wage is set in a way that does not create a disincentive for employers to hire workers formally. Mechanisms that link minimum wages with productivity or price levels can help reduce such disincentives. A related action would be to allow for a differentiated minimum wage across different regions in Peru so that they are more closely linked to actual levels of worker productivity and/or price levels in the region.

Tackle labour market duality

- Alleviate the protection provided by permanent contracts. For collective dismissals grounded on economic, technological and structural reasons, today's cumbersome compliance procedures preventing the recourse to these dismissals could leave the way to a simpler notification requirement. For individual dismissals, a number of outstanding legal barriers that prevent employers from the possibility to plea for a justified dismissal could be relaxed. The recognition of adverse economic circumstances among the reasons justifying a dismissal is a primary candidate.
- Regarding temporary contracts, Peru could benefit from a reduction of the administrative barriers that discourage the creation of temporary work agencies. There also seems to remain scope for expanding the circumstances under which Peruvian firms can use temporary contracts for permanent tasks related to the core activities of the firm. At the same time, the maximum cumulated duration should be fixed by regulation as a way of preventing young workers from being trapped in precarious jobs, but also ensuring that the employers can screen youth workers for future permanent hiring.
- Policies need to consider the development of a comprehensive strategy to reduce the strong duality of the Peruvian labour market between permanent and temporary contracts. The objective of such reforms should be to reduce incentives for employers to hire people on temporary contracts when not justified by the temporary nature of the tasks.
- At the same time, the policies to reduce the strong duality of the Peruvian labour market for young workers would require the support of the actions to reinforce the social protection system. This requires reforming the current unemployment benefits system in Peru to meet the following two prerequisites: (i) providing income protection to all workers in the formal sector, including those whose work experience is insufficient to cover them; and (ii) making such a protection contingent upon the active search for a job and/or a serious engagement in employment programmes.

Abolish administrative barriers to firm creation

- Replace the presently highly fragmented system of notaries and municipalities for the registration of businesses with a national government agency. By reducing fragmentation and limiting risks of arbitrariness, this would strengthen the level playing field, while at the same time reducing the length and the cost of procedures.
- Create an online one-stop shop for firm registration.

Ensure that reform decisions are embedded into a strong framework for social dialogue

- Together with the rigor and quality of ex-ante evaluation analysis, social dialogue is essential to create a consensus for reform and to the effective implementation of policy decisions once agreed upon. The example of the *Ley Pulpín* points to the need for ensuring a strong social dialogue framework that supports the identification of reform needs while at the same time ensuring protection.

Improving the employability of Peruvian youth

Raising the capacity of Public Employment Services to support activation

The international comparison shows that spending on Active Labour Market Policies (ALMPs) is too low in Peru to be able to generate a significant impact. Recent analysis carried out by the ILO shows that Peru's spending on labour market programmes is one of the lowest in the Latin American region, both evaluated as a share of GDP and as a share of total government spending (ILO, 2016). In 2015, spending for the three largest Peruvian programmes (*Jovenes Productivos*, *Trabaja Peru* and *Impulsa Peru*) amounted to around PEN 300 million (USD 90 million or EUR 80 million), corresponding to 0.05% of GDP. As a benchmark, the OECD countries devote on average 0.4% of their GDP to labour market activation policies.

Only around 5.5% of unemployed Peruvian youth in the age range between 15 and 29 years old seek work through Public Employment Services (PESs), a very low figure by international standards. Across a sample of European OECD countries the same share ranges between 13.5% (Iceland) and close to 94% (Belgium), with an average of 47.6%. In part, this low take-up of public employment services in Peru reflects the fact that the most preferred job search vehicle by the youth remains the social network (through relatives and friends) and reaching out directly to employers. Many workers (especially those who are relatively low skilled) do not refer to the labour intermediation institutions since they look for a job in the informal sector. In addition, Peruvian PESs are severely understaffed by international standards. As of 2016, the system counted only 221 caseworkers, corresponding to a rate of 1 300 PES clients per caseworker. By comparison, the average caseworker provides services to 202 jobseekers among OECD countries for which data are available (France, Germany, Italy, Sweden, Spain and United Kingdom).

Further hindering the effectiveness of ALMPs in Peru, the limited human and financial resources available are not directed towards the programmes characterised by the highest potential to raise youth employability. For example, the largest share of spending (approximately 75%) for ALMPs in Peru concentrates on public works programmes that lack a vocational training component. This is despite a strong body of evidence for OECD and LAC countries suggests that training programmes play an important role to support the integration of youth workers in the formal labour market (Card, Kluve and Weber (forthcoming) and Escudero et. al., 2017).

Strengthening outreach to young NEETs

If the resources and human capital were expanded to make PES more effective, the Peruvian government would be able to undertake measures to widen the range of outreach activities of the Centro de Empleo (Employment Centre, Peruvian PES), particularly to strengthen the support provided to the most deprived, low-skilled NEETs. The recent experience of OECD-EU countries suggests that one promising way to achieve this is by bringing PES services closer to the places where the NEETs meet. This requires, for example, designating youth outreach workers and organising publicity campaigns. Intensive collaboration between PESs, schools and teachers, youth organizations and social activists can be instrumental to identifying school drop-outs and youth at risk of becoming NEETs. Sweden and the UK provide examples of such a "detached" outreach model, which includes appointing 'street marketers' to reach out directly to youth. Italy and Norway have introduced innovative models of cooperation between PESs and schools to monitor the attachment of young people to the labour market, thus enabling

early forms of intervention. The Belgian Le Forem and German BIZ-mobil provide successful examples of multi-channelling, which uses a wide range of Information and Communication Technology (ICT) tools to advertise PES services and organize 'low threshold' PES units, capable of implementing out field campaigns in remote areas using mobile centres.

Tailoring services better to specific needs

The capacity of the *Centro de Empleo* to offer personalized support services to unemployed youth is fairly limited in Peru. Counselling and advice mainly rely on group workshops. Recent measures to enable *Jóvenes Productivos* to select training centres for the implementation of specified curricula and to facilitate the intermediation between youth and the firm sector are steps in the right direction. SOVIO offers access to personalised career guidance. These experiences could be used to inform the development of a new model of personal guidance with the aim to support the labour market integration of disadvantaged youth.

Peru could do more to gear the assistance currently provided by the *Centro de Empleo* to the specific needs of the most disadvantaged youth. Recourse to individualised service approaches could be strengthened, provided that PES are adequately staffed. Individual service practices rest on appointing a personal case manager who evaluates the candidate's profile and suitable job prospects, prepares individual action plans and monitors the progress towards finding a placement. Candidates assessed as employable are provided with access to job vacancies tailored to their profiles and are offered additional counselling services. Difficult-to-employ candidates receive an early referral to training, work experience, or other special supports.

Greater capacity will be essential to deliver effective employment services

Although individualised services can significantly enhance the effectiveness of activation, the actual implementation on a larger scale of such services will require the backbone of measures to expand the number of PES offices, as well as staffing levels. In considering these measures, it will be important to give priority to the most remote regions, where shortages in infrastructure and human resources are largest. Since the recruitment and the training of new staff to equip them with the skills needed to operate effectively may require some time, partnerships with private employment agencies provides a viable option to alleviate the capacity constraints of the *Centro de Empleo* in the short to medium-term.

Strengthening the training component of ALMPs

Averting the risk that low-skilled young people become NEETs, or work in the informal sector, requires strengthening the emphasis that Peruvian activation policies place on training. Studies on ALMPs in Latin America point to the positive impact of dual training-with-apprenticeship programmes on the probability for youth participants to be hired in the formal sector, therefore accessing higher earnings and better career opportunities (Escudero et. al, 2017; OECD, CAF and ECLAC, 2016). These studies also show that much of the success of on-the-job training depends upon the capacity to engage employers. Countries typically have a range of employment and/or wage subsidies in place to reinforce such an engagement and Peru is no exception. As part of *Jóvenos Productivos*, for example, Peruvian businesses already participate in the design and implementation of training in collaboration with the training centres and the government.

Nevertheless, the private sector in Peru makes little use of apprenticeship incentives. One explanation behind this include the obligation to use the tax benefits exclusively for employees listed in the electronic payroll system of the company. Since many youth candidates to become training apprentices do not have a job contract, they do not appear in the electronic payroll and therefore are not eligible for the tax benefit. In addition, the tax authority can apply considerable discretion when it decides which parts of the training expenses are eligible for the tax benefits. Given that this discretionary power is not precisely defined, firms prefer to err on the side of caution, which results in an underinvestment in training for fear of being declared ineligible for the benefit.

Public work programmes to boost incomes and work experience

Besides providing income support, public works programmes could bring a number of other benefits (Subbarao et al., 2013). Because they provide individuals with work experience, they help maintain and/or improve skills and therefore promote labour force participation and more permanent pathways out of poverty than simple cash transfer programmes. They can be particularly helpful for groups at the margins of the labour market, such as women, NEETs and the low-skilled, and help them raise their bargaining power by guaranteeing work at the minimum wage rate and, therefore, enforcing a minimum wage rate on all casual work. Public works also tend to rely on self-selection as the primary targeting mechanism, with the central parameter being the wage at which a public work is rewarded. This wage must be set out at a level low enough to attract only those in need of a temporary work, but high enough to provide an adequate source of income. In addition, public works involve several secondary benefits, including the creation of public goods and the promotion of social cohesion. In some countries, they have also been used for environmental (e.g. generation of water storage, afforestation, and compost generation) and social purposes (running child-care centres, nursing homes, school kitchens, and so on; Lieuw-Kie-Song et al., 2010).

More recently, some programmes have moved beyond the mere provision of temporary work to include training opportunities to prepare participants for possible longer-term employment, self-employment, or further education and training. The motivation for this approach is to provide individuals with a more permanent pathway out of workfare and poverty. The type of training provided can include vocational training, basic skills training (literacy and numeracy) as well as entrepreneurship training. These considerations suggest that *Trabaja Perù* could benefit from a strong training component.

The supportive role of certification

In order to strengthen the labour market prospects of youth, on-the-job training experiences should be certified by an independent certification body. Recent work by Cahuc, Carcillo and Minea (2018) sheds new light on the effects of various forms of labour market experience for youth who have dropped out of high school. Building on information collected through a field randomized experiment (i.e. after sending fictitious résumés to real job postings), their results indicate that the likelihood of receiving a call-back from employers sharply improves when youth get a certification of their skills. Pathways to the labour market without skills certification seem unable to improve the employment outlook of unskilled youth. Notably subsidized or non-subsidized work experience, either in the market or non-market sector, even for a few years does not significantly improve the chances to be contacted by employers compared to an unemployment spell of the same duration. These results suggest that accruing work experience is not always enough to more frequently get call-backs. Employment support measures, such as temporary jobs or hiring subsidies, should be conditional on getting a

certification of skills at the end of the employment period, at least for previously unskilled youth.

The importance to nurture a culture of monitoring

Developing an impact evaluation culture is also critical. One challenge relates to the limited access to data and information on the outcomes of ALMPs; for example, randomized experiments about these outcomes are scarce in Peru. To fill this gap, the Ministry of Labour and Employment Promotion could build on the experience of the Ministry of Education, which launched MineduLAB in 2016. Working in partnership with the regional arm of the Abdul Latif Jameel Poverty Action Lab (J-PAL LAC) and Innovation for Poverty Action Peru, MineduLAB is actively engaged in evaluating the effectiveness of innovative education policies to improve children's learning in the country. To this effect, it makes extensive recourse to randomized controlled trial field experiments. A similar approach could be used to assess the performance of ALMPs.

Strengthening income support to unemployed youth, conditional on active job search in the formal sector

Upon loosing labour income Peruvians find themselves at high risk of falling into poverty. OECD countries on average protect around 40% of the youth and 50% of prime age individuals (30-64) from falling below national poverty lines, thanks to social transfers. In Peru, the proportion of people effectively protected from (relative) poverty through provisions from the social protection system equals around 2% for both age groups.

From the institutional perspective, as a counterpart to the abolition of the severance pay in the occurrence of *justified dismissals*, Peru established a system of Individual Unemployment Savings Accounts (IUSAs) in the early 1990s, at a time when other Latin American countries were undertaking similar initiatives (Brazil, 1989, and Colombia, 1990; other countries, Chile and Ecuador, for example, introduced their programmes in the early 2000s). Up until then there used to be a tenure bonus, which became the Compensation for the Length of Service (*Compensation por Tiempo de Servicio*, henceforth CTS). This individual saving scheme is financed by the employer with a deposit equivalent to half of the employee's monthly salary payable every six months (May and December). The scheme is intended for private employees not covered by other special regimes. Each worker can choose the financial institution where to deposit the fund. Employers and employees can agree, through a private arrangement, that the employer is responsible for the deposit.

Important amendments introduced since 1996 have considerably diluted the capacity of the CTS to protect the employees against the risk of unemployment. Particularly, workers have been allowed to withdraw all or part of their CTS deposits in case of an emergency other than unemployment (for instance to cancel loans and debts incurred with financial institutions), or at cases to help "stimulate domestic demand". They were also allowed to use the funds as loan guarantees against the purchase or construction of a property, a renovations or the acquisition of land. According to the latest law adjustments (Emergency Decree 001-2014), workers can withdraw 100% of their contributions above four monthly gross salaries accumulated in the CTS. This means that an equivalent of only four gross monthly salaries must be kept in the individual's CTS deposit to prepare for the eventuality of unemployment.

For youth jobseekers, the limited capacity of the Peruvian unemployment benefit system to work as a safety net is compounded by two additional factors. First, more precarious employment conditions for youth workers than adult workers mean that their contribution records are more volatile, which prevents them from accumulating enough savings in their CTS account. Second, young people are disproportionately hired by micro and small enterprises, which are fully (micro enterprises), or partially (small enterprises) exempt from the payment of the CTS. The combinations between these factors means that merely one in ten youth employees have their CTS accounts contributed parallel to the payment of their wage bill.

In principle, severance pay remains an option in the event of *unjustified dismissal*. As an alternative to the constitutionally backed right of reinstatement, dismissed workers can choose a termination payment equal to 1.5 monthly salary per each full year of service (if employed under a permanent contract) and 1.5 monthly salary per each full month of remaining service up to a maximum of an annual salary (if the work agreement was fixed-term). However, OECD calculations based on ENAHO figures suggest that in 2015, it was paid to less than 1% of dismissed youth.

Improving the unemployment benefit system

As a short-term policy option, Peru could consider strengthening the requirements for CTS withdrawals in the event of unemployment. For example, the threshold above which workers are allowed to withdraw 100% of the CTS funds could be raised to six monthly gross salaries from the current level of four monthly salaries. This means that the equivalent of at least six gross monthly salaries would have to be kept in the individual's CTS account to prepare for the eventuality of unemployment, corresponding to an increase of 50% from today's threshold. In addition, access to the core part of the CTS account could be made at least partly contingent upon the jobseeker's active job search in the formal sector.

A more ambitious approach would involve reforming the current unemployment insurance system to include two main funding schemes building on the experience of the Chilean model. Under the first pillar, individual savings accounts for each worker would be financed by contributions from the worker and the employer in the case of open ended contracts, and only by the employer in the case of workers with temporary contracts. Under the second pillar, the system would generate a solidarity fund (*Fondo de Cesantía Solidario* in the Chilean UISAs scheme), that would be financed by the employers and from the government budget. Unemployed workers would only receive payments from the solidarity fund if their own savings are insufficient to cover their period of unemployment. Also, the number of payments from the solidarity fund would be limited – for example, payments can be withdrawn at most twice over a five-year period in the Chilean system.

On top of the inclusion of the solidarity fund, another salient characteristic that sets the Chilean model apart from other income support schemes for the unemployed in Latin America is the incorporation of a strong link to labour market activation (Sehnbruch and Carranza, 2015). For example, registration with the PES is automatic under the Chilean UISA. This ensures that unemployed workers receiving insurance payments and made redundant for economic reasons benefit preferential access to the vocational education and training programmes provided by the country's national training and employment service. At the same time, insurance payments are contingent upon the worker's acceptance of a place in the publicly provided vocational training programme.

In thinking about the implementation of a system modelled along the Chilean UISA, some decisions would have to be taken and policy makers will face some key implementation challenges. One challenge relates to the existing high level of turnover induced by the extensive use of temporary contracts in a context of strong labour market duality. The other challenge stems from the extent of the administrative and budgetary efforts required to implement effectively strong mutual obligation requirements in an economic environment characterised by a sizeable informal sector, which implies that abuses may be difficult to monitor. These considerations suggest that initially it might be more prudent to keep replacement rates relatively low and benefits durations short. From a broader strategic perspective, they underscore the importance of following an integrated policy approach that takes into account the policies discussed in Chapters 2 and 3. The policy insights of Chapter 2 precisely aim to reduce labour market duality. The previous sections of Chapter 3 provide useful insights as to how to improve the effectiveness of activation.

Targeting social assistance at NEETs who actively search a job in the formal sector

The Peruvian government should also gear the provisions of social assistance to better respond to the needs of jobless youth who are totally deprived of unemployment benefits because their work history is too short. However, in order to counter the risk of dependence on welfare transfers, social assistance policy should be linked to activation in order to ensure that on top of supporting incomes it also aims at keeping capable individuals connected to the labour market until they are brought back into job.

Implementing a mean tested jobseeker allowance (JA) that provides financial support to unemployed persons not eligible for any kind of benefits, could represent a desirable option. A key feature of a JA scheme is that as a counterpart to the unemployment subsidy candidates would be mandated to register with PES and to engage intensely in job search. Beneficiaries would not be in a position to reject suitable job offers.

An alternative solution would involve subordinating access to existing social assistance transfers (i.e., *Juntos*) to the effort to actively search for a job. Roughly 10% of Peruvian NEETs, i.e. 180 000 youth, live in households entitled to the *Juntos* transfer. The requirement that capable members of families receiving the subsidy register with the PES and participate in activation could be a viable way to motivate youth to search for a job. At the same time, following the example of other countries from the LAC region Peru could also use *Juntos* as a tool to reward achievements. The Chilean programme *Ethical Family Income* does so by providing an extra support to beneficiaries who have integrated the formal sector after obtaining an educational degree.

Supporting the development of social protection through ICT

ICT can provide a useful support to the development of social protection transfers. For example, it can facilitate the identification of individuals registered with the PES and who are beneficiaries of welfare programmes. This could help conditioning the transfer of unemployment benefits on active participation in PES services.

Recourse to systems of unique identification number and unified contribution collections has been marked across LAC countries since the early 2000s. In Peru, the civil identification system, *Reniec*, allows social security services to reach out to remote populations in the Andean and Amazonian areas and to indigenous communities (Reuben and Carbonari, 2017). The benefits to the population are visible in reduced fragmentation

of services and reduced administrative costs and errors. The administration gains in terms of improved data exchanges across institutions and less abuses.

Overall, these advantages mean that ICT can play an important role to help strengthening institutional coordination of social protection. Yet, the digital divide remains strong in Peru, where 34% of NEETs still declared not using the internet in 2016. Increasing access to affordable digital infrastructure, especially in remote rural areas, is a key to strengthening regional development and improving the labour market integration of disadvantaged youth. An intermediate solution that could ease the lack of access to the internet, while at the same time attracting youth to PES, may require the creation of toll-free kiosks with personal computer terminals in regional offices of the *Centro de Empleo*.

Reducing the skills mismatch

Skill mismatch typically arises along two dimensions, a vertical dimension that relates to *qualification* and a horizontal dimension, related to *field-of-study*. Qualification mismatch arises when workers have an educational attainment that is higher or lower than that required by their occupation. If their education level is higher than the requisite, workers are over-qualified; if it is lower, they are under-qualified. Field-of-study mismatch arises, instead, when workers are employed in a different field than what they have specialized in. *Investing in Youth Peru* applies the OECD's newly developed *Skills for Jobs Database* to obtain information about data on qualification and field-of-study mismatch, as well as gauging skills demands and surpluses. The database focusses on a wide range of skills, including cognitive skill, social skills, physical skills and a set of knowledge types.

Analysis of the two indicators suggests that skill mismatches are pervasive in Peru, both in terms of misalignment of education levels with respect to jobs that are in demand and field-of-study. Nearly 38% of Peruvians aged 15-64 are employed in jobs that require a different qualification level and almost 50% (of those aged 15-34) are mismatched by the field of study. Importantly, while the overall degree of qualification misalignment in Peru is in line with the OECD average, the nature differs. Unlike in the OECD, where under-qualification tends to be more prevalent, in Peru roughly three-quarters of qualification mismatch is due to over-qualification. About 28% Peruvians work in jobs that require lower educational levels than they hold, while around 8% perform jobs without sufficient qualifications. Over-qualification seems to be a common pattern across the LAC countries. Mexico and Chile, whose over-qualification rates equal 38% and 30% respectively, score worse than Peru, while Argentina does slightly better with an over-qualification rate equal to 27%.

Field-of-study mismatch fuels additional skill imbalances in Peru. With virtually half of graduates working in a different profession than the one for which they pursued education, Peru lags far behind the OECD countries. This means that obtaining a tertiary level education, or specialized secondary education, does not necessarily help smoothing the transition to the labour market since the field of study is not well aligned with labour market needs.

Another factor compounding the misalignment of skill supply with labour market needs in Peru is the lack of demand for skills. Despite two decades of robust economic development, the overall distribution of jobs in Peru has remained relatively skewed towards low skilled occupations. Compared to 2005, when the low-skilled occupations accounted for roughly two-thirds of total employment, and jobs for medium- and high-skilled comprised merely one-third of the market, there is visible progress towards creating opportunities for highly educated workforce. However, roughly half of the jobs

available in the labour market were still at the low skills level in 2016, requiring at most lower secondary education. Jobs for middle-skilled workers with education corresponding to upper-level secondary school constituted around 35% of the market, while some 15% of jobs were related to positions demanding tertiary education.

Supporting better education and career choices and delivering evidence-based policy making

Peru has achieved important progress on the creation of the institutional capacity needed to produce indicators for evidence-based skills policies. However, as in many OECD countries challenges remains to ensure that these indicators are used to guide policy making (OECD, 2017b). Moreover, Peruvian students on average do not have the information they need to orient their study and career choices, especially as the upper-secondary education system has become increasingly complex and somewhat opaque.

Web portals, such as the *Ponte en Carrera* -- which collects relevant and quality information on educational offerings and labour market demands -- and other instruments such as SOVIO and *Proyecta tu Futuro* should be strengthened to provide students with information about available study options and professional career paths after graduation (see also Ministerio De Trabajo y Promoción del Empleo, MTPE, 2018). In line with the above discussion on activation, workers and job seekers could make better use of labour market information, if it were more accessible. As a promising initiative, *Proyecta tu Futuro* (Project your Future) aims to accompany the youth in the search of a vocational study or training and to provide job orientation.

Furthermore, skills assessment and anticipation exercises -- such as those already conducted in a number of OECD countries -- could be developed in Peru to provide guidance on future skills demands, thereby mitigating the incidence of skills shortages and mismatches. In addition, a regular assessment framework would allow tracking progress towards the achievement of policy objectives. For example, stronger monitoring would help addressing the issue of the low quality of tertiary education institutions to ensure that universities meet the expectation of students as well as international standards.

Improving co-ordination to achieve better skills outcomes

Peru could improve its skills outcomes by strengthening horizontal collaboration among different ministries and vertical collaboration across different levels of government. Many ministries and authorities in Peru have an impact on the development, activation and use of skills, but systems of inter- ministerial collaboration are relatively underdeveloped. In many cases, more than one level of government has responsibility for the same policy area, with unclear division between national, regional and local levels. This issue is particularly visible in the case of education. To achieve a more efficient decentralisation, the capacity of regions and local authorities should be strengthened to allow for a more thorough implementation of place-based policies with the goal of reducing regional and urban-rural disparities in skills outcomes.

Building partnerships to ensure that policies are responsive to changing skills needs

To improve countries' performances in the development, activation and effective use of skills, governments must foster collaboration and co-ordination among the actors with both a stake in, and an influence on, skills outcomes. Stronger partnerships can increase the relevance of skills developed in Vocational Education and Training (VET) and higher education. Peru's VET system is characterised by the existence of strong sectorial

schools, which are designed to respond to the skills demand of specific economic sectors, and a weaker public and private system for the rest of the economy. Engaging firms in the co-design and running of training programmes in non-sectorial schools would ensure a better alignment between the skills developed and labour market demands.

At the same time, employers should play a more active role in the design and implementation of ALMPs. Their involvement in training and activation programmes would enhance the skills quality and relevance of those still searching for jobs and build up a ready-to-use talent pipeline. A more active participation of employers in skills assessment and anticipation exercises would ensure better alignment between skills supply and demand. Partnerships between higher education institutions and the private sector could ensure that local demand for highly skilled workers is met by a relevant tertiary education offering. Partnerships between academia and the private sector could help knowledge dissemination and foster a more productive use of academic researchers' skills. Engagement with the Socio-Economic and Labor Observatories (OSEL) could also be helpful to provide local labor market information to end users (Ministerio De Trabajo y Promoción del Empleo, MTPE, 2018).

Complementary policies to support the demand of quality jobs for youth

Higher levels of skills enable the introduction of new products, while also ensuring that workers can adapt more quickly to the technological and organisational transformations required by the transition towards a more diversified economy. However, important as they are, the policies to support the supply of qualifications and skills will hardly be enough, if left alone, to boost youth employment in Peru. Given the massive over-qualification, any further efforts on the human capital side are likely to be ineffective, while fuelling discontent, without the creation of more productive jobs. In fact, as the evidence provided in a specific section of *Investing in Youth Peru* shows, policy makers will also need to factor in the essential role played by the complementary policies to sustain strong economic growth and to improve the country's record on the creation of quality jobs.

As discussed in the OECD Multi-dimensional Review of Peru, this means maintaining the focus on a broad mix of macroeconomic policies, combined with addressing a range of structural weaknesses that have to date prevented economic growth from being more diversified and inclusive (OECD, 2015b, 2016). Many of the policies that could set Peru on such a growth path -- fuelled by technological progress and the diffusion of added-value activities, capable of generating a stable demand for new, more productive and better qualified jobs -- pertain to areas that are beyond the scope of this report. In addition, they must include the actions to bring down structural labour market barriers that affect the willingness and ability of employers to hire youth. Activation policies and social protection systems will also need to be strengthened, given the key role they play in providing an adequate safety net for youth who are out of work.

Summary of key recommendations for strengthening the employability of Peruvian youth

To eliminate the barriers hampering the employability of Peruvian youth the OECD suggests to:

Increase resources and staff for Public Employment Services (PES)

- Expand and increase the efficiency of PES by strengthening recruitment and training programmes for caseworkers.
- Widen the range of modern outreach methods to engage with the most deprived NEETs. The recent experience of the OECD-EU countries suggests that a key to reach out to the NEETs population is by bringing PES services closer to the places where the NEETs meet.
- Compatible with the resources that PES can display, strengthen the efforts to provide the NEETs with tailored job placement and intermediation services relying on personalised approaches.

Enhance ALMP provision

- Remove current administrative barriers that hamper the engagement of the Peruvian business sector in on-the-job training programmes.
- Strengthen the training component of public work programmes. Further to providing income support, public work programmes have the potential to improve skills and therefore promote labour force participation. *Trabaja Perù* could benefit from a strong training component.
- Make employment support measures, such as temporary jobs in the non-market sector or hiring subsidies in the market sector, conditional upon getting a certification of skills at the end of the employment period, at least for previously unskilled youth.
- Support the development of an impact evaluation culture. For example, the Ministry of Labour and Employment Promotion could build on the experience of the Ministry of Education that launched the MineduLAB in 2016. A similar approach could be used to assess the performance of ALMPs.

Re-design the unemployment benefit system

- Improve the effectiveness of the unemployment benefit system. An immediate solution would involve strengthening restrictions on CTS withdrawals until the event of unemployment.
- As a long term strategy, consider re-designing the current unemployment benefit scheme. This could be achieved by drawing, for example, on the strengths of the Chilean system that combines a system of individual saving accounts with a common solidarity fund and encourages job search.

Target social assistance to unemployed people

- Tackle social assistance programmes to make them better geared to the needs of jobless youth deprived of unemployment benefit, while at the same time making recipiency conditional upon active job search. This may require introducing a *Jobseeker Allowance*, in the form of a non-contributory unemployment benefit conditional upon registering with PES and intensely engaging in job search. Adding conditionality to *Juntos* transfer obliging capable beneficiaries to participate in a comprehensive activation strategy could be a viable alternative.

- Take measures to increase access to affordable digital infrastructure, especially in remote rural areas. An immediate solution that could ease the lack of access to Internet could consist in the creation of toll-free kiosks with PC terminals in regional offices of the *Centro de Empleo*.

Continue efforts to reduce the prevalence of over-qualification and field-of-study mismatch

- Strengthen the role of existing web portals, such as the *Ponte en Carrera* observatory and other instruments, such as SOVIO and *Proyecta tu Futuro*, to ensure that they can support students with effective information about available study options and professional career paths after graduation.
- Develop skills assessment and anticipation exercises to provide guidance on future skills demands as tools to mitigate the incidence of skills shortages and mismatches. In addition, a regular assessment framework would allow tracking progress towards the achievement of policy objectives.
- Strengthen the role of policy co-ordination to achieve better skills outcomes through expanding horizontal collaborations among ministries and vertical collaborations across levels of government.
- Continue efforts to foster the role of collaborations between public and private sector actors with a stake in, and an influence on, skills outcomes. Stronger partnership can increase the relevance of skills developed in VET and higher education.
- Similarly, consider measures to engage the business sector in the design and implementation of ALMPs. Their involvement in training and activation could enhance the skills impact of these programmes and their attractiveness to those searching for jobs.

Strengthen the demand for quality jobs for youth as recommended by the *OECD Multi-dimensional Review of Peru*

- In depth analysis using the OECD's Skills for Job Indicators, confirms the importance for policy makers to factor in the complementary role of pro-growth policies, which are essential to sustain the creation of more and better quality jobs. In line with the recommendations of the OECD Multi-dimensional Review of Peru, this highlights the importance of maintaining the focus on the broad mix of macroeconomic and structural reform policies that have the highest potential to set Peru on path of more diversified and inclusive long-term economic growth. Important as they are the policies to strengthen employability and to support the supply of qualifications and skills will hardly be enough, if left alone, to boost youth employment in Peru.

Specific policies for the most vulnerable youth

If the NEETs typically suffer from economic vulnerability, so do youth people of strongly disadvantaged background who cannot even become NEETs because they have to engage in subsistence employment. A total of close to two in five Peruvian youth are vulnerable, 39% in 2016. This level is defined as the sum between the level of the NEET (22%) and the percentage share of the individuals in subsistence employment (17%) -- this latter obtained as (i) youth working in the informal sector and (ii) earning an annual salary below the median annual salary earned by Peruvian youth.

This decomposition points to the importance of carrying out a deeper analysis than focussing on the NEETs alone, since this would amount to excluding a substantial part of youth at high risk of vulnerability and largely composed of very poor individuals. The final chapter of *Investing in Youth Peru* complements the other chapters by providing a

zoom into the policies for three vulnerable groups: early school leavers, women and indigenous and Afro-Peruvian youth.

Averting early school leaves

Awareness of the importance to send children to school can be very difficult to acquire for poor families. This reflects a combination of disadvantages, including the lack of access to proper information, poor literacy and numeracy skills of parents and the extra burden induced by a heavy financial resource constraint, which implies that many of these families cannot afford to dispense with their children's labour in order to meet their ends. Even when they go to school, children of disadvantage background will find it more difficult to meet academic requirements if the surrounding home environment does not provide a supportive ground for their physical, social, emotional and cognitive growth. Undernourished children generally score poorly on cognitive tests compared to better-nourished children and complete fewer years of schooling. Unsurprisingly, children of disadvantaged background are more prone to negative self-stereotyping since the perception of a wide economic and social gap to fill creates discouragements and damages performances, undermining their capacity to perceive themselves as worthy. Overall, the perceived costs of education can be particularly high for children of poor background to surmount exacerbating the exposure of these children to the risk of becoming early school leavers and of child labour.

Early school leavers are substantially overrepresented among youth of disadvantaged background in Peru. Specifically, young individuals whose parents belong to the poorest 25% are four times more likely to become early school leavers than young individuals whose parents belong to the richest 25%. The resulting wide gap in pupils' educational outcomes by socioeconomic group points to the critical importance to step up efforts to increase the enrolment and learning performance of students of disadvantaged background in Peru.

Improving the perceived benefits of schooling nationwide

In 2015 and 2016 MineduLAB implemented *Decidiendo para un futuro mejor* (Deciding for a better future) a pilot randomized experiment, aimed at informing students about the returns to education. This is particularly important, given that Peruvian students, especially those of disadvantaged background, substantially underestimate the potential benefits of a learning curriculum at all educational levels. The implementation of the initial pilot resulted in a significant decrease of the number of dropouts, while at the same time improving the academic achievement of the students who most strongly underestimated the returns to education before being informed of their real value. Replicating this experiment nationwide could help reducing the share of early school leavers among Peruvian youth. This seems even more desirable in light of the fact that the information campaign has proven to be highly cost-effective.

Decreasing the opportunity cost of sending children to school

Free education is a necessary condition to help decreasing the opportunity cost of sending children to school, especially for poor families. Under particular conditions, conditional cash transfers (CCTs) could provide an extra incentive, by granting regular transfer benefits to parents of poor background who chose to keep their children at school. Evidence from a wide range of CCTs programmes shows that participation boosts school enrolments and attendances, reducing school dropouts. It also reduces the exposure of children to child labour.

In Peru the programme *Juntos*, introduced in 2005 and operated by the Ministry of Development and Social Inclusion, provides a bi-monthly transfer of PEN 200 (Peruvian sol; approximately USD 70) to 660 000 poor women conditional on the mother providing access to education, nutrition, and health services to their children. However, experience with *Juntos* suggests that accessing the transfer may proof to be excessively difficult for some beneficiaries, which possibly discourages enrolments. For example, the average recipient of a CCT payment has to travel five hours to get to the nearest point equipped to perform a financial transaction. This implies a disbursement of 10% of the payment in transportation costs. To enhance the positive impact of *Juntos* on schooling outcomes, easing mothers' access to the payment is a key priority. One currently envisioned option is to potentiate the branchless banking network in Peru. Local agents, typically shopkeepers, would serve as deposit and withdrawal points enabling customers to recuperate the funding with a debit card. This option is under evaluation in partnership with Innovation for Poverty Action (IPA), using a randomized experiment.

Enhancing the quality of early childhood development

In 2012, the Peruvian MIDIS created *Cuna Más*, a large-scale early childhood development (ECD) intervention that replaced the former and less comprehensive *Wawa Wasi* programme. *Cuna Más* aims to support the development of children aged below three years who live in poverty, to improve families' childrearing and to strengthen attachments between caregivers and children. Preliminary results from an experimental impact evaluation by the Inter-American Development Bank of the home visiting services provided by *Cuna Más* points to a robust and positive impact of the programme on children's cognitive development (problem solving) and language proficiency (Araujo et al., 2016). What is more, this impact is concentrated on kids living in the poorest households.

However, there are also margins for improvements. Evaluation points in particular to a significant scope for extending the coverage capacity of the service and strengthening effectiveness through increasing the number of *Cuna Más* care workers, while also providing them with adequate compensations and better career prospects. Addressing these challenges is a key priority to keep the morale of a staff that reports a strong identification with the objective of improving the lives of vulnerable children.

There exist two mandatory pre-schooling services in Peru targeting the development of cognitive and non-cognitive skills for children aged between three and five years. *Jardines* are formal pre-schools mainly located in densely populated urban areas. The *Programas No Escolarizados Educación Inicial* (*PRONOEI*) is a public community-based programme created in the late 1960s for children living in marginalized urban and rural areas not having access to *Jardines*. Unlike *Jardines*, who relies on certified teachers, *PRONOEI*'s teachers are mothers from the community who receive training in child development and teaching techniques from a certified teacher hired by the Ministry of Education.

Assessment of the two programmes reveals that primary school achievements are generally poorer for pupils previously enrolled in *PRONOEI*. This outcome reflects the less specialised qualifications of *PRONOEI* teachers and the fact that *PRONOEI* typically provides a lower number of class-days per week, compared to *Jardines* (Cueto et al., 2016). However, no study has so far exhaustively addressed the critical question as to whether the children who attend *PRONOEI* or *Jardines* perform better than those in a counterfactual situation that does not grant access to these programmes. Such an impact

evaluation would provide useful insights on how to raise the impact of the two programmes.

Interactions with nutritional objectives

ECD intervention also encompasses nutrition programmes directed at pre-primary and primary school students. A focus on the nutritional dimension can be a key to persuade parents from poor household to keep children at school. In 2012, the Peruvian Ministry of Development and Social Inclusion launched the programme *Qali Warma* ("strong child" in Quechua language), which aims to provide access to quality food to children who attend pre-primary and primary public educational institutions located in poor and extremely poor districts.

Qali Warma report carried out by the *Contraloría General De La República* (Office of the Comptroller General) highlights several areas for improvements (La Contraloría General de la República, 2017). First, most of the educational institutions visited lack a copy of the contract signed between *Qali Warma* and the food suppliers. This hinders the possibility to check if the quantity and quality of the rations received correspond to those agreed by contract. Second, educational institutions do not have a list of the children targeted by the programme, which prevents keeping track of their number and evaluating beneficial effects. Third, it often happens that the food is delivered late, which disrupts the organisation of classes and damages the proper assimilation of food by the children. Finally, there are concerns with regard to the poor nutritional contribution of some foods. Addressing these deficiencies is critical in order to allow Peruvian children reaping the full benefits of *Qali Warma*.

Developing key non-cognitive skills

The strategies for raising awareness about the importance of personality traits (also referred to as non-cognitive, soft or socioemotional, skills) in supporting learning and later on the transition to the labour market can also yield promising results in keeping at-risk students in education. Among these traits, consciousness stands out in the empirical evidence as a key for increasing schooling years and school grades at all levels of education is (Carcillo et al., 2015). For example, conscientious students typically put a stronger and more regular effort into succeeding their studies. In addition, the learning attitude and curiosity shown by these students allow them to appreciate the importance of certain tasks that may considerably enhance the long-term returns of schooling, although near term returns may be less visible. These traits include, for example, paying attention in class, being well organised and avoid procrastination.

In this context, the MineduLAB proposed initiative to devise an innovative intervention to help students combat procrastination through in-class training could deserve attention. If this training option is implemented, it might be desirable to complement the in-class component with some out-of-class mentoring. Indeed, mentoring is a proven tool amenable to fill certain behavioural gaps of youth from disadvantaged background who are more likely to lack positive role models at home and guidance on how to develop socio-emotional skills.

Scaling up strategies to counter negative self-stereotyping by poor students

Peru should be commended for the initiative *!Expande Tu Mente!* (Expand your mind!), which was implemented in 2015. Taking advantage of a short and cheap-to-implement in-class training (90 minutes), students learned how the brain works as a "muscle", implying that intelligence is malleable and accordingly can be expanded. The initiative aimed to

change students' perception of their own intelligence and develop a sense of effort, perseverance, achievements and control. As one option to effectively counter negative self-stereotyping by poor students, Peru could consider scaling up *!Expande Tu Mente!*

Tackling the vulnerability of young Peruvian women

Young women are nearly twice more likely to be NEETs than young men. This is particularly the case for women with at least one dependent child. Women often have no other choice but to drop out of school in case of teenage pregnancy or to renounce participating in the labour market when they are adults, following the birth of their child. However, the gender gap in NEET rates also prevails among childless women due to the existence of additional barriers that hinder female labour force participation. Particularly, violence against women in public transports and related public spaces leads many women to forgo job opportunities, irrespective of their maternal status.

Investing in girls' education

In a context where teenage mothers predominantly come from poor families, the set of policies already reviewed to limit the risk that children from disadvantaged backgrounds drop out from school are particularly promising in order to reduce adolescent fertility rates. As an illustration, CCT programmes have proven to be effective at dampening teenage pregnancy, but only if they are "conditional enough" (see Cortés, Gallego and Maldonado (2016) based on CCT programmes in Colombia). More precisely, CCT programmes whereby receiving the subsidy is contingent upon certain pre-defined criteria of school success and regular attendance are likely to have a stronger effect on teenage pregnancy. These findings suggest that strengthening the conditionality of *Juntos* may be an effective strategy to lower the number of teenage mothers in Peru. In particular, the government could envision that students receiving a subsidy under *Juntos* must complete the school year and enrol in the following grade in order to continue receiving the subsidy and/or that the subsidy cannot be recuperated after a too long interruption in the programme.

Extended school-hours programmes

Empirical findings corroborate the presumption that longer school hours play a useful role in limiting the exposure of adolescents to risky behaviours. For instance, Jacob and Lefgren (2003) and Luallen (2006) find that extended school hours significantly reduce the incidence of certain types of juvenile crimes. Extended school hours can also reduce teenage pregnancy. Work by Berthelon and Kruger (2011) has analysed the effects of the school reform that was launched by Chile in the late 1990s to gradually lengthen school days from half to full-day shifts on certain days of the week. The authors find that the amount of time that students spend in school has increased by almost 22% (from 32 to 39 hours per week) and that concomitantly the probability of motherhood for teens living in municipalities with greater access to full-day high schools has lowered. This effect is concentrated on the population that is typically the target of poverty alleviation programmes, i.e. poor young women. These results suggest that the extended school programme (*Jornada Escolar Completa*) launched by the Peruvian Ministry of Education in 2015 represents a policy move in the right direction. The initiative should be generalised to all urban and rural settings where commuting times between home and school are sufficiently short to enable implementation.

School-based sexual education programmes

Comprehensive school-based sexual education programmes (UNESCO, 2018) include two key objectives: (i) to disseminate the message that teenage pregnancy can and must be avoided; and (ii) to provide competent information explaining how to avoid pregnancy. However, programmes can vary in terms of the approaches used implying that discerning those that have proven to be most effective is a key priority.

To convince students that teenage pregnancy is to be avoided, the approach often consists in explaining the related long-term costs. Particularly, that due to child caregiving responsibilities it may become impossible for teenage parents to finish school, preventing them from reaping the economic and social returns of acquiring a good education. This is the main objective of the campaign *Todo a su tiempo!* (All in good time!) that was launched by the Peruvian Ministry of Health following the publication of the National Action Plan for Childhood and Adolescence (2012-2021). Stressing the short-term burdensome implications of early parenthood, at an age when people are usually eager to enjoy life, rather than taking care of children, would also be important (Azevedo et al., 2012).

Concerning the issue about how to avoid pregnancy, until now sexual education programmes have for the main focussed on abstinence in Peru. Accordingly, delaying sexual initiation is the primary objective of these programmes. However, the conclusions of a strong body of evidence underscore that "abstinence only" programmes are of very little help to reduce teen pregnancy (Santelli et al., 2017, Dupas, 2011 and Duflo, Dupas and Kremer, 2015). The role played by the complementary approaches that inform students about the contraceptives that exist is a key in this context.

Who should deliver school-based sexual education programmes and to whom?

Another important aspect of school-based sexual education relates to the question about who actually should be in charge of delivering the training and to whom. Of essence here is ensuring that both girls and boys feel that they can safely and comfortably raise questions, clarify doubts and address concerns. Creating such a supportive setting requires that the sexual education programme be delivered by a trained young person who the students can easily identify as a peer, rather than by their regular teachers.

The composition of the audience also matters. Building on a set of rigorous randomized control trials aimed at reducing teenage pregnancy, the US Department of Health and Human Services finds that school-based interventions tend to be more effective when they target students above 13. In addition, the impact appears to be much lower when the gender composition of attending students is mixed, an outcome that reflects the reluctance by many to ask sexuality-related questions in front of the other sex. In this context, it may be preferable to organize at least part of the sessions in subgroups of students of the same gender. Appropriate engagement of the parents, by teaching them how to communicate with their children on avoiding teen pregnancy, is also important.

Providing low-threshold, well-informed access to modern contraceptives

Despite the campaigns implemented thus far, the use of modern contraceptive has plateaued since 2000 in Peru and remains low in the international comparison. Particularly, the share of Peruvian women who rely on modern family planning methods is nearly 15 percentage points lower than the OECD and LAC averages, while the share of those who rely on traditional methods is 15 percentage points higher. This situation raises a number of challenges for policymakers since traditional methods are typically

associated with a higher risk of unintended pregnancy, as evidenced by comparatively higher failure rates (Sedgh, Ashford and Hussain, 2016).

International best practices also point to the crucial importance of combining free access to modern contraceptives with careful counselling. This reflects the fact that the impact of free modern contraception on teenage pregnancy has both intended and unintended effects. On the one hand, free access to contraceptives reduces the likelihood of an unwanted pregnancy among sexually active teenagers. At the same time, it means that sexual activity is encouraged, possibly leading to increase adolescent fertility rates if teenagers are not well-informed on how to use the contraceptive efficiently.

This background underscores the key importance of developing a well-coordinated system of sexual and reproductive facilities targeted at adolescents. The salient features of such a system include (i) easiness to reach the facility; (ii) youth friendliness of the facility; and (iii) complementing free access to modern contraceptives by the teenagers with a mandatory counselling. Such a system could be part of a partnership between the Ministry of Women and Vulnerable Populations and the Ministry of Health. It could result in the creation of a network of teenage pregnancy prevention units within the local services and facilities that the two ministries are already responsible for. These are the DEMUNA services (*Defensoría Municipal del Niño y del Adolescente*), which are coordinated and supported by the Ministry of Women and Vulnerable Populations, and the health centres, which are managed by the Ministry of Health.

It is essential that the services provided by these units are youth-friendly to ensure that young people use them (Bhuiya et al., 2006). Various qualitative studies among Latin American teenagers show that access to contraception requires the removal of several psychological barriers that can discourage the youth from requesting the contraceptives (Azevedo et al., 2012). In particular, many adolescents feel very uncomfortable when faced with the prospect of discussing with an adult, with whom they may not want to share that they are planning to have sexual intercourses. Compounding this embarrassment is the attitude of the adults, often described as openly hostile by teenagers. Some training of the providers may be necessary to address these barriers. One additional reason why youth friendly facilities play an important role is that they provide a vehicle for spreading information about types of contraceptives and their effectiveness.

Alleviating the motherhood penalty

Not only entrenched gender roles push girls out of school in case of teenage pregnancy. They also mean that regardless the age women renounce participating in the labour market following the birth of their child. In Peru, like in many other countries, adult women who are mothers of dependent children (age 0-14) are much less likely to be in the labour market than women without dependent children. Descriptive evidence reveals that 25- to 54-year-old Peruvian who are mothers of at least one dependent child are about 10 percentage points less likely to be in paid work than comparably-aged women without dependent children.

Ensure that all mothers can benefit from a decent maternity leave

Maternity leave policies provide mothers with the right to take a limited period of time off work around childbirth as well as when children are very young, and to return to the same position or an equivalent one that is paid at the same wage. The length of maternity leave in Peru has been increased to 14 weeks in March 2018 (Supreme Decree 02/2016). Although this length is lower than the average among OECD countries (20 weeks), it

matches the minimum length set by the ILO's Maternity Protection Convention (No. 183). Moreover, maternity leave in Peru provides mothers with full compensation of their income loss. By term of comparison, mothers receive 85% of their earnings on average in OECD countries. This said, only a minority of women, i.e. those working in the formal sector can access a maternity leave, which suggests that continuing efforts to combat informality will be a key to support access to such an entitlement. The *OECD Multi-dimensional Review of Peru* provides a broad set of policy recommendations to reduce the cost of formalization while increasing its benefit, for both employers and employees (OECD, 2016).

Improving children's access to early childhood education and care

Even if supported by more efforts to boost formalisation, the policies to facilitate access to maternity leave will never be enough to boost the participation of women in the labour market. These policies must be integrated by the support of adequate child care options when the maternity leave ends and the mother is back to active work. Yet, access to affordable and good-quality early childhood education and care (ECEC) remains very unevenly distributed in Peru for children below six (the age by when compulsory schooling begins). For example, fewer than 12% of 0- to 2-year-olds children were enrolled in *Cuna Más* in 2014 (GRADE, 2016). By contrast, enrolments figures have undergone a remarkable increase for Peruvian children in preschool ages, between 3- to 5-year-olds.

Overall, improving children's access to ECEC remains a key to boost maternal labour supply in Peru where maternal employment is relatively low to begin with (Cattan, 2016). As a priority, this objective would require a significant expansion of *Cuna Más* day-care services for 0- to 2-year-olds children, as well as of the absorption capacities of *Jardines* and *PRONOEI* preschools for three-year old children. Such a service expansion can be expected to be highly cost-effective since it would build on already existing programmes. From the social and economic viewpoints, the first beneficiaries would likely be children from disadvantaged households. As a result, their mothers, for whom the affordability of ECEC is the main barrier to the labour market, would feel encouraged to search for a job. Concomitantly, this policy would have the merit to allow achieving the important goal of promoting child development, while at the same time reducing socio-economic gaps in education (Waldfogel, 2015).

Ensuring women's safety in public transport and related public spaces

A sizeable gender gap in the NEETs rate is not only observable among women with at least one dependent child. It represents an issue for concerns also among childless women. The traditional gender roles that are behind this outcome appear exacerbated in Peru by a pervasive phenomenon of violence against women in public transports and spaces. This worrisome source of distress leads many Peruvian women to decide to forgo job opportunities, irrespective of the number of their children (VAWG, 2015).

This situation calls for the establishment of a zero tolerance environment to violence against women in general and specifically in public transports and related public spaces in Peru. In this regard, the pilot project *Hazme el Paro* (Have my back) that the World Bank is conducting in Mexico City is particularly inspiring. It aims to help public transport users become active interveners when they witness violence against women. A similar initiative, of a key importance to improve women's accessibility to transportation and, hence, to the workplace, could be replicated in Lima.

Gender policies can have disproportionally beneficial effects on a range of youth-specific issues

The case for complementing the above measures with a broader set of policies to combat women's vulnerability at both the household level (domestic violence) and political level (women's representation) is also strong in Peru. Domestic violence is widespread in Peru, where 40% of women between 15 and 49 report having experienced physical or sexual violence by their partner at some point in their lives. This places Peru at the high end of Latin American rankings (Bott et al., 2013). Although gender policies have a general role to play, thus generating beneficial effects that go beyond the scope of a youth report, these effects can be disproportionally bigger on a range of youth-specific challenges (OECD, 2017c).

The media can play a potentially powerful role to support the fight against domestic violence. As one example, access to cable television in India, including international programming where women are more outspoken, have lead to generate a much welcome momentum against domestic abuses (Jensen and Oster, 2009). The most promising results seem to flow from "edutainment", which is the integration of educational messaging within popular entertainments (Ball Cooper, Paluck and Fletcher, 2014). In South Africa, "edutainment" triggered a significant increase in the share of abused women who engage in help-seeking behaviours such as contacting supportive organisations and the national helpline (Usdin et al., 2005).

Increasing women's political representation can also have remarkable effects. For example, reservation policies substantially improve perceptions of female leader effectiveness, especially among men. This is very important to weaken stereotypes about gender roles in the public and domestic spheres (Beaman et al., 2009). This outcome is also consistent with the perception that there are no gaps in qualifications between male and female leaders. More importantly, research has documented an increase in the "overall" level of qualifications among politicians following the implementation of gender quotas. Indeed, on top of being at least as competent as their male counterparts, female candidates boosts electoral competition and push mediocre male leaders to resign, when a good representation is assured (Besley et al., 2017). Finally, by increasing the number of women in leadership positions, reservation policies contribute to raise aspirations and educational attainments for girls, in particular through a role model effect.

Further to the policies aiming to combat domestic violence and improve women's political representation, another vector for change of gender stereotypes is the reform of the educational curriculum. Many OECD countries, including Germany, Iceland, and Ireland, have launched official guidelines for educational materials to ensure that they foster gender equality. Peru could draw inspiration from the experience of these countries.

Indigenous and Afro-Peruvian youth

Based on survey figures, people who identify themselves as indigenous or Afro-Peruvian make for roughly 27% of the total population in Peru (ENAHO 2016). Although 25% of respondents view themselves as indigenous and 2% as Afro-Peruvian, the latter figure likely corresponds to an underestimate. In effect, the nationally representative survey conducted in 2017 by the Peruvian Ministry of Culture suggests a share of Afro-Peruvians equal to 9%.

Boosting educational attainments of rural indigenous youth

Instituted during the 1970s, bilingual education has expanded significantly during the past 20 years in Peru. At the core of this effort lies the programme *Educación Intercultural Bilingüe* (EIB), which aims to achieve two main objectives: (i) increasing educational opportunities for indigenous children; and (ii) recognizing the multilingual and multicultural character of Peruvian society. This is in line with the spirit of other constitutional and education laws in Latin American countries, along with international agreements.

In perspective, expanding the coverage of primary schools by EIB in Peru would require to continue to increase the number of bilingual teachers, who are in short supply at present (a situation common to many other Latin American countries, Hynsjö and Damon, 2016). Reinforcing teachers' access to training opportunities seems essential in this regard. In addition, expanding the EIB programme to secondary education could be a way to help mitigating school dropouts. This could be achieved following a targeted approach that prioritises the geographical areas characterised by the largest shares of children with a limited proficiency in Spanish, among those who access secondary education. In order to increase the potential of this strategy to produce results, more housing facilities could be created as a way of supporting the large number of students who live in remote rural areas. Importantly, in a setting where, reflecting intense rural-to-urban migration flows, about half of indigenous people live in urban areas, it would be worth considering developing bilingual education opportunities also in urban neighbourhoods known for their high density of indigenous inhabitants.

Boosting job opportunities

Development policies in Peru still tend to view rural development and poverty alleviation as interdependent. This means, in practice, that a strong policy attention remains devoted towards providing poor people with short-term relief until they migrate to urban areas where it is unlikely that they will make their lives easier (OECD, 2016b). Poor people of rural origins typically lack the skills to get a decently paid occupation in the informal sector, not to mention a formal job.

In perspective, to boost the outcomes of these initiatives Peru should put more efforts in the creation of a large-scale coordinated strategy for rural development (Banerjee et al., 2015). At present, the geographical coverage of the *Haku Wiñay/Noa Jayatai* and *Sierra y Selva Alta* programmes remains relatively limited. In addition, Peru's strategy for rural policy is highly dispersed across a large number of programmes. Granularity of programmes may facilitate the adaptation of policy responses to local needs. However, it could also lead to duplications and reduced opportunities for critical mass effects and economies of scales. As these initiatives are part of a national strategic framework or governance arrangement, they suffer a problem of lack of coordination, which leaves little scope for exploiting complementarities (OECD, 2016).

The training offered and close mentorship of participants should aim to spur trainees' engagement in new activities (such as tourism, fish farming, organic farming, flower production and agro-food industries, for example), rather than privileging the focus on traditional farm activities. Moreover, rural development strategies could be tied to the preservation of the ecosystems, notably by taking advantage of the knowledge of local populations on how to avoid unsustainable exploitations of resources. Conditions for access to markets by the newly created businesses would benefit from a scaling up of the local road networks connecting rural areas with provincial and regional capitals (OECD, 2016, 2016b). The experience of the province of San Martín with regards to the

implementation of the *Sierra y Selva Altapr* programme offers an interesting example of good practice to address some of these challenges.

Combating discrimination against indigenous and Afro-Peruvian people

Discrimination is another hurdle faced by indigenous and Afro-descendants in Peru. According to the nationally representative survey conducted by the Peruvian Ministry of Culture in 2017, the share of respondents who consider that (i) Afro-Peruvians; (ii) Quechua and Aimara people; and (iii) the Amazonian population are discriminated is 60%, 59% and 57%, respectively. By contrast, the percentage share of respondents who see mestizos and whites as unfairly treated is smaller, 31% and 16%, respectively. Studies on remuneration and income in Latin America have found that indigenous workers "are confronted with 'glass ceilings' or access barriers while trying to obtain high-paid positions" (Ñopo, 2012).

A multi-faceted national strategy to fighting negative prejudice and stereotypes against indigenous and Afro-Peruvian people has been developed recently by the Ministry of Culture (Benavides et al., 2015). This strategy comprises a range of initiatives from awareness-raising campaigns among the general public, to the design of specific training programmes directed at students. For this policy to be impactful, it seems critical that the Ministry of Culture develops a "MincultLAB", that would be a correlate of the "MineduLAB" in the field of antidiscrimination policies. Indeed, little is known about how best to overcome biases against ethnic minorities in Peru.

To be effective, antidiscrimination policies should also focus on de-biasing teachers at school as well as the employers, rather than just the students and the general public. Numerous studies have documented the incidence of what is known as the "Pygmalion effect", according to which students perform better (or worse) simply because teachers expect them to do so. Therefore, if teachers' expectations about minority students are lower, their actual performances will also tend to be lower. Moreover, for a given level of performance, teachers have a propensity to give lower grades to minority students (Hanna and Linden, 2012).

To reinforce the integration of minority students in education, it seems critical to combine de-biasing with affirmative action programmes. In particular, the *Beca 18* scholarship programme could include quotas for Afro-Peruvians, as it is already the case for indigenous students from highlands and Amazonian communities. Implementing quotas for both indigenous and Afro-Peruvian youth in the framework of *Beca Doble Oportunidad* scholarships, which aim to bring early school leavers back to school, should receive attention.

Risks of discrimination against indigenous youth and Afro-Peruvians go beyond schools. These youth also face unequal treatment in the labour market. A promising way to reduce labour market exclusion of ethnic minorities in Peru would consist in introducing targets for indigenous and Afro-Peruvian in Active Labour Market Programmes offered by the Public Employment Services, especially in urban areas and giving priority to those that focus on youth. This approach would allow caseworkers to provide a more objective advice to employers about the competences of "minority" applicants, in terms of both cognitive and non-cognitive skills, for example. To reach out to these marginalized populations, a requirement would be to increase the share of indigenous and Afro-Peruvian caseworkers, given that it might be easier for them to connect with vulnerable individuals of the same origin. Peru should take advantage of the broader need to recruit and train more PES caseworkers (Chapter 3) to achieve this objective. The role played by

regional *Semanas de Empleo* (Weeks of Employment), or local Labour Fairs, promoted by the MTPE, could also be reinforced as a vehicle to encourage the labour insertion of these vulnerable groups.

Policy recommendations on specific policies for most vulnerable youth

Early school leavers, women as well as indigenous and Afro-Peruvian youth are at high risk of vulnerability, i.e. to become NEETs or to fall in subsistence employment. To help removing the obstacles that hinder the economic and social inclusion of these three groups, the OECD suggests to:

Continue the efforts to increase the enrolment and learning performance of students of disadvantaged background

- Improve the perceived benefits of schooling nationwide by scaling up the programme *Decidiendo para un futuro mejor* (Deciding for a better future) devised by the MineduLAB to inform students about the returns to education.
- Further decrease the opportunity cost of sending children to school by easing the existing constraints to the payment of conditional cash transfers from the programme *Juntos*. Notably, this will require potentiating Peru's branchless banking network, using local agents, typically shopkeepers, as deposit and withdrawal points where customers can recuperate the funding with a debit card.
- Enhance the quality of early childhood development interventions.
    - For 0- to 2-year-old children, harness the full potential of *Cuna Más* especially to enhance coverage of disadvantaged children, notably by expanding the staff of care workers, while also providing them with adequate compensations and better career prospects.
    - For children from three years old, evaluate the impact of *PRONOEI* and *Jardines* and identify how these interventions could be improved to maximize their effect on Peruvian pre-school children. Addressing the limits revealed by the evaluation of *Qali Warma* is also critical.
- Develop key non-cognitive skills, a key of which is conscientiousness, using innovative educational approaches implemented by the MineduLAB. In this context, MineduLAB's proposal to devise a new mechanism to help students limit procrastination could deserve particular attention.
- Counter negative self-stereotyping by poor students by notably scaling up the programme *!Expande Tu Mente!* (Expand your mind!) devised by MineduLAB.

Engage in ambitious policies to tackle the vulnerability of young Peruvian women

- Actively engage in ambitious policies to tackle the vulnerability of young Peruvian women with a particular emphasis on:
    - Taking actions to encourage willingness to staying in education, including efforts to strengthen the conditionality of the programme *Juntos*.
    - Generalizing the extended school programme (*Jornada Escolar Completa*) in urban and rural settings where the commuting time between home and school is sufficiently short to enable such an extension.
    - Organising high-quality school-based sexual education programmes to combat teenage pregnancy.

  - Creating a network of sexual and reproductive health facilities targeted at adolescents that are (i) easy to reach; (ii) youth friendly; and (iii) provide the teenagers with free access to modern contraceptives, in combination with mandatory and effective counselling.

- Alleviate the motherhood penalty in adulthood by:
  - Continuing efforts to ensure that all mothers benefit from a decent maternity leave.
  - Improving children's access to early childhood education and care (see above).
- Ensure women's safety in public transport and related public spaces by creating a zero tolerance environment to violence against women in these settings.
- Generate a switch towards greater gender equality by:
  - Taking advantage of the opportunities provided by "edutainment" (the integration of educational messaging with popular entertainment) to decrease domestic violence.
  - Implementing reservation policies to ensure women's political representation, at least at the local level. On top of inducing political measures that better take into account women's policy concerns, these initiatives improve the overall perception of female leader effectiveness (especially among men) and weaken stereotypes about gender roles. They also contribute to raise aspirations and educational attainments for girls, through a role model effect.
  - Strengthening the gender equality component of the 2009 curriculum. This objective requires reinforcing two consensual approaches to female empowerment through school content: the elimination of traditional gender stereotypes and the reduction of gender gaps in science, technology, engineering, and mathematics (STEM) fields.

Create a more inclusive environment for indigenous and Afro-Peruvian youth

- Improve the implementation of the *Educación Intercultural Bilingüe* (EIB) programme by:
  - Increasing the coverage of EIB in primary schools.
  - Expanding this programme to secondary education in areas where large shares of children enter school with proficiency only in an indigenous language.
  - Creating meal and boarding facilities in bilingual secondary schools to support students at risk of dropout who live far away, in remote rural areas.
  - Developing intercultural bilingual education in city neighbourhoods known to host large shares of rural-to-urban indigenous migrants.
- Boost job opportunities for rural indigenous youth by implementing a national coordinated strategy to help rural populations engage in new and more profitable entrepreneurial activities, such as, for example, tourism, fish farming, organic farming, flower production, agro-food industries.
- Combat discrimination against indigenous and Afro-Peruvian youth by:
  - Creating a "*MincultLAB*", that would be the equivalent of the *MineduLAB* in the field of antidiscrimination policies. This would help the Ministry of Culture to tailor better its awareness-raising campaigns to combat negative stereotypes against indigenous and Afro-Peruvian populations.

- Introducing quotas for Afro-Peruvians in the *Beca 18* scholarship programme, as it is already the case for indigenous students from highlands and Amazonian communities. The implementation of quotas for both indigenous and Afro-Peruvian youth in the framework of *Beca Doble Oportunidad* scholarships, which aim to bring early school leavers back to school, should also be considered.
- Setting out targets for indigenous and Afro-Peruvian in the activation programmes offered by PES in urban areas, especially those intended for youth.
- Reaching out to these marginalized populations also requires increasing the share of indigenous and Afro-Peruvian among PES caseworkers. This reflects the fact that it is easier for them to connect with vulnerable individuals of the same ethnic origin. Peru could take advantage of the necessity to recruit and train more PES caseworkers (Chapter 3) to achieve this objective.

Investing in youth is an integral part of the broader policy objective to achieve better long-term economic and social outcomes in Peru

Investing in youth and giving them a better start in the world of work is a key policy objective for Peru. It is also a very pressing priority, given that the benefits from the growth dividend associated with the demographic transition are set to fade away. If this "window of opportunity" is not used, there is a high risk of persistence, or even exacerbation, of the hard-core groups of youth left behind -- the NEETs and early school leavers, among whom women and indigenous and Afro-Peruvian youth are overrepresented. This report contains the OECD's recommendations for an integrated approach to support Peru to meet this challenge. As typical of any comprehensive analysis, addressing the concrete policy measures put forward in the report requires a degree of pragmatism, taking into account the fiscal space available. It would therefore be essential to provide clear priorities to those areas where additional resources are required. Although some of the proposals made would require substantial more resources, other are costless, for example, the reform of the employment protection legislation, improvements in co-ordination and the greater engagement of the employer sector in the VET system. Importantly, many proposals have the potential to set Peru on a path of stronger and more sustainable growth (e.g., stemming from a rise of better quality jobs in the formal sector, of women participation in the labour market, a closer matching between the supply and demand of skills and a decline of schools drop outs). The resultant stronger fiscal revenues could be re-directed into areas where more investment is required.

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Chapter 1. The labour market situation of youth in Peru

This chapter provides an overview of labour market outcomes of Peruvian youth and lays out the key challenges ahead for employment policy in the country. Despite favourable economic conditions the Peruvian labour market has long had difficulties with absorbing large and increasingly educated cohorts of young people. One in five Peruvians aged 15-29 is not in employment, education or training (NEET), and nearly three quarters of economically active youth work informally. Informality greatly contributes to the prevalence of poor quality jobs. The incidence of low-pay among youth is common and appears compounded by labour market insecurity and pervasiveness of intermittent work arrangements. Females, early school leavers and youth coming from economically disadvantaged backgrounds are the most vulnerable groups in the labour market.

1.1. Introduction

The Peruvian labour market is beset by high rates of youth neither in employment, nor in education or training (NEET) and high rates of informality. 21% of youth (aged 15-29) are NEETs and even where youth are in employment the quality of their jobs is weak since the majority of them continue to work under informal conditions. Economic growth will be essential for job creation, but growth alone will not solve all the difficulties that the youth generations face in gaining access to productive and rewarding jobs. This chapter provides an overview of the labour market outcomes for young people in Peru, covering key demographic and labour market indicators, alongside measures of the quality of jobs, a detailed profiling of the NEETs and school-to-work transitions. The chapter takes an internationally comparative perspective, with OECD countries as well as selected LAC countries as comparators. The main findings of the chapter are:

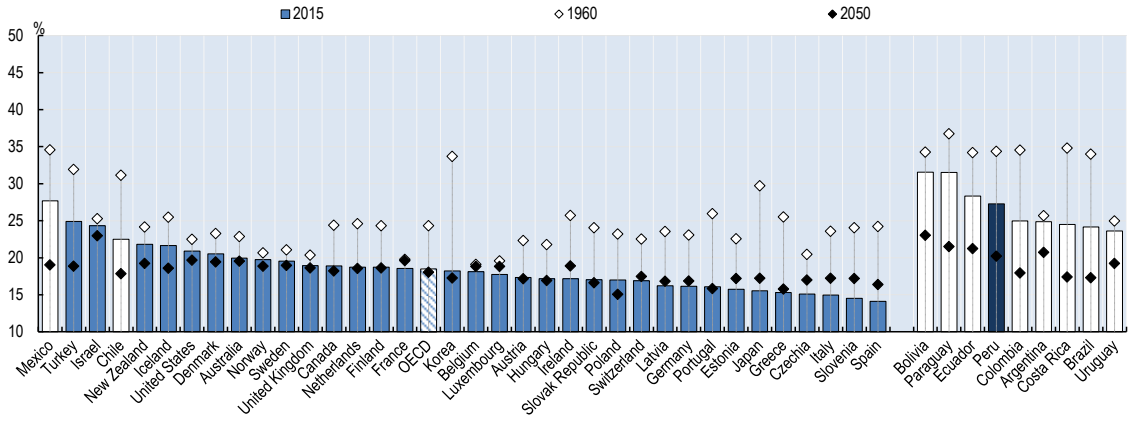
- ***While high, the share of youth in the working age population in Peru is expected to fall in the years to come.*** Although this will release some of the pressure on the youth labour market, the share of the working age population will correspondingly shrink. As a result, there will be fewer opportunities to benefit from the growth dividend associated with the demographic transition.
- ***The Peruvian youth labour market is characterised by relatively low inactivity rates (39.2%), alongside low unemployment rates (8.7%).*** However, the overall youth employment figures hide significant differences between groups. Young women have lower employment rates than young men (52.1% compared to 60%). In addition, employment outcomes are far worse for young people living in the more deprived inland areas of the South, the Andean highlands and the Amazon regions.
- ***One key issue for Peru is not the lack of jobs, as such, since open unemployment tends to be low.*** Rather, it is the lack of quality jobs that raises the greatest concerns. The inadequacy of social security forces workers to accept subsistence-level occupations.
- ***Young people from vulnerable families, particularly in the poor rural areas, the least educated youth and young women are more likely to have an informal occupation.*** NEET rates vary significantly across groups of young people with more than one in four young women in Peru being NEETs, compared to less than one in five for men.
- ***Although unemployment rates are high among university graduates, youth with a university degree are significantly less likely to be NEET.*** These youth represent a relatively small share of the total unemployed youth.
- ***By age 15, roughly one fifth of the youth population has dropped out from formal education and by age 17-18 at least half has left.*** Both figures are high in the comparison with the OECD countries and other LAC countries.
- ***Estimate analysis suggests that in 2014 the extent of the forgone productivity associated to the NEETs ranges between 1.5 and 2.5% of Peru's GDP.*** By comparison, the estimate for the OECD ranges between 0.9 and 1.5% of the OECD GDP in the same year.

1.2. Youth make up for a large but rapidly declining share of the working age population

Over a quarter of Peru's working age population (ages 15-64) is young (15-24), compared to under a fifth on average among OECD countries (Figure 1.1). While the share of youth in the working age population in Peru is expected to fall to just above 20% by 2050, this will still be relatively high by OECD standards and will place Peru towards the high end of what is forecast for the selected LAC countries included in Figure 1.1.

Figure 1.1. Share of youth in the working age population, Peru, OECD and selected Latin American countries

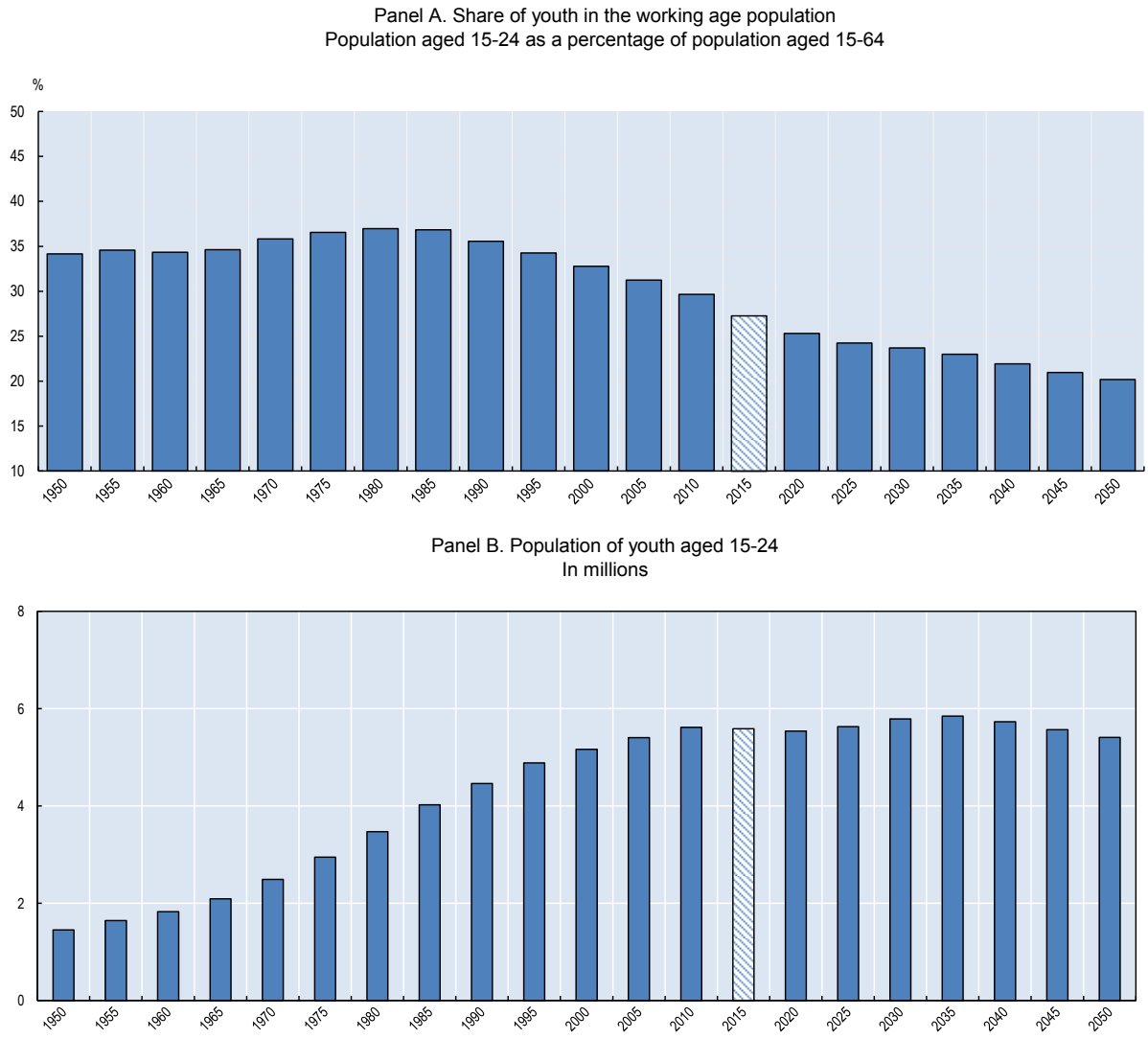
Population aged 15-24 as a percentage of the population aged 15-64



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017), *World Population Prospects: The 2017 Revision*.

Peru's rapid demographic transition can be traced back to the country's dramatic declines in average fertility and mortality. Campaigns and actions in relation to family planning from the early 1960s (Velikoff, 2011) resulted in the average crude birth rate falling from 47 in 1960 to 20 in 2015 – although it is important to underline that regional and urban-rural variations are significant within Peru. At the same time, advances in health and education, led the life expectancy to rise from 48 to 75 years over the same period. Reflecting these patterns, the proportion of youth in the working age population reached a peak in the first half of the 1980s and has been trending down since 1985 (Figure 1.2, Panel A). In perspective, this proportion is expected to fall incessantly throughout the first half of the 21st century, with the youth population also beginning to contract in absolute terms by around 2040 (Figure 1.2, Panel B). In turn, the fall in the share (and number) of youth in the working age population will ease some of the pressure on the labour market for youth in the decades to come. At the same time, it will mean that the share of the working age population will shrink, thus lessening the opportunities to benefit from the growth dividend associated with the demographic transition.

Figure 1.2. Youth population in Peru, 1950-2050



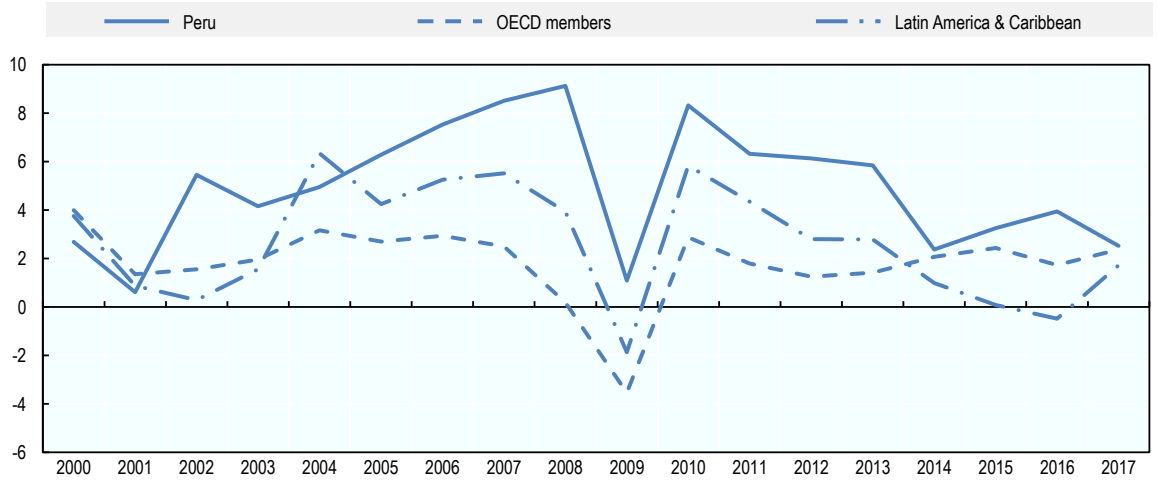
Source: United Nations, Department of Economic and Social Affairs, Population Division (2017), *World Population Prospects: The 2017 Revision*.

1.3. Prima facie evidence suggests that Peruvian youth do not perform badly in the labour market

Broadly speaking, the youth labour market in Peru has remained fairly robust and resilient since the early 2000s, notwithstanding the effects of the global financial crises (Franco and Ñopo, 2018). This outcome was helped by an overall stronger economic climate than observed across both the OECD and LAC countries (Figure 1.3). As of 2017, close to 56% of youth were in employment, compared to about 40% across the OECD (Figure 1.4, Panel A). In the comparison with the regional countries, Paraguay, Bolivia, Ecuador, and Argentina, countries with shares of youth in the working age population not too dissimilar to that of Peru, had youth employment rates of about 50%, 39%, 41% and 31%, respectively in the same year. Peruvian youth labour market is characterised by low

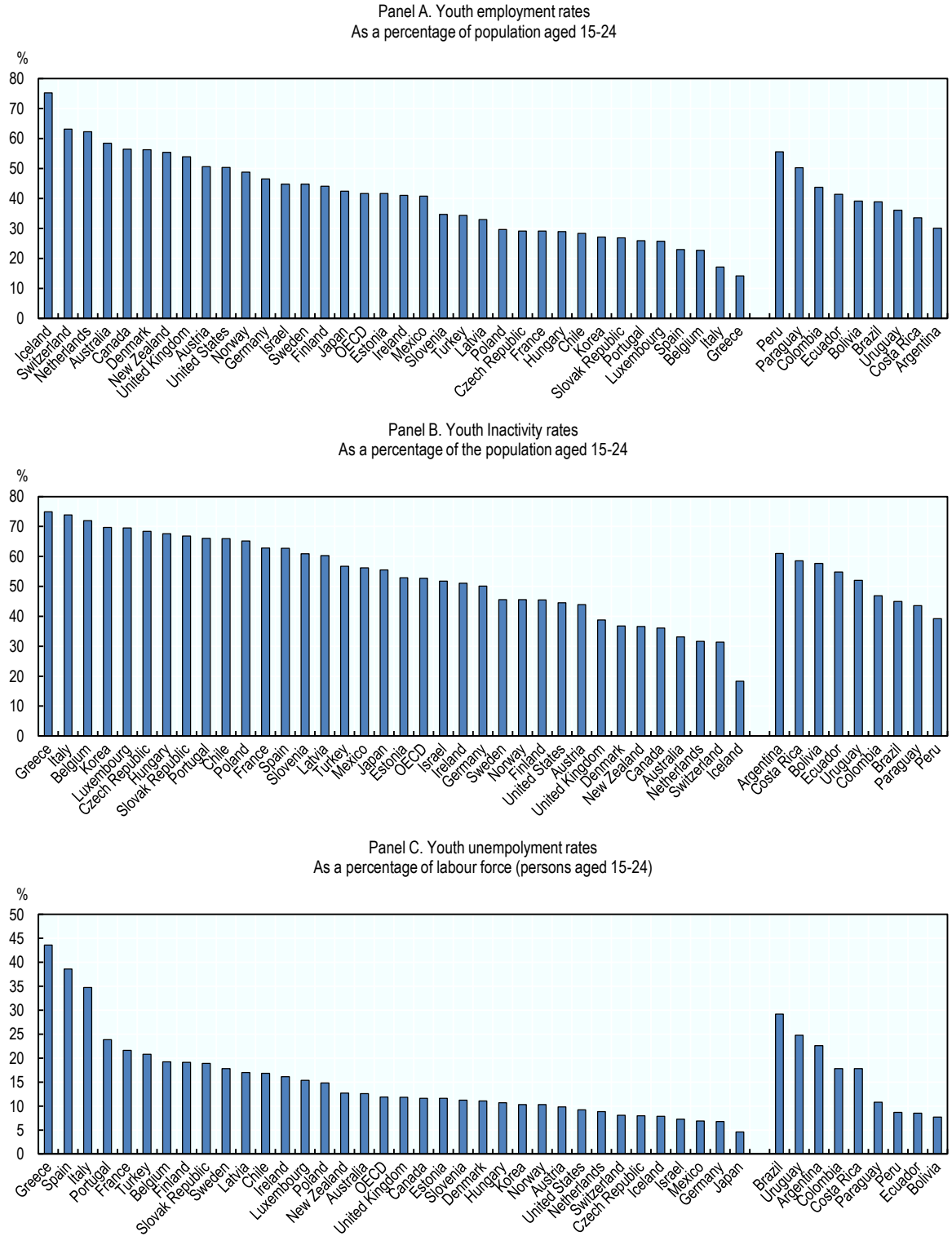
inactivity rates (39.2%, versus 53.7% across the OECD), alongside low unemployment rates (8.7%, compared to 15.1% across the OECD). On both accounts Peru performs comparatively well also by LAC standards.

Figure 1.3. Annual real GDP growth, Peru, OECD and Latin American and Caribbean countries



Source: World Bank, *World Development Indicators* and OECD.

Figure 1.4. Labour force status of youth (15-24), Peru, OECD and selected Latin American countries, 2017



Source: OECD Employment Database and ILO.

1.4. However, some youth fare much worse than others

The above relatively favourable aggregate pattern masks important labour market differences across groups of Peruvian youth. Young women have significantly lower employment rates than young men (52.1% compared to 60%, Figure 1.5; Atal, Ñopo and Winder, 2012, and OECD, CAF and ECLAC, 2017 and 2016 provide regional discussions across LAC countries). Such a marked gap in employment by gender is almost entirely explained by the higher inactivity rates of young women than young men (43%, compared to 34.6%), given that the unemployment rates for the two groups differ only marginally (8.5% as compared to 8.4%, respectively). In addition, labour market outcomes vary significantly by region, with employment outcomes being worse for young people living in the more deprived inland areas of the South, the Andean highlands and the Amazon regions. The role played by local circumstances is important when addressing youth challenges in Peru. For example, non-wage employment is more pervasive in rural areas. At the same time, the large majority of Peruvian youth is urban, amounting to about 78% of those aged 15-29 (SENAJU, 2015).

Interestingly, the employment outcomes of youth with tertiary education are not necessarily better than their peers with lower educational outcomes in Peru. If anything, the most recent figures show that high skilled youth (i.e. graduates) face an even higher risk of unemployment. Specifically, in 2017 their unemployment rate was 14.6%, compared to 8.7% for medium skilled (i.e. with at most finished secondary education) and 7.3% for unskilled youth. This comparatively high unemployment rate reflects the fact that the number of students graduating with tertiary education qualifications has considerably increased over time in Peru. An over-supply of university graduates in relation to demand may be expected to lead to a considerable degree of over-qualification as highly educated young people are forced to accept positions that require less education - at least in the short-run, before firms have the chance to adapt their productive processes to make the best use of the available human capital. Moreover, the quality of education seems to have deteriorated overtime (Box 1).

Box 1.1. Challenges related to the quality of education in Peru

Recent OECD analysis suggests that the expansion in access to tertiary education in Peru may have come to the detriment of quality. This finding partly reflects the fact that a large part of the many universities that have been created in the past 15 years rely on part-time lecturers and few full-time professors (Castro and Yamada, 2013; Brunner and Hurtado, 2011). An excessive fragmentation, may have affected both teaching quality and course content.

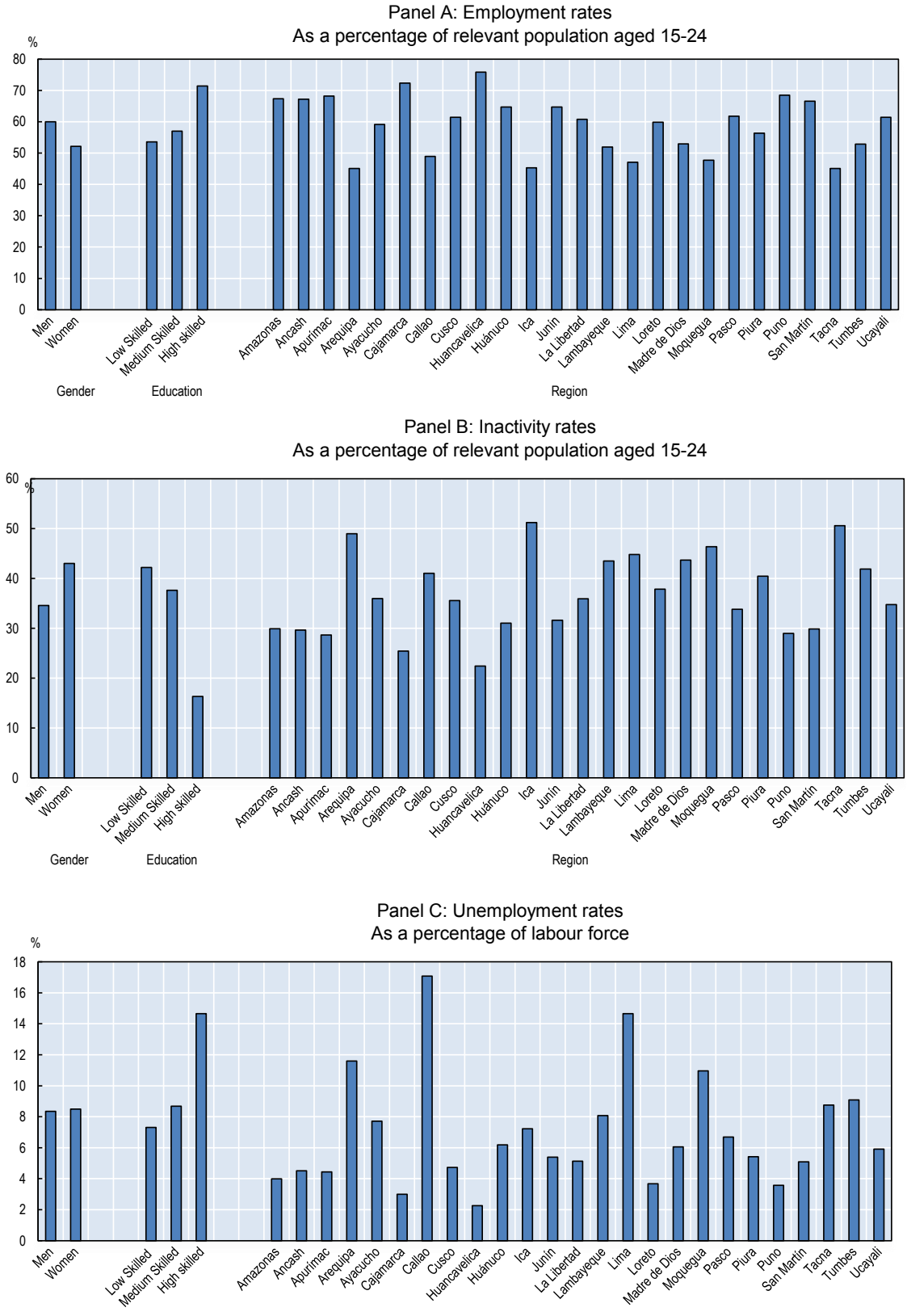
In addition, private financial incentives and funding allocation formulas that prioritise higher enrolment numbers over responsiveness to labour market demands have prompted higher education institutions (HEIs) to expand their programs in popular subjects (e.g. business administration and accounting and finance), which has generated growing mismatches in qualifications and field of studies. Furthermore, students may not be adequately prepared to align their field of study choices with the needs of the labour market.

All in all the skills possessed by Peruvian youth graduating with a higher education degree do not always adequately reflect their level of formal qualification, which slows the transition to quality jobs and fuels widespread sentiments of occupational inadequacy. These issues will be further discussed in Chapter 3, which provides an in-depth analysis of the supply and demand for skills in Peruvian labour market. In particular, the chapter suggests that the limited demand for skills may largely inflate the misalignment between skill supply and needs of the labour market.

Source: OECD, 2016.

In order to set this discussion in context, it is important to recall that university graduates represent a minority of the young unemployed: in 2017, only about 6% of unemployed youth had a tertiary qualification, compared to 65% and 29% with at most secondary and primary qualifications, respectively. As shown below, despite the high unemployment rate university graduates are less likely to be neither in employment, nor in education or training (NEET) than those with less education. Furthermore, research on the returns to education indicates that obtaining a tertiary qualification in Peru is worth the investment, although this evidence varies depending upon the field of study and the quality of education institution (Espinoza and Urzùa, 2015). This suggests that the unemployment rate is probably higher for those with low-quality education.

Figure 1.5. Youth labour market outcomes by socio-demographic characteristics, Peru, 2017



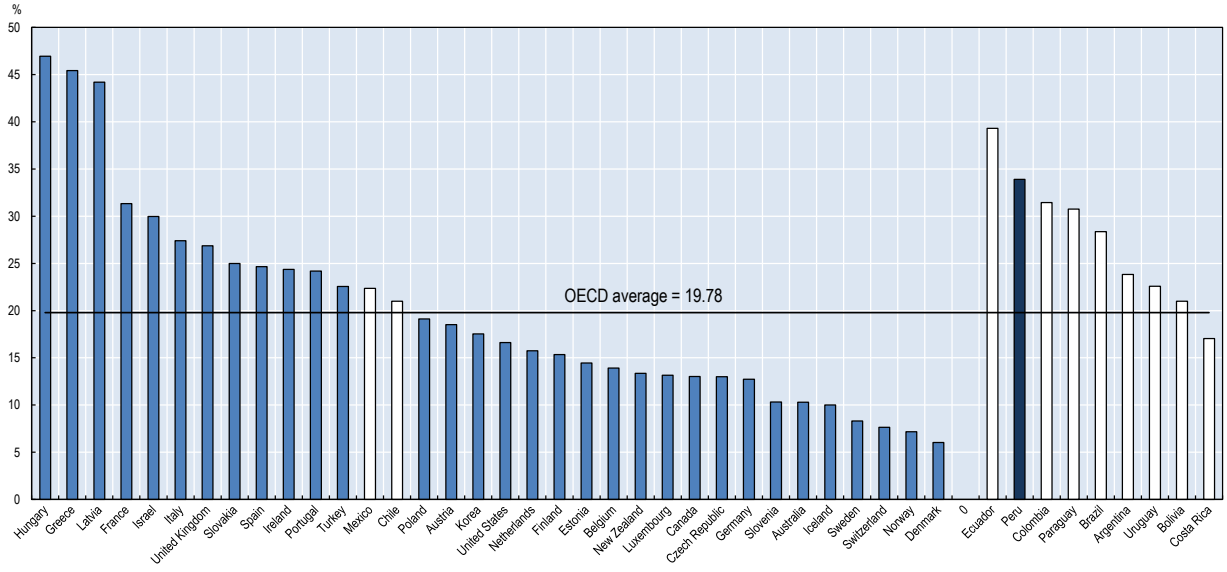
Note: Low-skilled refers to education lower than upper level secondary school; Medium-skilled refers to education lower than a bachelor equivalent tertiary degree; High-skilled corresponds to a bachelor equivalent tertiary degree or higher. Tertiary education refers to University and non-University tertiary education.
Source: OECD calculations based on *Encuesta Nacional de Hogares* (ENAHO, National Household Survey), 2017.

1.5. Heterogeneous labour market outcomes are associated with low levels of well-being

The lack of equal labour market opportunities across groups of Peruvian youth is closely related to their financial vulnerability and their perception of economic risk (OECD, 2017). 33.9% of Peruvian youth affirm that they find it difficult, or very difficult, to get by with their present household income -- as opposed to living comfortably, or getting by (Figure 1.6). This evidence compares to an OECD average of about 20% and places Peruvian youth towards the worse-off end of the LAC countries shown in Figure 1.6. As a counterpart of the difficulty to cope financially, the indicator of self-reported well-being is in Peru about the same of the least satisfied OECD countries and the lowest among a selection of regional comparators (Figure 1.7).

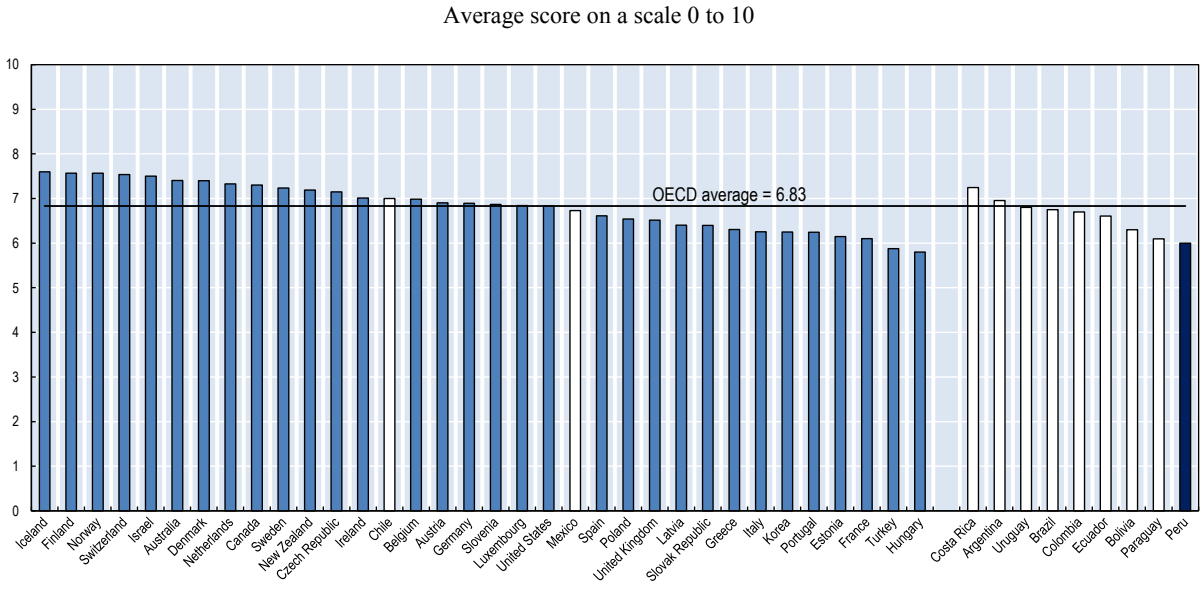
Figure 1.6. Youth perceptions about household income, Peru, OECD and selected Latin American countries, 2015-16

Percentage share of those finding it difficult or very difficult to live comfortably on present income



Note: The indicator is calculated based on the following question: *Which one of these phrases comes closest to your own feelings about your household income these days? Including possible responses: i) Living comfortably on present income; ii) Getting by on present income; iii) Finding it difficult on present income; iv) Finding it very difficult on present income.* Data refer to the 15-29 age bracket and the average between 2016 and 2015. For Australia the average is calculated for 2013-2014; Finland 2014-2015; New Zealand and Switzerland 2014 and 2016; for Iceland data refer to 2015. OECD average is an unweighted average of 34 countries.
Source: OECD calculations based on *Gallup World Poll*.

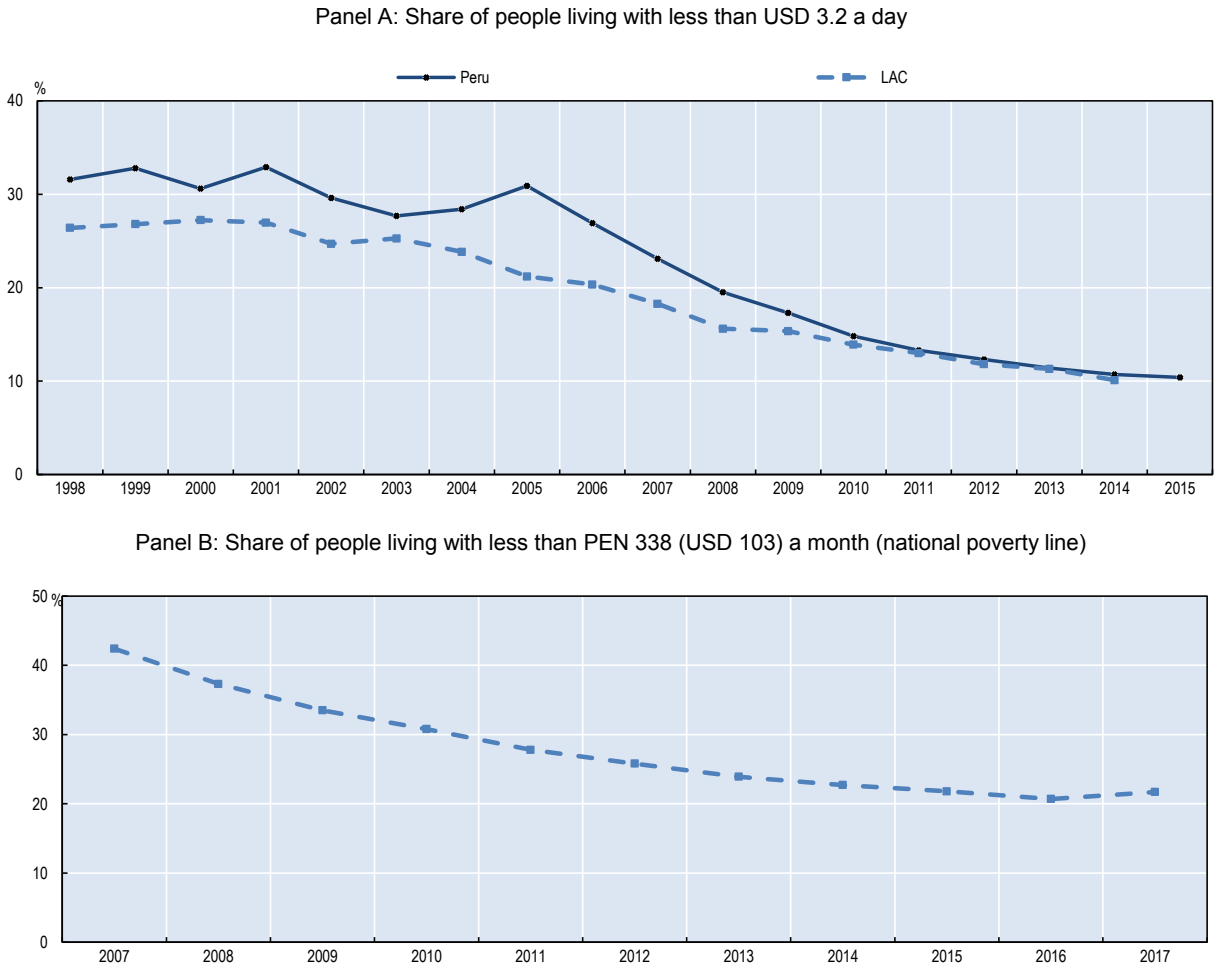
Figure 1.7. Youth self-reported perception of life satisfaction, Peru, OECD and selected Latin American countries, 2015-16



Note: The indicator is calculated based on question: *"Please imagine a ladder with steps numbered from 0 at the bottom to 10 at the top. Suppose we say that the top of the ladder represents the best possible life for you, and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time, assuming that the higher the step the better you feel about your life, and the lower the step the worse you feel about it? Which step comes closest to the way you feel?"* Data refer to 15-29 age bracket and the average between 2016 and 2015. For Australia the average is calculated for 2013-14; Finland 2014-15; New Zealand and Switzerland 2014 and 2016; for Iceland data refer to 2015. OECD average is an unweighted average of 34 countries.
Source: OECD calculations based on *Gallup World Poll*.

Beyond self-reporting, other socio-economic indicators point to tensions in the economic and social situation of Peruvian youth. The Gini index, a standard measure of income inequality that ranges from 0 (when everybody has identical incomes) to 1 (when all income goes to one person) has declined from 0.51 in 2005 to 0.44 in 2015, thus placing Peru at the low-end of the LAC comparison. However, it remains high compared to the OECD average and it has stagnated in recent years. Almost two decades of remarkable economic growth have enabled the country to reduce the poverty headcount ratio (measured at USD 3.2 a day) from about 30% to 10%, a comparatively stronger decline than across the LAC countries (Figure 1.8, Panel A).Despite this positive dynamic, recent data using the benchmark of the national poverty level, show that the share of individuals living below 338 PEN per month, corresponding to the level at which the benchmark is fixed (approximately equal to USD 103), has increased by one percentage point in 2017 (Figure 1.8, Panel B). This was the first rise in a decade. Poverty remains high for the rural population and particularly among children. In rural areas, 25% of the population is poor, which is more than five times higher than the corresponding share in urban areas (4.5%). Most worrying, the distribution of poverty is concentrated on the youngest age brackets in Peru -- 12% of children aged 0-14 live in poor households compared to 7.2% of working age population 15-64. In 2017 more than one and a half million Peruvian youth 15-29 lived in conditions of poverty (about 1.3 million), or extreme poverty (about 257 thousands).

Figure 1.8. Evolution of poverty



Note: In panel A Data for the LAC average for 2000, 2001, 2003, 2004, 2006, 2007 and 2009 are interpolated through linear interpolation techniques; data for 1998 and 2014 are extrapolated through linear extrapolation technique. Data for 2015 are not available and extrapolation cannot be carried out with confidence.
Source: WB, *World Development Indicators* for Panel A and Instituto Nacional de la Estadistica e Informatica (INEI, National Statistical and Informatics Institute, 2018) for Panel B.

1.6. The quality of jobs for youth is poor

Much like what can be observed in most emerging economies, the main challenge in Peru is not the lack of jobs, since open unemployment tends to be relatively low. Rather, it is the lack of quality jobs that raises greatest concern. Job quality is difficult to measure given that it encompasses a range of dimensions that can be complex to identify, particularly in the context of the emerging economies. The *OECD Job Quality Framework* (OECD, 2014) measures job quality along three dimensions: earnings quality (the level and distribution of earnings); labour market security; and the quality of the work environment. The main dimensions of the framework have been adapted to reflect the key features of the labour markets of emerging economies. Box 1.2 provides a detailed discussion of the *OECD Job Quality Framework*.

The international comparison across the above three dimensions shows that Peruvian youth score low on average in terms of job quality, both compared to the average of the OECD countries and the levels observed in other emerging economies (see Figure 1.9). Specifically, Peru has one of the lowest earnings quality across the eleven emerging economies reported in the figure, reflecting a gap in average earnings and higher levels of earnings inequality. Labour market insecurity due to the risk of unemployment is below the OECD average in Peru and the lowest across the emerging economies that are sampled in this analysis (Figure 1.9, Panel B). In part, this evidence reflects the weakness of social insurance scheme, which makes unemployment unaffordable and pushes many youth workers into jobs of 'last resort'. Indeed, as concerns unemployment insurance, the average effective replacement rate is much lower in Peru than in the average OECD country. In many other emerging economies the low unemployment risk reflects the sheer unaffordability of unemployment when social insurance is inadequate (Figure 1.9).

Box 1.2. The OECD Job Quality Framework

Job quality refers to multiple aspects of employment that contribute to the well-being of workers. The multi-dimensional character of job quality is discussed in the chapter "How good is your job? Measuring and assessing job quality" of the *2014 OECD Employment Outlook* (OECD, 2014), which proposes to evaluate job quality along three key dimensions that have been shown in the existing literature to be particularly relevant for workers' well-being. These are *earnings quality, labour market security,* and *quality of the working environment*. The chapter "Enhancing Job Quality in Emerging Economies" of the *2015 OECD Employment Outlook* (OECD, 2015) adapts this framework to the context of emerging economies.

Earnings quality is characterised in terms of the level of earnings and its distribution. The need to take into account these two aspects reflects their importance for well-being. First, levels of earnings and subjective well-being, as measured by life satisfaction, are positively correlated across countries as well as between individuals within countries. Second, for a given level of average earnings, overall well-being tends to be higher the more equal its distribution. This reflects the evidence pointing to life satisfaction rising at a decreasing rate as earnings rise and that people tend to display an intrinsic dislike of high inequality in society (inequality aversion).

Labour market security is defined in terms of unemployment risk as well as the probability of falling into extremely low pay. Unemployment risk encompasses both the probability of becoming unemployed and the average expected duration of unemployment spells. As such, it gives an indication of the expected amount of time an average person is likely to spend in unemployment in a given year. Insurance against the risk of unemployment is captured in terms of both unemployment benefit coverage and benefit generosity. New evidence suggests that the perception of unemployment risk and insurance protection are important determinants of life satisfaction among the employed. However, the lack of a widespread social protection system in many emerging economies means that unemployment is unaffordable in these countries since workers have to take up jobs of last resort to mitigate the drop in consumption. Thus a useful complementary dimension of labour market insecurity is the risk of falling into undesirable jobs out of necessity. The Job Quality Framework 2015 defines this dimension as a threshold of extreme low pay.

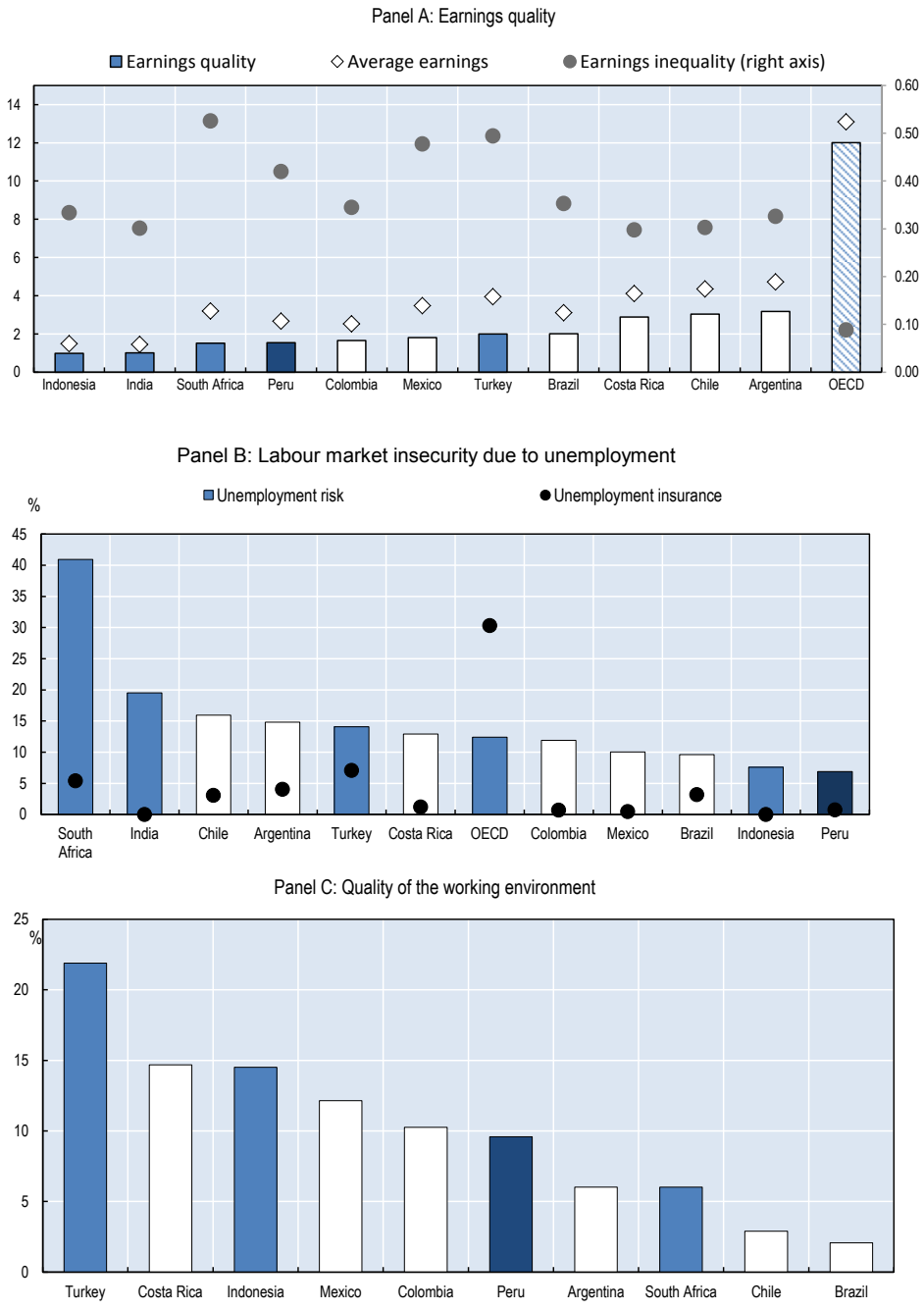
The quality of the working environment relates to the nature and intensity of work performed, the organisation of work and the working atmosphere. This is an important driver of individual well-being and depends crucially on whether workers have autonomy in their job, are given learning opportunities and well-defined work objectives, and also

receive constructive feedback. Good relationships with colleagues are also important. When jobs and workplaces combine these factors, people are more apt to manage work pressure and difficult tasks, while also tend to be healthier, more satisfied with their job and more productive. In the Job Quality Framework 2015 this dimension is approximated by the incidence of long working hours, i.e., the probability of working more than 60 hours a week. This adjustment allows broadening the coverage of emerging economies, as well as facilitating the breakdown between formal and informal jobs. Available evidence supports the validity of this approach and points towards a strong positive correlation between job strain and long working hours across a broad group of countries where both measures are available.

Source: OECD (2014), *OECD Employment Outlook 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2014-en.

OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, http://www.oecd-ilibrary.org/employment/oecd-employment-outlook-2015_empl_outlook-2015-en.

Figure 1.9. Job quality outcomes for youth (15-29), Peru and selected emerging economies in the comparison with the OECD average

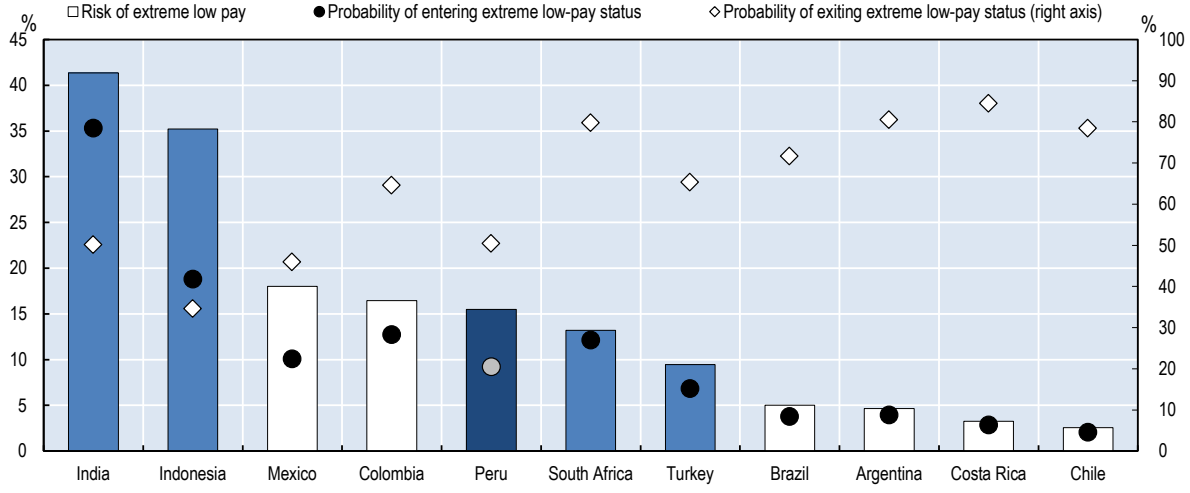


Note: The OECD Job Quality Framework identifies three pillars of job quality: (1) gross hourly earnings in USD, adjusted for inequality; (2) expected monetary loss associated with becoming and staying unemployed as a share of previous earnings; (3) incidence of very long working hours, measured as the percentage of employed people working more than 60 hours in an average week. Data refer to 2010, except for Brazil (2009), Chile (2009), India (2011) and Peru (2014).

Source: OECD calculations based on national household and labour force surveys (*OECD Employment Outlook*, Chapter 5. http://www.oecd-ilibrary.org/employment/oecd-employment-outlook-2015_empl_outlook-2015-en). Data for Peru come from ENAHO survey for 2014.

There are reasons to maintain that the pressure to accept low quality jobs may be comparatively strong in Peru. Figure 1.10 plots the risk of extreme low-pay estimated using the methodology proposed by Dang et al. (2011) and extended by Dang and Lanjouw (2013). This methodology allows for deriving an estimate of upward mobility (the probability of transitioning out of low pay) and an estimate of downward mobility (the probability of transitioning into low pay; see OECD (2015) for a detailed discussion of the methodology). The two can be combined to obtain a measure of the risk that a "random" youth worker in the economy will be in a low-paying occupation at a given point in time. The results show substantial variation in the risk of extreme low-pay among the countries analysed. Interestingly, however, Peruvian youth stand out for scoring towards the high end of the risk spectrum, reflecting a combination of high downward mobility and low upward mobility.

Figure 1.10. Labour market insecurity due to extreme low pay, Peru and selected emerging economies



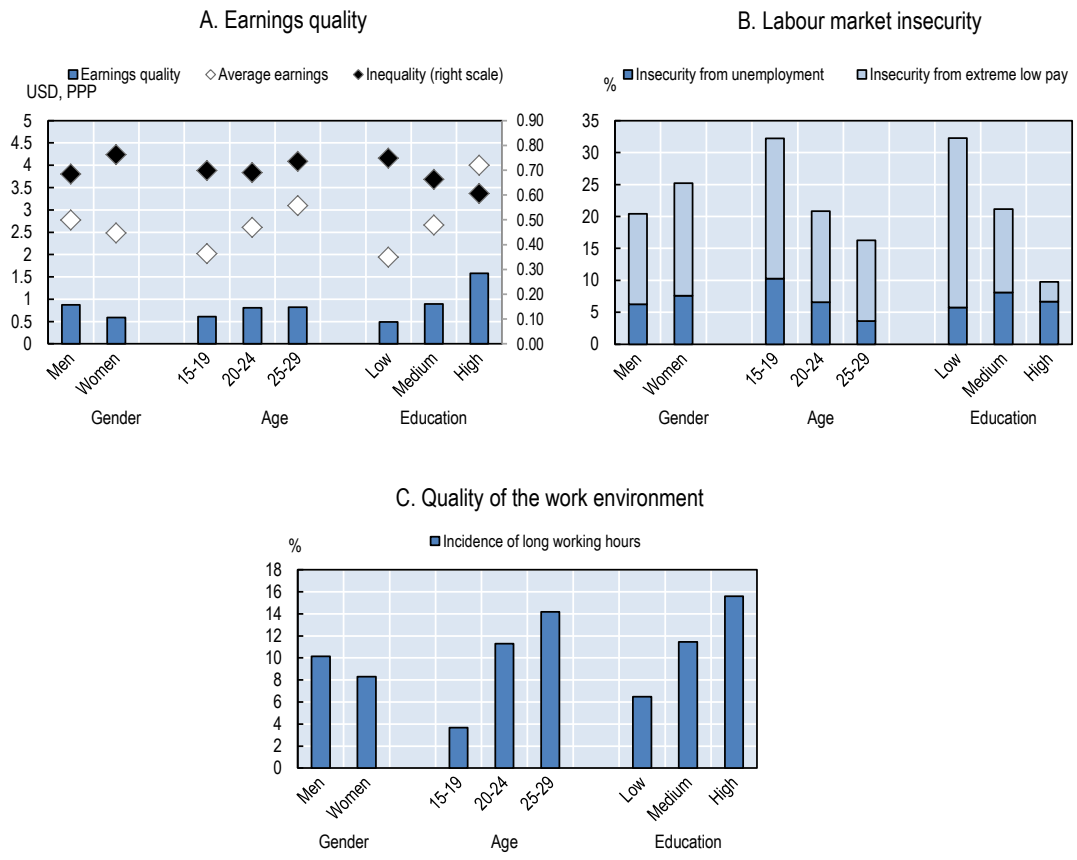
Note: The low pay threshold is set at USD PPP 1 in terms of net hourly earnings and corresponds to a disposable income per capita of USD PPP 2 per day in a typical household of five members with a single earner working full time.
The probabilities of entering and exiting low pay status are calculated using the methodology proposed by Dang and Lanjouw (2013). The risk of extreme shows the likelihood that an individual's earnings are below the low pay threshold at any given time. Data refer to 2010, except for Brazil (2009), Chile (2009), India (2011) and Peru (2014).
Source: OECD calculations based on national household and labour force surveys (*OECD Employment Outlook*, Chapter 5. http://www.oecd-ilibrary.org/employment/oecd-employment-outlook-2015_empl_outlook-2015-en). Data for Peru come from ENAHO survey for 2014.

The quality of the working environment can be captured by the incidence of very long working hours. The choice of this approximation reflects the fact that more detailed information on working conditions is typically scarce and limited in scope in emerging economies. Figure 1.9 Panel C, displays the incidence of working more than 60 hours a week, which is the maximum authorised in the countries with the most permissive working time legislation among those included in this chapter (i.e. Colombia and Costa Rica). In Peru, roughly 10% of young workers in a typical week spend more than 60 hours at work in their principal occupation, which places the country in the middle of the distribution among other emerging market economies. When considering the overall

time of work in the principal and secondary occupation the proportion of young people who work more than 60 hours is higher. Nevertheless, young Peruvians are less likely to work excessive hours than prime age and older populations, which may reflect the fact that they are more likely to be underemployed and to work part-time.

Looking at how different groups of youth fare within Peru, allows shedding additional light on the labour market inequalities discussed in the previous section. To this end, Figure 1.11 presents the break-down of the principal job quality indices and employment rates by gender, age and level of education for Peruvian youth. The results show that some socio-demographic groups cumulate many disadvantages, while other groups show a good performance in all dimensions.

Figure 1.11. Job quality by socio-demographic characteristics in Peru, 2014



Note: Calculations for earnings quality correspond to high inequality aversion scenario (α= - 3) and average earnings correspond to net hourly earnings. Inequality is measured by Atkinson Index.
Source: OECD calculations based on ENAHO survey for 2014.

The most disadvantaged youth in terms of job quality are women and low-skilled workers. The above discussed low employment rates for these two groups are compounded by poor outcomes along the different dimensions of job quality. On average, for example, young men earn 10% higher hourly wages than young women and face lower wage inequality. This gap among youth at early stage of careers is non-negligible, in light of the fact that wage differences typically tend to increase over the work life.

Young males are also at an advantage in terms of labour market security, since their exposure to both risks of unemployment and low earnings appears to be lower. Notably, young females are 25% more likely to fall below the extreme low pay threshold than young males and face a 1.4 percentage points higher risk of being unemployed. Young men also have a higher propensity than young women to work long hours. Notably, they work on average five more hours a week than women, which may reflect differences in caring responsibilities and the fact that men have higher chances to be in full-time employment than women.

Educational differences have a strong impact on the job quality of Peruvian youth. Education has a clear pay-off in relation to youth earnings, with the average hourly wage for individual youth with tertiary education being twice as high as for those with only primary education. Whereas over 25% of low-skilled workers are trapped in occupations with wages that do not allow meeting even basic needs, the risk of the extreme low pay among individuals with tertiary education is drastically reduced (to a small 3%). The unemployment risk for individuals with tertiary education is low, compared to medium–skilled individuals, although it is even lower for the low-skilled youth. Nevertheless, the low-skilled workers typically face the biggest problems of finding full-time employment, whereas most individuals with tertiary education work full time, with even a propensity to work over-time.

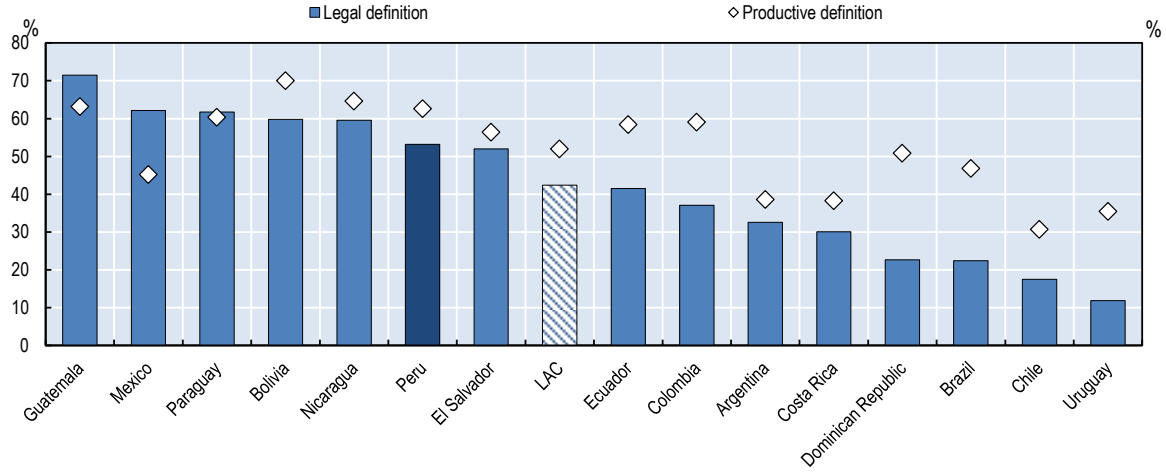
Youngest workers aged 15-19, who typically have the lowest skills and earn the lowest wages, face particularly high risk of low pay and of unemployment. The youngest workers typically are underemployed and tend to work only part-time -- some 25 hours on average per week. With age, as levels of education and/or work experience increase, hourly wages and earnings quality also increase, along with steadily decreasing labour market risks, while opportunities to find better quality occupations on a full time basis improve.

1.7. Informality acts as a driver to inequality

In a pattern common to most LAC countries, informality for wage and salary workers has declined in the past decade in Peru. Nevertheless, it still affects more than 50% of workers (taking into consideration dependent workers), somewhat higher than the region's average (Figure 1.12). Youth are more likely than adults to work in the informal sector or in other unprotected work in the formal sector. Although youth informality has decreased by almost fifteen percentage points over the past ten years -- a decline similar to that of the overall rate of informality -- around 65% of Peruvian youth employees continue to work under informal conditions (Figure 1.13). Individuals from vulnerable populations, particularly in the poor rural areas, the least educated, women and teenagers are more likely to have an informal occupation.

Figure 1.12. Informality rates, Peru and selected Latin America countries

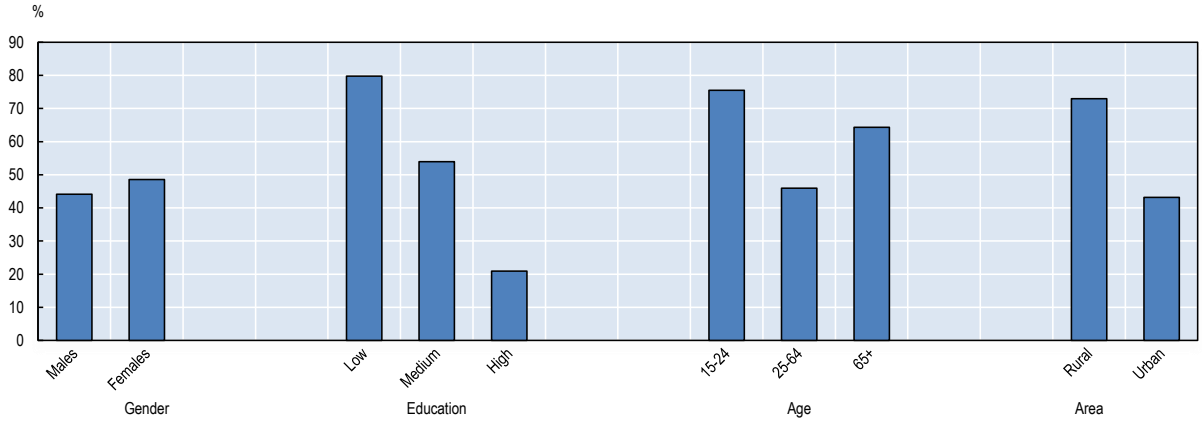
As a percentage of all dependent workers (legal definition) and of all workers (productive definition) aged 15-64, 2015



Note: Legal definition of informality: a worker is considered informal if (s)he does not have the right to a pension when retired. For cross country comparability, rates are calculated for wage and salary workers only. Productive definition of informality: a worker is considered informal if (s)he is a salaried worker in a small firm, a non-professional self-employed, or a zero-income worker. The LAC average is the unweighted average of the 15 countries shown in the figures. Data for Argentina are only representative of urban areas and wage workers.
Source: SEDLAC Database by CEDLAS and the World Bank.

Figure 1.13. Informality by socio-demographic characteristics in Peru

As a percentage of relevant subpopulations of dependent workers, 2015



Note: The figure depicts the rates of informality according to legal definition. A worker is considered informal if (s)he does not have the right to a pension when retired. Decompositions by Gender, Education and Location refer to population of prime-age dependent workers aged 25-64. Decomposition by age groups refers to relevant subpopulations of dependent workers.
Source: SEDLAC Database by CEDLAS and the World Bank.

Starting in the informal sector can result in very different labour market outcomes. Using the *OECD Job Quality Framework,* Figure 1.14 suggests that informal jobs are worse along all dimensions of job quality:

- Informal workers earn significantly less on average than formal workers and earnings inequality is also relatively higher among informal workers. Accordingly, the level of earnings quality is substantially lower for informal workers than for formal workers. Lower wages for informal workers are consistent with the perception that informal jobs are less productive (OECD, 2015b, 2016b).
- Informal jobs tend to be associated with a significantly higher incidence of extreme low pay. The risk of falling below the extremely low pay threshold is roughly six times higher for informal workers than for formal workers. Moreover, the analysis of upward and downward earnings mobility reveals that downward mobility is generally higher in informal jobs, whereas upward mobility is significantly larger in formal jobs.
- The share of employees working very long hours is somewhat lower for workers in informal jobs. This may reflect the fact that they often do part-time jobs, which might compound the problem of low wages, inflating the discrepancy in monthly earnings between formal and informal workers and supposedly also between men and women.

All in all, the evidence provided using the prism of the job quality approach suggests that the paths taken by the many Peruvian youth who work in the informal sector are likely to be very different from what happens to the youth working in the formal sector. These contrasting dynamics compound the segmentation of the Peruvian labour market (see Chapter 2).

Figure 1.14. Job quality among formal and informal workers in Peru, 2014

Note: Informality is defined using the legal definition, i.e. a worker is considered informal if (s)he does not contribute to any pension scheme nor accumulates rights to a retirement pension in the old age. Only dependent workers are considered. Labour market insecurity due to unemployment is not estimated, given lack of unemployment insurance for informal workers by construction.
Source: OECD calculations based on ENAHO survey for 2014.

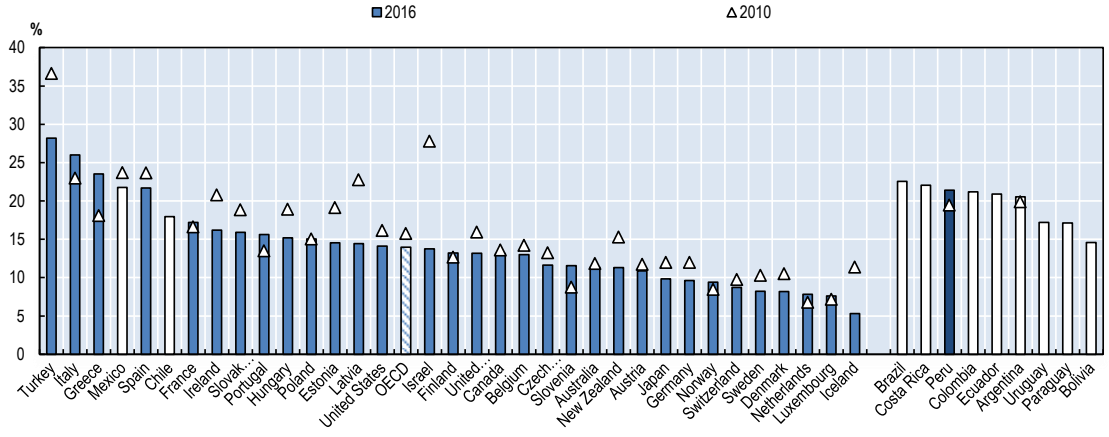
1.8. Portraits of young people at high risk of becoming disconnected from the labour market

Additional insights about the drivers to strongly unequal youth labour markets in Peru are provided by the analysis of the youth who are neither in employment, nor in education, or training -- the so-called NEET group, or *ninis* using the Spanish acronym. These youth form a group at high risk of labour and social marginalisation, especially the longer they remain outside the world of work.

This analysis adopts a wide definition of youth, including all 15-29 year-olds, to allow for the fact that young people remain in education for longer and to include the beginning of family formation. On this basis, in 2016 more than one in five Peruvian youth were NEET, a figure that compares to 13.9% for the OECD taken as an average (Figure 1.15). Within the OECD, only five countries (Turkey, Italy, Greece, Spain and Mexico) have higher NEET rates. In addition, most other LAC countries fare better than Peru. Furthermore, unlike the pattern observed in many other regional and OECD countries, in Peru the NEET rate has increased since 2010.

Figure 1.15. NEET rates, Peru, OECD and selected Latin American countries

As a percentage of the population aged 15-29



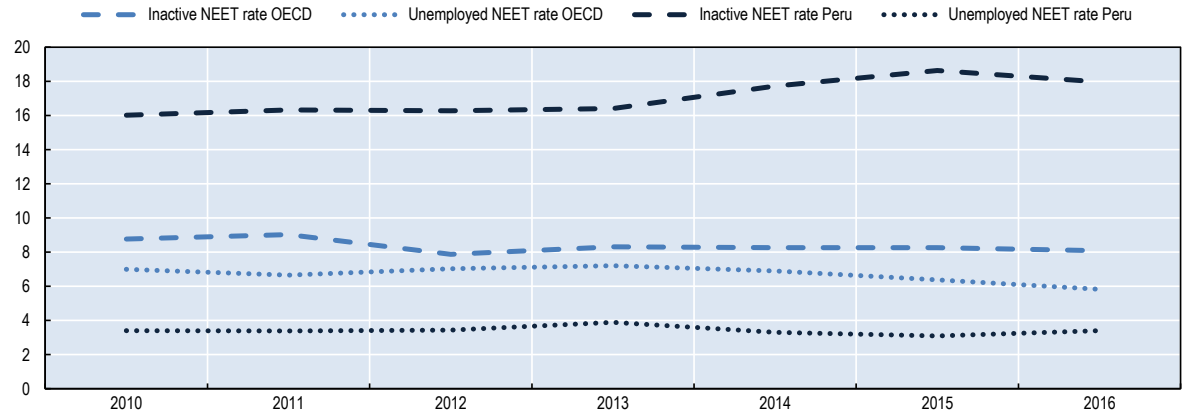
Note: NEET rates refer to young people who are neither employed nor in education or training. Data are for 2016 or the most recent year available (2014 for Bolivia, Ecuador, Paraguay and Uruguay and 2013 for Argentina). For Argentina data cover selected urban areas only. OECD average is an unweighted average of 34 OECD countries. Ranking of LAC countries may be affected by methodological issues associated with using data from different data sources.
Source: OECD Education Statistics for OECD countries, Brazil, Colombia and Costa Rica; CEDLAS and World Bank for Bolivia, Ecuador, Paraguay and Uruguay. Figures for Peru are based on ENAHO surveys for 2010 and 2016.

Figure 1.16 shows the separation between inactive and unemployed NEET rates, which is essential to gauge the extent to which the NEET problem is structural. In Peru, the rate of inactive NEET who do not look for a job accounts for the bulk of the overall NEET rate. Also the OECD countries have a high rate of inactive NEET. However, unlike Peru the split between the two groups is more balanced in the OECD countries. Moreover, in Peru the rate of inactive NEET has trended upwardly in the recent past -- since 2013, it has increased by around 2 percentage points. Thus overall, while in both Peru and the OECD

countries the NEET problem has an important structural connotation, the extent of the challenge seems to be more pronounced in Peru.

Figure 1.16. Unemployed and inactive NEET rates, Peru and the average of the OECD countries

As a percentage of the youth population aged 15-29, 2010-16



Note: Unemployed NEET refers to jobless youth who are available to take up employment and actively search for a job. Inactive NEET refers to the jobless youth who do not look for work.
Source: OECD Education Statistics. Figures for Peru are OECD calculations based on ENAHO surveys for 2010 and 2016.

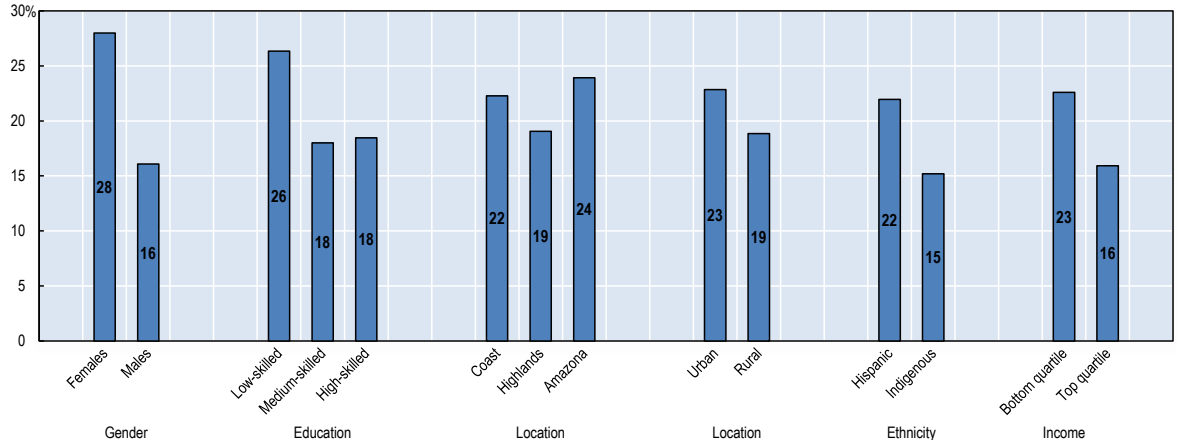
Unsurprisingly, NEET rates also vary significantly across groups of young people (Figure 1.17 and 1.18):

- First, more than one-in-four young women in Peru is NEET (Figure 1.17). Moreover, unlike the share of male NEETs, which decreases steadily and markedly with age, the same share for women is remarkably stable across ages (Figure 1.18). The decline does not begin until around age 25 and is of a considerable less sizeable magnitude than observed for men in the same age. It is important to stress that traditional gender-related division of tasks and family responsibilities, which place the brunt of domestic work and childcare on women, is not the only source of concern (OECD, CAF and ECLAC, 2016). By age 18-19, one in every five females in Peru has already at least one child and is already married or cohabiting. Not only do teenage mothers have lower educational attainments compared to adult mothers, they are frequently marginalised and as a result are much less likely to complete their high school curricula and to continue to study afterwards. Only a tiny portion of the women with small children looks for a job. Their children typically face a higher mortality rate and a higher risk of nutritional deficiencies than the children of adult mothers. Since arguably the educational achievements of these children are low, their own risks of becoming inactive are particularly high, which contributes to perpetuate the structural component of the NEET rate (Favara, Lavado and Sanchez, 2016; see also Chapter 4 for a discussion).
- Second, the bulk of the NEET population appears concentrated in Amazonia (especially in the Northern regions with 25.5% rate) and urban Coast areas (with 26.4% and 22.3% rates, respectively in Callao and Lima, for example).

- Finally, among youth individuals aged 25-29 who have completed education around one-quarter of the low-skilled are NEETs, compared to less than one-fifth among the medium- and high-skilled. The higher probability that early school leavers remain excluded from the labour market is compounded by the fact that they often come from disadvantaged backgrounds. As shown in Figure 1.17, originating from a low income household increases the propensity of becoming NEET by almost 50%.

Figure 1.17. NEET rates by socio-demographic characteristics in Peru

As a percentage of population aged 15-29, 2016



Note: Rates are calculated as shares of population aged 15-29 with the exception of the breakdown by education attainments which refers to population aged 25-29 (i.e. with completed education). The breakdown by levels of income refers to individuals who live with their parents. Low-skilled refers to education lower than upper level secondary school; Medium-skilled refers to education lower than a bachelor equivalent tertiary degree; High-skilled corresponds to a bachelor equivalent tertiary degree or higher. Ethnicity is approximated by the mother language learnt in childhood. Indigenous languages comprise Quechua, Aymara or other native languages. Quartiles of income refer to equivalised household income (i.e., income adjusted for the number of household members).
Source: OECD calculations based on ENAHO survey for 2016.

Figure 1.18. NEET rates by gender, age, and status in Peru

As a percentage of the relevant population, 15-29

Note: Shares are rounded to 1.
Source: OECD calculations based on ENAHO survey for 2016.

1.9. Early school leaving is an issue for concerns

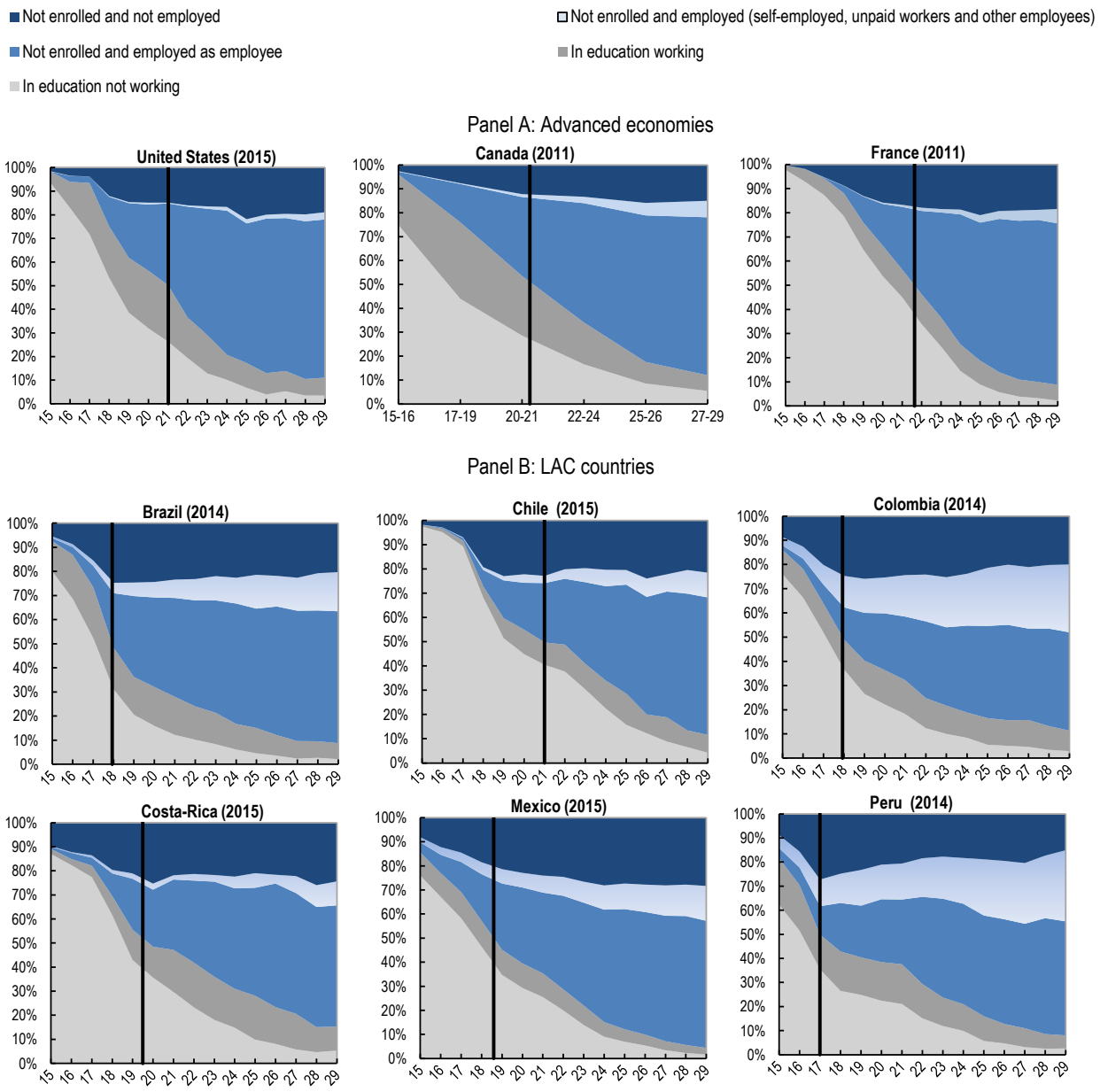
Figure 1.19 illustrates the activity status of youth (15-29) by age, for a selection of advanced economies and LAC countries. Although the years used for the comparison vary across countries, the figure distinguishes between five groups: i) education only; ii) work and study; iii) work only as employee; iv) work only as self-employed, unpaid worker or other atypical employment relationships (notably, casual work); and v) neither in work nor in education (Quintini and Martin, 2014). The vertical bar shows the median age of leaving education, that is, the age at which at least 50% of youth have left the education system. Peruvian youth tend to stay in education shorter than in both advanced economies and most LAC countries taken into account for Figure 1.19. The median age of school leaving is around 17-18 in Peru (as well in Brazil and Colombia), which compares to 21-22 in the advanced economies and Chile; 19-20 in Costa Rica; and 18-19 in Mexico.

Major differences in school enrolment are already evident at younger ages in Peru, as suggested by the fact that by age 15, roughly 20% of the youth population have already left education. Although this situation is common to other LAC countries, it compares with close to 100% enrolment among 15-year-olds in advanced economies (and Chile). These figures suggest that the median young person enters the labour market with, at most, a high-school diploma in Peru and most LAC countries, whereas the same person does so with a few years of tertiary education in advanced economies. In other words, the share of youth leaving education before the typical age of completion of upper secondary education – a proxy for school drop-outs and an education level that experts consider essential to embark on a promising career path – is higher in Peru (and many LAC countries) than it is in the advanced economies.

Data on activity status by single year of age allow getting more insights about what young people do after leaving education. In Peru, Brazil and Mexico, at the median age of school leaving, 25-30% of young people are working as employees or are self-employed or in unpaid work. This is comparable to employment shares at the median age of school leaving in Italy but well below employment shares of 40% or over in Canada and Germany. In addition, Peru with Colombia and, to a lesser extent, Brazil and Mexico have much higher incidences of self-employment and unpaid work among youth than advanced economies, suggesting that under-employment is an issue in these countries. In turn, differences between employment shares are reflected in the observed shares for inactive and unemployed youth not enrolled in education (NEET) at the median age of school leaving.

It is at the level of the youth who combine work with study that the picture portrayed by Peruvian youth is particularly striking. Across different ages, both before and after the age at which at least 50% of youth have left the education system, many are the youth who opt to combine work and study in Peru. It is interesting that in general the countries in Figure 1.19 with the largest proportion of youth who combine work and study also show a low proportion of youth who have a NEET status and/or are under-employed after leaving education. This correlation is consistent with the available evidence, according to which country models that combine study and work are better suited to enable the youth generations achieve a smoother transition from school to work than those taking a study first, then work approach (OECD, 2010). The fact that a similar correlation is not discernible in Peru, suggests that many of the youth who work during their studies chose this option out of necessity. It could also suggest that the services provided by the institutions in charge of combining work and study are of low quality.

Figure 1.19. Activity status by year of age, Peru, selected OECD and LAC countries



Note: The vertical line shows the median age of leaving education, i.e., the age at which at least 50% of youth have left the education system.
Source: OECD calculations from micro data. Estimates for Peru are based on ENAHO survey for 2014.

1.10. Assessing the costs of youth labour market marginalisation

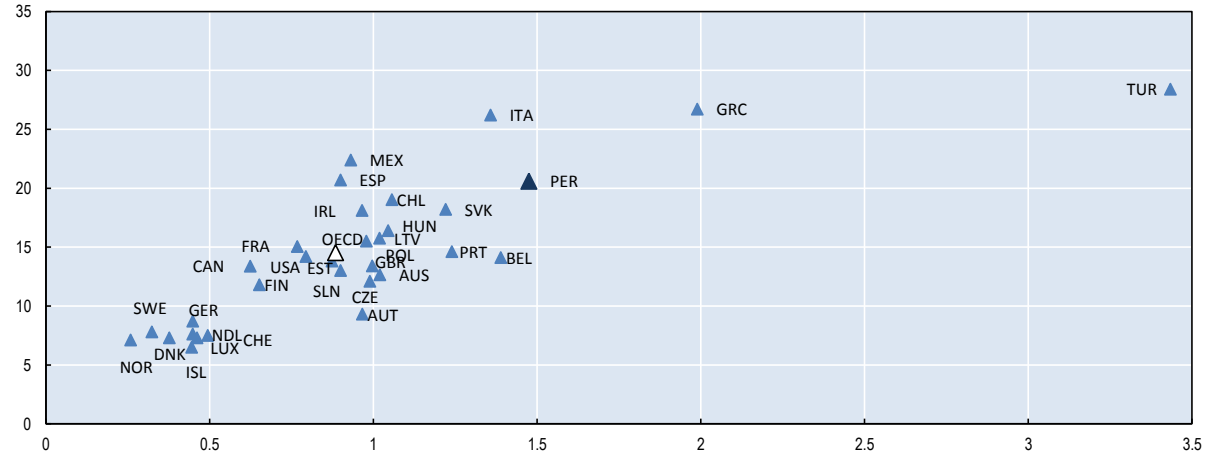
In concluding the chapter, it is useful to get a sense of the macroeconomic losses incurred by Peru due to the high number of NEETs. Applying the methodology used by the latest edition of the OECD publication *Society at a Glance*, NEET costs can be defined as the gross labour income the NEETs could command if they were employed - measured as the gross labour cost, including social security contributions (OECD, 2016c). This provides an approximation of the forgone productivity of NEETs, with three being the estimates

used for the analysis: upper and lower bound estimates, as well as a point estimate. The upper bound estimate assumes that if employed, NEETs would on average receive the same wages and would choose to work the same hours as employed youth of the same gender and age. The lower bound estimate assumes that the NEETs could only command a "low-wage", specified as two-thirds of the median wage among youth of the same gender and age-group. Between these two boundaries, the intermediate point estimate accounts for the fact that jobless young people may have a lower earnings potential than young people in employment. This reflects the fact that the NEETs generally have a lower educational background than other youth, for example, and are more likely to have care responsibilities.

Estimate results suggest that the gross labour cost that could have been generated by the NEETs in Peru in 2014 - roughly the measure of the forgone productivity associated to this particular group - ranges between 1.5 and 2.5% of Peru's GDP. By comparison, the same estimates for the OECD range between 0.9 and 1.5% of the OECD GDP in the same year. Figure 1.20 depicts the lower bound estimate for Peru, taken in the comparison with the OECD countries. As expected, it shows that the highest costs are associated to countries with the highest NEET: Turkey at 3.4% of GDP, Greece at 2% and Peru at 1.5%. However, in light of the fact that the total costs of NEETs are affected by both NEET rates and wage levels, significant costs can also be suffered by countries combining relatively moderate NEET rates with high wage levels, with Belgium being an example.

Figure 1.20. Macroeconomic costs of NEET

Annual NEET rate and estimated cost of NEETs as a percentage of GDP, 2014



Note: Data refer to the lower bound estimate illustrating the most optimistic scenario. Upper bound and the point estimates suggest higher economic costs of NEETS. For Peru where roughly 85% of working youth are engaged in informal economy the gross earnings are approximated by the net earnings.
Source: OECD calculations based on the EU-SILC, HILDA (Australia), SLID (Canada), CASEN (Chile), SOEP (Germany), ENIGH (Mexico), SILC (Turkey), the CPS (United States) and ENAHO (Peru). Data are for 2014 except for Chile and Switzerland (2013), Turkey (2012) and Canada (2011).

These estimates only provide a partial indication of the social cost of NEET rates. For example, they do not take into account the extra costs for individuals and their communities of prolonged spells of unemployment, which typically include skills

depreciation and a loss of self-worth and motivation. When the outcome of long term unemployment is a permanent marginalisation from the labour market, these costs appear compounded by the effects of enhanced risks of poverty, worsened health conditions, higher school failures for the children of the affected workers and rising violent crime. The next chapters will review the key policy requirements to reduce these risks.

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Chapter 2. Removing demand-side barriers to youth employment in Peru

This chapter provides an overview of the economic, legal and administrative barriers that affect the ability and willingness of Peruvian employers to hire youth. The key challenges it identifies include high labour costs, overly strict employment protection legislation for both permanent and temporary contracts, as well as burdensome administrative procedures to starting a business. The chapter also develops a set of policy recommendations to help remove each of these barriers, while paying attention to the political economy of these reforms.

2.1. Introduction

Improving youth inclusion in the Peruvian labour market depends crucially on job creation in the formal sector for young people. This will require the support of an economic setting favourable to job creation, underpinned by appropriate macroeconomic policies, and the removal of a range of structural weaknesses that prevent economic growth from being sustainable and inclusive. As part of this comprehensive policy framework, an important role is played by those actions aimed at tackling demand-side barriers to youth employment, i.e. the economic, legal and administrative weaknesses that affect the ability and willingness of employers to hire youth. This chapter provides an overview of these constraints, by focusing on the cost of hiring at the minimum wage level (including both wage and non-wage costs), the strictness of employment protection legislation, and the administrative burdens involved in starting a business.

The chapter points to the following demand-side barriers to youth employment in Peru:

- ***The tax wedge acts as an important drain to the expansion of youth employment.*** The analysis portrays a complex picture of tax schemes that, if not properly addressed, may alter economic activity and employment creation in several unintended ways. Particularly, binding size-based thresholds for the payment of social security contributions deter the expansion of small enterprises, reflecting the incentives to remain small. This takes place in a context where other non-wage labour costs (paid annual leave, profit sharing and family allowance) also weigh heavily on medium-sized and large companies. Youth job seekers lose the most from an unfriendly regulatory framework that restrains the opportunities for sectoral diversification of productive activities.
- ***The net minimum wage relative to the net median wage is considerably higher in Peru than in the mean OECD country.*** This suggests that the level of the minimum wage, while attractive to Peruvian young job seekers, may concomitantly act as a disincentive for employers to hire youth formally.
- ***The dualism of the labour market is a particular challenge for youth workers.*** The transition from less productive jobs to more productive and better quality jobs, capable of offering career prospects, including the access to permanent contracts, can be difficult for youth workers.
- ***The administrative procedures to starting a business are burdensome***. Despite recent improvements, lengthy and costly procedures, associated with burdensome administrative requirements, hamper firms' creation in Peru. This has a detrimental effect on youth employment since newly created firms have a greater propensity to hire young workers.

The chapter develops a set of policy recommendations to help remove each of these barriers (see Box 2.1), while paying attention to the political economy of these reforms. In particular, it builds on the lessons from the repeal in 2015 of the *Special Youth Labour Scheme*, widely known as *Ley Pulpín*, , which underscores the key importance to engage an open social dialogue with all concerned stakeholders when developing and implementing new youth policies. Although addressing informality is not a specific objective of the Chapter, some of the insights developed could complement the reflections currently promoted by the MTPE aimed to the design of a new action plan for labour formalisation.

Box 2.1. Policy recommendations

Demand-side barriers to youth employment relate to economic, legal and administrative constraints that affect the ability and willingness of employers to hire young people. The OECD suggests to:

Contain the cost of hiring young workers

- In line with the key findings of the recent report by the OECD on the *Taxation of SMEs in OECD and G20 countries*, ensure that incentives to the firm sector do not alter economic activity in unintended ways, particularly by exacerbating the effects of strong sized-based thresholds. These thresholds encourage the small and medium sized enterprises to remain small, hindering the expansion of youth employment.
- While the real value of the minimum wage should not be allowed to erode in years to come, the prevailing long-term stance that prioritises avoiding important (real) increases should be maintained.
- Future policies should ensure that the minimum wage remains attractive to Peruvian youth job seekers, but also that the minimum wage is set in a way that does not create a disincentive for employers to hire workers formally. Mechanisms that link minimum wages with productivity or price levels can help reduce such disincentives. A related action would be to allow for a differentiated minimum wage across different regions in Peru so that they are more closely linked to actual levels of worker productivity and/or price levels in the region.

Tackle labour market duality

- Alleviate the protection provided by permanent contracts. For collective dismissals grounded on economic, technological and structural reasons, today's cumbersome compliance procedures preventing the recourse to these dismissals could leave the way to a simpler notification requirement. For individual dismissals, a number of outstanding legal barriers that prevent employers from the possibility to plea for a justified dismissal could be relaxed. The recognition of adverse economic circumstances among the reasons justifying a dismissal is a primary candidate.
- Regarding temporary contracts, Peru could benefit from a reduction of the administrative barriers that discourage the creation of temporary work agencies. There also seems to remain scope for expanding the circumstances under which Peruvian firms can use temporary contracts for permanent tasks related to the core activities of the firm. At the same time, the maximum cumulated duration should be fixed by regulation as a way of preventing young workers from being trapped in precarious jobs, but also ensuring that the employers can screen youth workers for future permanent hiring.
- Policies need to consider the development of a comprehensive strategy to reduce the strong duality of the Peruvian labour market between permanent and temporary contracts. The objective of such reforms should be to reduce incentives for employers to hire people on temporary contracts when not justified by the temporary nature of the tasks.
- At the same time, the policies to reduce the strong duality of the Peruvian labour market for young workers would require the support of the actions to reinforce the social protection system. This requires reforming the current unemployment benefits system in Peru to meet the following two prerequisites: (i) providing

income protection to all workers in the formal sector, including those whose work experience is insufficient to cover them; and (ii) making such a protection contingent upon the active search for a job and/or a serious engagement in employment programmes.

Abolish administrative barriers to firm creation

- Replace the presently highly fragmented system of notaries and municipalities for the registration of businesses with a national government agency. By reducing fragmentation and limiting risks of arbitrariness, this would strengthen the level playing field, while at the same time reducing the length and the cost of procedures.
- Create an online one-stop shop for firm registration.

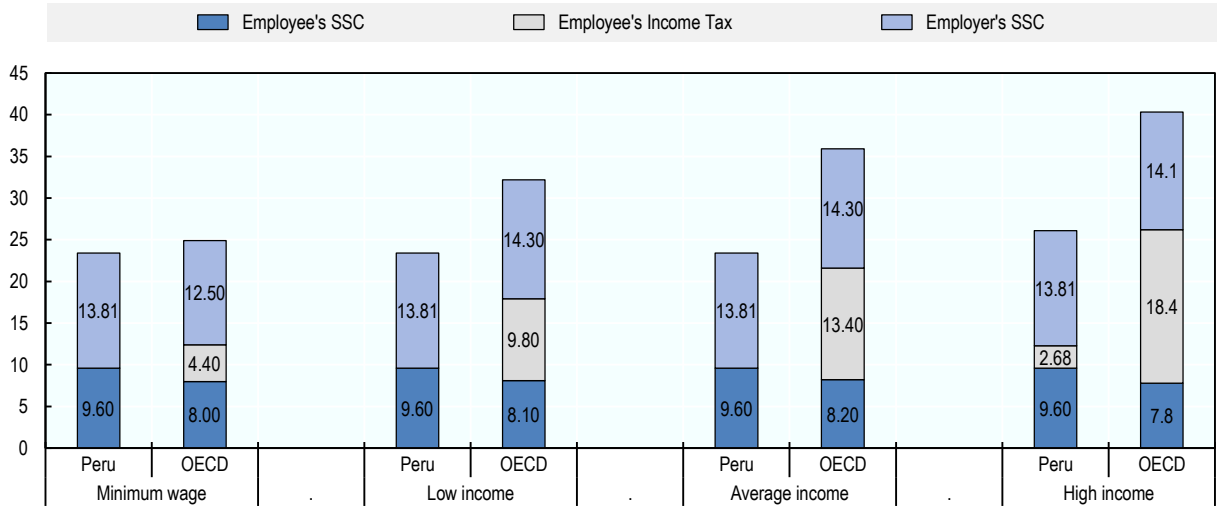
Ensure that reform decisions are embedded into a strong framework for social dialogue

- Together with the rigor and quality of ex-ante evaluation analysis, social dialogue is essential to create a consensus for reform and to the effective implementation of policy decisions once agreed upon. The example of the *Ley Pulpín* points to the need for ensuring a strong social dialogue framework that supports the identification of reform needs while at the same time ensuring protection.

2.2. Complex firm regulations discourage formal youth employment

Peru's labour taxation is not high compared with the OECD average. For an average worker in Peru, the tax wedge - the difference between the total labour cost and the workers take home pay, measured as a percentage of the total labour cost - is 23.4%, compared to 35.9% for the OECD average (Figure 2.1). This gap reflects the extent of the personal income tax in the OECD; in Peru low income workers - including at the minimum wage - are exempt from the personal income tax (see Box 2.2). For the average worker, the combined social insurance contribution, levied on the employee and the employer, is 23.4% in Peru, a level slightly above the OECD average (22.5%). However, measured at the level of the minimum wage the difference is wider, with the two rates being 23.4% and 20.5%, in Peru and the OECD average, respectively. Within this setting, one source of unbalances that stands out in Peru is the very strong segmentation of the private firm sector into different categories of enterprises, each subject to a specific labour cost scheme.

Figure 2.1. Decomposition of the tax wedge, Peru and OECD average, 2016



Note: Data refer to single individuals without children, within the age range 15-64 and working as dependent workers in formal sector. It is expressed as a percentage of the total labour cost. Labour costs are defined as the sum of gross earnings, social security contributions and payroll taxes, where applicable. Low income refers to 67% of the average wages; average-income refers to 100% of average wages; high-income refers to 167% of average wages. For Peru, the obligatory universal contributions paid by the employer comprise Health Insurance and the employer's contribution to the unemployment benefit system (*Compensación por Tiempo de Servicio*, CTS, compensation for length of service). Those paid by the employee are contributions to the pension system. The contributions taken into account in the analysis refer to the General Regime.
Source: OECD calculations based on Ministerio de Trabajo y Promoción del Empleo, MTPE (2016) and ENAHO survey for 2016.

2.2.1. Youth lose most from size-contingent employers' social security contributions

Special rules for promoting the creation of micro and small enterprises were introduced by Peru in 2003. These include a combination between tax incentives and reduced labour obligations for such firms (Act No. 28015 on the Promotion and Formalization of Micro- and Small Enterprises of 2003). There exist three categories of private enterprises in Peru today, each subject to a distinct labour cost scheme (Weller, 2009; ILO, 2014; and Ministerio de Trabajo y Promoción del Empleo, MTPE, 2016):

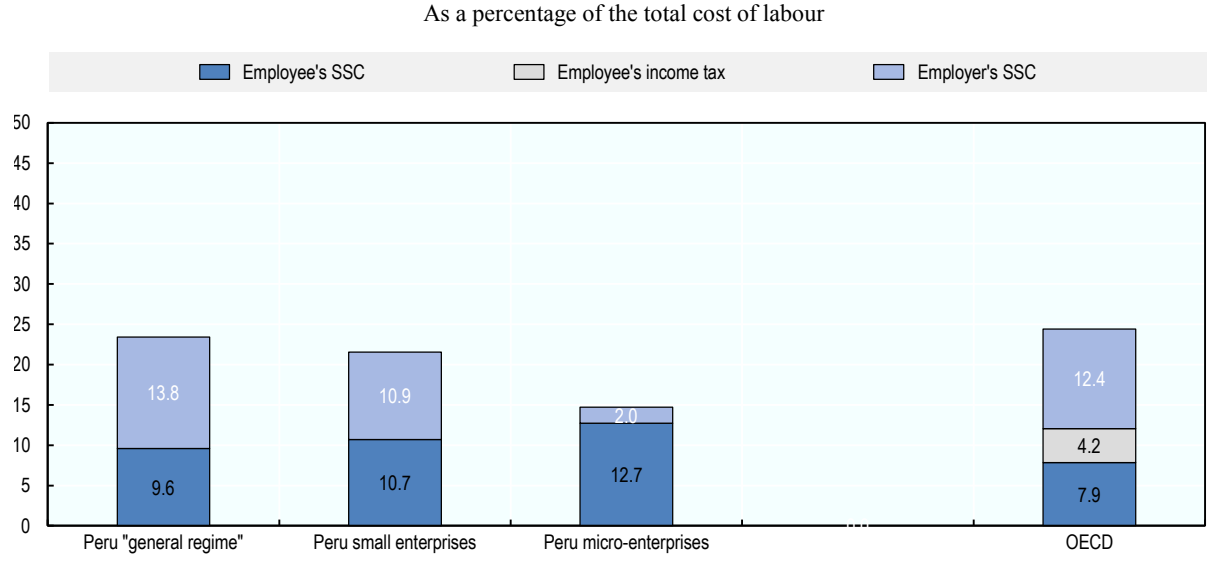
- Micro-enterprises: up to ten workers and maximum sales of 150 Tax Levy Units (TLUs)[1];
- Small enterprises: up to 100 workers and maximum sales of 1 700 TLUs; and
- Other enterprises: i.e. medium-sized and large enterprises, which fall into the "general" labour scheme (Legislative Decree No. 1086 of 2008).

A detailed discussion of the different components of the tax wedge in Peru is provided in Box 2.3.

Figure 2.2 decomposes the tax wedge at the minimum wage for Peru's three legal labour cost schemes. It portrays a complex picture of tax schemes which, if not properly addressed, may alter economic activity and employment in several unintended ways. Namely, from 14.7% for micro-enterprises the social insurance contributions rise sharply for the small enterprises (21.6%) and the larger firms to (23.4%). This reflects a spike in

the employers' social security contributions, from 2% for micro-enterprises to close to 11% and 14% for small enterprises and medium-sized and large companies, respectively. Another salient feature of differentiation between Peruvian firms is the comparatively high level of social security contributions paid by the employees in micro enterprises. At 12.7% this level is 2 and 3 percentage points higher than for small enterprises and medium-sized and large companies, respectively.

Figure 2.2. Decomposition of the tax wedge at the minimum wage level for different categories of enterprises



Note: OECD is an unweighted average of 27 countries legislating the statutory Minimum Wages.
Source: Data for the OECD come from Taxing Wages 2017, data for Peru are OECD calculations based on information provided in Policy Questionnaire by MTPE and ENAHO 2016.

Evidence analysis shows that binding labour cost regulations, contingent upon the size of the enterprises, may engender strong asymmetries in the distribution of firms (Garicano, Lelarge and Van Reenen, 2016).[2] Many highly productive firms that would have been larger without the regulation will likely refrain from expanding, to avoid the higher labour costs incurred by the change of the legal threshold. When they decide to expand, they often do so by splitting into small units, at the cost of considerable efficiency losses. Recent work on Peru by Dabla-Norris, Jaramillo Mayor, Lima and Sollaci (2018) find that size-dependent policies may even led to increase labour informality, since some firms ultimately prefer to hire informal workers to avoid the regulation. The result can manifest in substantial productivity and employment gaps with firms producing too little output, using too few employees (Restuccia and Rogerson, 2008; Bartelsman, Haltiwanger and Scarpetta, 2013). In France, for example, a country where the cost of labour increases significantly when firms reach 50 workers, aggregate output losses are estimated to represent 3.4% of GDP. Hsieh and Klenow (2009) argue that such misallocations account for a significant proportion of the difference in aggregate productivity between the United States, China, and India.

Youth job seekers are likely to lose the most from these adverse dynamics. Evidence from a wide range of countries at different levels of per capita incomes (including Peru) shows that rates of job creation are higher amongst small young firms, provided that they are

allowed to grow[3] (Haltiwanger, Jarmin, and Miranda, 2013; Ayyagari, Demirguc-Kunt and Maksimovic, 2014). Three are the main reasons explaining why small young firms are particularly likely to hire young workers (Ouimet and Zarutskie, 2014):

- Young job seekers typically have just attained education and therefore can be expected to carry the most up-to-date technical skills at a relatively low cost. Therefore, they might be particularly attractive to young firms aiming to develop new products and/or methods of production;
- Youth are known to be less risk averse and therefore more willing to bear the risk of working for a young firm whose survival is more uncertain;
- Finally, assortative mating implies that young workers are more attractive to young firms and vice-versa.

Box 2.2. Components of the tax wedge in Peru

The tax wedge is the sum of (i) employees' social security contributions, (ii) the income tax paid by the employee, and (iii) employers' social security contribution, expressed as a percentage of labour costs. Social security contributions typically refer to compulsory payments, either by the employees or by the employers that confer entitlement to the employees to receive a future social benefit. These *contributory* schemes (whereby the benefits accrued by each recipient depend on a minimum years of contributions) typically include old-age protection, health and unemployment. They contrast to *non-contributory* social protection programs that are granted to all or to specific beneficiaries, regardless of their contributions' history. In Peru for instance, *Pension 65* is a non-contributory means-tested pension for Peruvians over 65 identified as being in extreme poverty. Similarly, the *Seguro Integral de Salud* (SIS) is a non-contributory means-tested health coverage for deprived individuals and their families (OECD, 2016a).

Social security contributions

Unlike the level of the minimum wage, which is unique, social security contributions depend upon the category of enterprises in which employees are hired. They are set at particularly low levels for employers in micro-enterprises in order to encourage firm and job creation in the formal sector (see the Act on the Promotion and Formalization of Micro- and Small Enterprises of 2003).

Employees

Employees contribute to public or private pension schemes. This contribution is compulsory and accounts for 13% of the gross wage *in all types of enterprises* (micro-, small, medium-sized and large enterprises). The legislation for micro-enterprises aims to reduce employees' social security contributions in these enterprises to 4%, which the State would match with equal contributions into personal accounts. This system has not yet been implemented (OECD (2016a).

Employers

Employers contribute to:

- health insurance (*EsSalud*)
- unemployment benefits.

The latter was introduced in 1991, to relax the overly strict severance pay system and,

hence, switch from job to worker protection. More precisely, in exchange of abolishing severance pay for justified dismissals, Peru established a system of unemployment insurance savings accounts (UISAs), as did many other Latin American countries. The UISAs are mandatory savings schemes in which employers contribute on a regular basis a fraction of the employees' wage towards special individual bank accounts for which employees are typically responsible. These accounts aim to provide employees in the formal sector with unemployment benefits in case of a dismissal (or retirement). Specifically, employers' contributions to unemployment benefits in Peru is called the Compensation for Length of Service (*Compensación por Tiempo de Servicio*, CTS) and was established by Legislative Decree No. 650. The CTS is a legal payment to workers for their time spent working for a company. The CTS is deposited to a bank chosen by the employee each semester and amounts to one monthly average salary per year of service (Ferrer and Riddell, 2012 and Vodopivec, 2013).

The employers' contributions to health and unemployment benefits are strongly contingent upon firm's size (Table 2.1).

Table 2.1. Employers' social security contributions, 2016

Percentage of the gross wage

Employers' social security contributions	Micro-enterprises (10 workers + 150 annual TLUs)	Small enterprises (100 workers + 1,700 annual TLUs)	General regime
EsSalud	2% (supplemented by state subsidies)	9%	9%
CTS	0%	4.2%	9.7%

Note: MTPE (2016).

It is important to note that small enterprises and firms under the general regime are also submitted, under certain conditions, to the following employers' social security contributions:

- Life insurance (between 0.53% and 1.46% of the gross wage, *applicable* starting from the fourth year of service of the employee).
- Dangerous work insurance (1.89% of the gross wage, *applicable* to hazardous activities).
- The National Apprenticeship and Labour Service (also called *SENATI* – 0.75% of the gross wage *applicable* to manufacturing industries with more than 20 workers).

Given that these employers' social security contributions are conditional, they are *not* considered in order to generate Figure 2.1 to Figure 2.4.

The income tax paid by the employees

Personal income taxes in Peru are progressive, with a maximum marginal tax rate of 30% for annual incomes above PEN 205 400 (USD 60 951 or EUR 54 855). Annual incomes below PEN 27 650 (USD 8 205 or EUR 7 384) are exempted, which implies that individuals paid at the minimum wage level do not pay taxes.

The above segmentation appears exacerbated by the regulations concerning paid annual leave, profit sharing and family allowances, which also vary significantly across categories of enterprises in Peru. They are considerably more stringent for medium-sized and large firms in the general regime than for small firms. Paid annual leave due corresponds to 30 calendar days in medium-sized and large companies, compared to 15 calendar days in small and micro-enterprises. Furthermore, firms under the general

regime that are involved in trade, mining and industry must transfer a share of their annual revenues before tax to their employees. Firms with less than 21 employers are exempt from such a profit sharing mechanism, with the overall share of profits to be distributed varying by industry (Dabla-Norris, Jaramillo Mayor, Lima and Sollaci, 2018).[4] Finally, employees working in medium-sized and large companies are entitled to a monthly family allowance equal to 10 per cent of the gross minimum wage (approximately PEN 85; USD 25 or EUR 22) if they have dependent children under 18 or children below 24 receiving higher education.[5]

2.2.2. Policy insights to address size-contingent social security contributions

The question as to whether the current size-based threshold structure should be maintained goes beyond the scope of this report. In fact, addressing it properly would require a thorough examination of the overall system of tax policies and tax arrangements in Peru, assessing the pros and cons of various approaches. The recent OECD study on the *Taxation of SMEs in OECD and G20 countries* (OECD, 2015) provides insights into the influence of tax systems on SMEs. The report concludes that the heterogeneity of the SME population means that careful targeting is required to ensure that any government interventions, including tax preferences, achieve their stated policy objectives. With the exception of the disproportionately high compliance costs on SMEs, the size of a business alone may not be sufficient justification for government intervention in the form of special rules. Careful targeting of special tax rules can reduce their costs and potential distortions while ensuring that the intended goals are met.

The report acknowledges that there may be a particular case for targeting preferences and simplification measures toward younger SMEs. These could be the SMEs who are most affected by finance and cash flow difficulties, face barriers to entry and growth from incumbent firms, are more likely to grow than older SMEs, face the highest compliance cost burdens and are likely to have higher spillover effects from innovation. In effect, some of these SMEs may play a particularly strong role in supporting the expansion of youth employment. Nonetheless, even within this group, measures should be carefully targeted to address the specific problem (e.g. access to finance, compliance costs) or particular objective (e.g. innovation). Young, small firms are also the riskiest and most likely to go out of business.

Moreover, the OECD report on *Taxation of SMEs in OECD and G20 countries* underlines that a high degree of caution is needed to ensure that tax preferences or simplification measures do not introduce further distortions. These distortions can result in incentives to alter economic activity in unintended ways to benefit from special tax rules, horizontal inequities in the treatment of different firms or individuals depending on their characteristics. They can also stem from the creation of additional barriers to SME growth owing to the creation of sized-based thresholds, which provide incentives to remain under that threshold, whether artificially or by restraining growth.

An additional policy insight of the report is that, when introducing special tax rules for SMEs, care should be taken to ensure that these measures do not increase complexity. The costs associated with tracking eligibility, keeping specific records and interacting with the tax system for multiple different preferences or simplification measures can increase the complexity of the system. In this regard a simpler general tax system may be more advantageous to SMEs than a series of simplification measures.

Furthermore, the reports points to process simplifications, particularly through targeted use of technology, as offering many advantages in lowering compliance costs by

streamlining and reducing the steps required to comply. They can, therefore, be a powerful tool to enhance compliance and reduce its costs.

2.2.3. Lessons from the past: The importance to strengthen social dialogue

Supported by rigorous evidence based analysis, social dialogue is a key pre-requisite to the development and the implementation of policy change. However, social dialogue has been missing during the recent negotiations to reform youth labour market policies in Peru. In December 2014, a *Special Youth Labour Scheme* (Law No. 30288) was introduced to reduce non-wage labour costs paid by small enterprises and firms under the general regime willing to hire youth workers. The new scheme, expected to stay in vigour for a period of five years, foresaw significant cuts of employers' social security contributions as a way of supporting the hiring of youth workers aged between 18 and 24 years. Contributions to health insurance would be subsidised by the Peruvian State, while contributions to unemployment benefits, the so-called CTS, would be eliminated. At the same time, the scheme envisaged to abolish existing entitlement of young workers to bonuses and profit sharing. Furthermore, paid annual leave would drop from 30 to 15 calendar days for youth employed under the general regime.

The law was bitterly opposed by Peruvian youth. In particular, the abolishment of the CTS implied that youth workers would be excluded from unemployment savings accounts and, hence, deprived of any social protection following a dismissal (unless the latter be judged as "unfair"). The Special Youth Labour Scheme was dubbed the *Ley Pulpín* (Pulpín Law), after the name of a brand of fruit juice targeted at children – with the term *Pulpín* evocating a naïve or immature young person who can be easily mislead. Against rising social pressures, it was almost immediately repealed (as early as January 2015). The example of the *Ley Pulpín* points to the need for ensuring a strong social dialogue framework that supports the identification of reform needs while at the same time ensuring protection (OECD, 2017). Together with the rigor and quality of ex-ante evaluation analysis, social dialogue is essential to create a consensus for reform and to the effective implementation of policy decisions once agreed upon.

2.3. Making the minimum wage pay

Being less productive on average than the rest of the working age population, due to their shorter work experience, youth are primary candidates to work at the minimum wage in countries where it is enforced (Cahuc, Carcillo and Zylberberg, 2014). However, the level of this wage floor must be appropriately set. Too low a minimum wage may result in undesirable low wages for youth workers whose bargaining power is relatively weak and therefore may induce them to prefer an occupation in the informal sector. By contrast, if set too high the minimum wage leaves little room for rewarding youth workers in line with their productivity, and may again lead to more informal work or reduced working hours for some (Neumark and Wascher, 2008).

2.3.1. The framework of prudent changes of the minimum wage should be maintained

According to the 1993 Constitution the minimum wage in Peru is regulated by the state in consultation with the social partners. This principle was reaffirmed by two rulings issued in 2004 (laws 27711 and 28318), which established that the minimum wage is set by the

government taking into account a proposal by the National Council for Labour and Employment Promotion (CNTPE), a tripartite body including the government, the business associations and the labour unions.

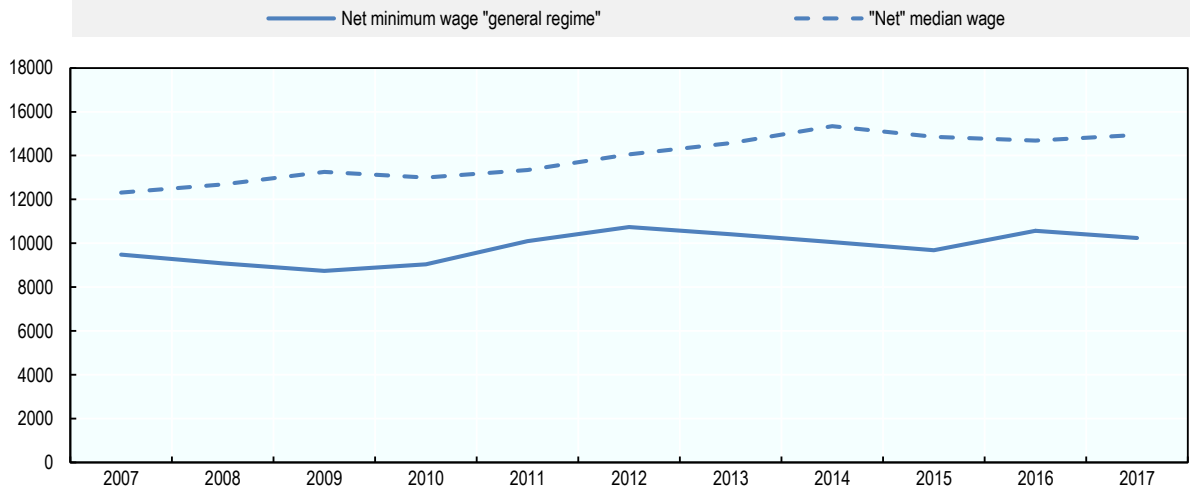
Since 2007, the CNTPE relies on the support of an expert body, in charge of providing a technical advice on how to adjust the minimum wage. This is done taking into account two criteria: i) inflation trends, which ensures maintaining the purchasing power of workers who earn the minimum wage; and ii) the pattern of average labour productivity, which allows taking into account the broader economic and competitiveness outlook of the country.

There is a single value of the minimum wage in Peru, which applies nationwide and accordingly does not vary between sectors or regions (MTPE, 2016). It is calculated on a monthly basis, assuming a maximum limit of 48 working hours per week. Although the law does not mention the frequency of adjustments, the evidence available suggests that the minimum wage has not been increased "mechanically" throughout the years but rather prudently and in a way broadly in line with labour-market conditions.

During the period between 2007 and 2017, the cumulative increase of the real net minimum wage (i.e., excluding taxes and social security contribution) has approximated 12%, which is smaller than the corresponding increase of the real net median wage (Figure 2.3). It is also significantly smaller than the corresponding increase of real GDP (56.7%). The minimum wage was last increased in March 2018 -- to PEN 930 (EUR 245, or USD 284) per month.

Figure 2.3. Annual real net minimum and median wages of full-time employees in Peru, 2007-17

In Peruvian Sol, using 2016 as base year



Note: The annual real median wage is computed for employees in the formal and informal sector who work between 40 and 48 hours a week. Indeed, the official workday in Peru is eight hours a day, with full-time employees working between five and six days a week. Self-employed individuals are excluded from the computation.
Source: Policy Questionnaire by MTPE (2016) and ENAHO 2007-17.

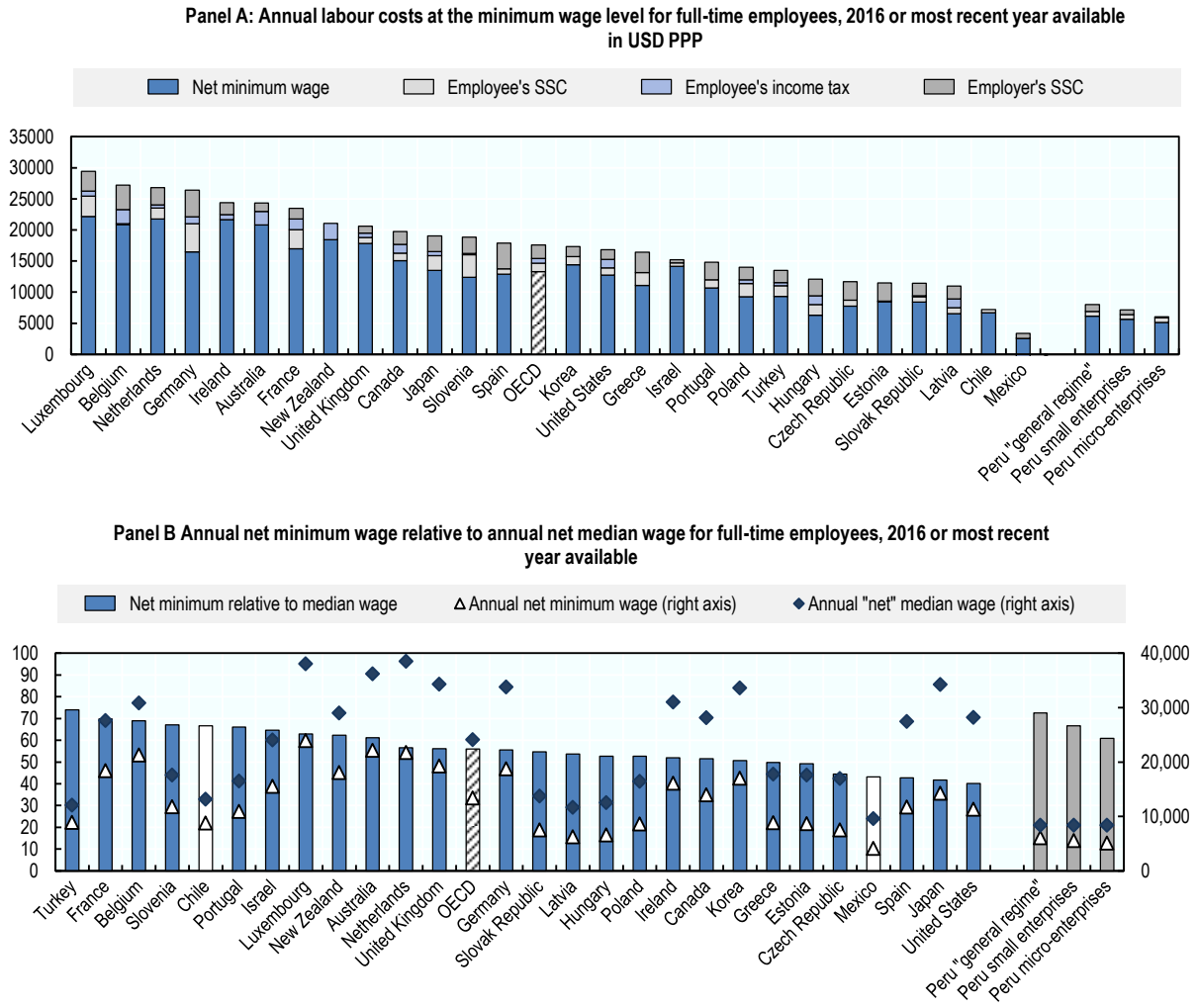
While the real value of the minimum wage should not be allowed to erode in years to come, the current stance that prioritises avoiding important (real) increases should be

maintained. This conclusion is supported by the results of recent evidence analysis, which points to the fact that formal employment in Peru, if not strongly affected, tends to respond negatively to changes in the minimum wage (ILO , 2017; Céspedes and Sánchez, 2013; Jaramillo, 2012; Palomino Samaniego, 2011; Del Valle, 2009; Céspedes Reynaga, 2006). These works also conclude that the risk of unemployment following a rise of the minimum wage is higher among youth workers. There is also evidence that the minimum wage is used as a benchmark for the determination of wages in the Peruvian labour market. This reflects the existence of mechanisms of indexation to the minimum wage, both at the firm level and regarding the allocation of family benefits.

2.3.2. Supporting decent minimum wages for youth while keeping costs in check

The international comparison depicts a mixed picture for the level of the minimum wage in Peru. Figure 2.4 (Panel A) shows that regardless to the category of enterprise, the minimum wage in Peru is well below the average of the OECD countries. On average, labour costs at the minimum wage level are between two (general regime) and three times (micro-enterprises) lower in Peru than in the average OECD country. This result is as expected, insofar as it reflects the existence of broad differences in productivity and average wage levels between Peru and the OECD countries.[6] While the minimum wage in Peru does not depart significantly from the level observed in Chile, it is much higher than in Mexico.

Figure 2.4. Annual labour costs and minimum wage relative to median wage in Peru and OECD countries



Note: The annual median wage in Peru is computed for employees in the formal and informal sector who work between 40 and 48 hours a week. Indeed, the official workday is eight hours a day, with full-time employees working between five and six days a week. Self-employed individuals are excluded from the computation. The national poverty line in Peru is computed by the National Institute of Statistics and Informatics (Instituto Nacional de Estadísticañ e Informática, INEI) for year 2016. OECD is an unweighted average of 27 OECD countries where minimum wage is enforced. Annual net minimum and median wages are expressed in USD PPP.
Source: Data for the OECD come from Taxing Wages 2017 and the OECD Employment database (estimates as of year 2015) while data for Peru are from Policy Questionnaire by MTPE (2016) as well as ENAHO 2016.

However, the net minimum relative to the net median wage is considerably higher in Peru than in the mean OECD country. It ranges from 60% in micro-enterprises to 66% in small enterprises and 72% in firms under the general regime (Figure 2.4, Panel B). By contrast, this ratio is 55% in the mean OECD economy. No OECD country shows a ratio greater than that which prevails in Peru for firms under the general regime, with the exception of Turkey. Accordingly, the ratio is high also in comparison to Mexico and Chile.

Future policies should ensure that the minimum wage remains attractive to Peruvian youth job seekers but also that the minimum wage is set in a way that does not create a disincentive for employers to hire workers formally. Mechanisms that link minimum wages with productivity or price levels can help reduce such disincentives. A related action would be to allow for a differentiated minimum wage across different regions in Peru so that they are more closely linked to actual levels of worker productivity and/or price levels in the region.

One policy approach used by many OECD countries and other Latin American countries (Table 2.2) consists in the introduction of a legal subminimum wage for young people. This scheme could allow for progressive increases of the minimum wage up to or above the standard minimum wage, as is the case for instance in Australia and the Netherlands. By avoiding large jumps in labour costs from one level to the next, the advantage of this approach is twofold: i) to limit risks of job separation around the point of eligibility to the standard minimum wage; and ii) to help youth workers remain on a path of gradual career progression.

Table 2.2. Sub-minimum wages for young people in OECD and selected Latin American countries

Country	Youth subminimum wage	Others
Australia	15: 36% 16: 47% 17: 57% 18: 68% 19: 82% 20: 97%	There are currently three categories of minimum wage: 1) modern award minimum wages, which are occupation- and industry-specific; 2) the national minimum wage, which is used as a "safety net" and is of general application to all industries and occupations; 3) special national minimum wages, which apply to specified categories of vulnerable workers, like junior employees, trainees and employees with a disability.
Chile	15-17: 74%	Varies by age. Lower rates for older workers (>65): 75%.
France	<17: 80% 17-18: 90% + lower rates for young people, employed in a training contract (Contrat de professionnalisation)	Lower rates for childcare assistants (assistants maternels), certain carers (assistants familiaux), apprentices and disabled workers.
Germany	<18: no minimum wage	Exemptions for some branches allowed until 2017. Long-term unemployed exempted during the first six months of employment.
Greece	<25: 89%	Varies by occupation (higher rates for white collar workers).
Ireland	<18: 70%	n.a.
Israel	16: 70% 17: 75% 18: 83%	n.a.
Latvia	Higher hourly rates for <18 (114%	Special hourly rates for youth and for those working under risky or dangerous circumstances who are allowed to work only 35 hours per week to reach the same weekly rate as normal workers.
Luxembourg	15-16: 75% 17: 80%	Varies by skill level (20% higher for those with a professional qualification).
Netherlands	15: 30% 16: 34% 17: 39% 18: 45% 19: 52% 20: 61% 21: 72% 22: 85%	May vary by sector/firm. The government may decide to decrease the minimum wage for a certain enterprise or sector, in cases of severe adverse economic development

Country	Youth subminimum wage	Others
New Zealand	<20: 80% For some workers with less than six months job tenure	Varies by contract type (apprentices) and disability.
Portugal	<18: 75%	Varies by region and contract type. Higher minimum wages for the Autonomous Region of Açores and for the Autonomous Region of Madeira. Lower rates (up to -20%) for apprentices and interns, as well as disabled employees for a period that cannot exceed one year.
Slovak Republic	<18: 80% 18-21: 90%	The legislation determines one statutory level of the minimum wage, which is multiplied by coefficients depending on the difficulty of position. Lower rates are applied for employees receiving a disability pension.
United Kingdom	15-17: 59% 18-20: 80%	Varies by training contract. Lower rates for employees in recognised apprenticeship schemes.
United States	<20: 58% during their first 90 consecutive calendar days of employment with an employer.	Varies by region, disability, as well as student status. Most states have either the same or a higher rate than the federal rate. Five states have no MW and two states have a lower MW and workers are entitled to the federal rate). Partial exemptions for workers with disabilities, full-time students, and student-learners employed pursuant to subminimum wage certificates.
NON-OECD LATIN AMERICAN BENCHMARK COUNTRIES		
Argentina	Youth aged 16-18 and apprentices can be remunerated at lower wage than the statutory minimum wage.	Reduced minimum wage can be paid to apprentices or underaged youth as well as to workers of diminished capacity.
Costa Rica	13-18: 1) 50% during the first year of employment; 2) 75% during the second year of employment; 3) 100% during the third year of employment.	Varies by sector, occupation and skill level.
Ecuador	Apprentices can be remunerated at lower wage than the statutory minimum wage. However they should earn not less than 80% of the salary received by an adult who does a similar job.	n.a.
Paraguay	Youth aged 15-18 can be remunerated at a lower wage than the statutory minimum wage. However they should receive an initial wage of no less than 60% of the statutory minimum and on a progressive scale based on years of effective work. When the underaged youth perform a job of the same nature and duration with the same efficiency as an adult then they must receive the minimum wage.	Apprentices, youth, disabled workers, domestic workers can be remunerated at a lower wage than the statutory minimum.

Source: Kristensen and Cunningham (2006), Marinakis (2007), OECD (2015a) and the Wage Indicator Foundation (https://wageindicator.org/main/Wageindicatorfoundation).

2.4. Tackling labour market dualism

Employment protection legislation (EPL) refers to the procedures and costs involved in dismissing workers on permanent contracts and hiring them on temporary ones. It aims to protect employees against unfair dismissals and earnings reductions at the time of job loss, and to shield them from precarious jobs (e.g. the overuse of temporary contracts). While protecting workers in the context of poor job quality is a high priority in Peru, an excessively strict or poorly designed EPL can hamper the economy by discouraging the flow of workers from less productive jobs to more productive and better quality jobs. Job creation can be reduced as a result, with youth workers being particularly exposed to this risk, and productivity growth can also be affected. In addition, the duality of the labour

market can be accentuated. EPL should therefore be used judiciously and effectively in combination with other measures that protect workers themselves, rather than specific jobs. Unlike the framework for non-wage labour costs, EPL essentially applies uniformly across firms of different size in Peru. Therefore, it also covers the micro- and small enterprises on top of the larger firms under the general regime.

Figure 2.5 (Panel A) shows how Peru compares internationally regarding the protection of workers on permanent contracts, distinguishing between individual and collective dismissals. Peru scores around the OECD average on this indicator, although its regulation is stricter than the average of the LAC countries shown in the figure. This mainly reflects the regulation on collective dismissals, which is stricter in Peru, both compared to the average of the OECD countries and that of the LAC countries.

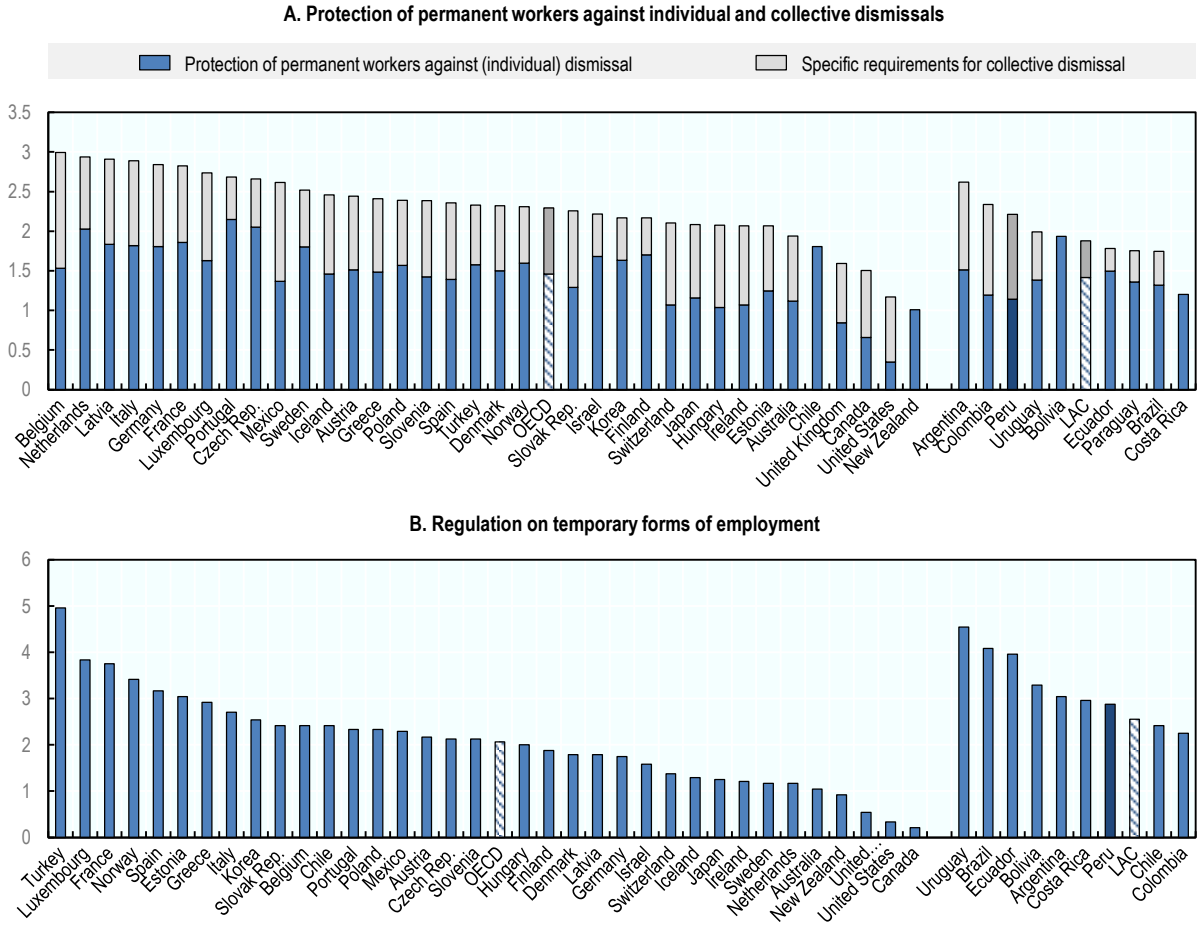
The provision on collective dismissals grounded on economic, technological and structural reasons applies when it involves at least 10% of a firm's employees in Peru. One main reasons explaining the strictness of this regulation relates to the fact that starting from this threshold the fulfilment of complex compliance procedures, involving employers, trade unions, or workers' representatives, and the Labour Administrative Authority, is required in order to launch a collective dismissal. The regulation applies across all firms, irrespective of their size, thus including small firms, which are the large majority in Peru. In many OECD countries, employers who proceed to collective dismissals are subject to only a notification requirement.

Concerning individual dismissals, the level of compensation following unfair dismissal is fairly in line with the standards of the OECD and LAC benchmark countries in Peru -- 1.5 monthly salaries per each full year of service up to a maximum of 12 monthly wages, on top of wage arrears and social security contributions in firms under the general regime. However, one particularly constraining regulation from the perspective of the employers relates to the limited chances to have dismissal decisions recognized as "justified" -- ranging from the proof of misconduct or incapacity, to adverse economic circumstances -- if the dismissed worker brings the case to court. Whenever the court rules the dismissal as "unfair", the reinstatement is nearly automatic and prevails over the options of compensation, which discourages hiring formally in the first place.[7] Reinstatement is less typical in many OECD countries, and even rarer in Latin American benchmark countries.

Panel B of Figure 2.5 places Peru in the international comparison with regards to the legal constraints of initiating a temporary form of employment. It is important to highlight that the Peruvian law involves more than 10 types of temporary contracts today and allows the recourse to temporary contracts for some permanent tasks related to the core activities of the firm. At the same time, Peru's restrictions on the maximum cumulated duration of successive temporary contracts are broadly in line with the regulation prevailing in the OECD countries. Despite these elements of background, Peru scores above the average of both the OECD countries and the LAC benchmark countries in the overall indicator capturing the legal constraints of initiating a temporary form of employment. This essentially reflects the fact that the administrative requirements governing the authorisation of a temporary work agency are highly demanding. Once in operation, these agencies have to meet some very strict periodic reporting requirements.

Figure 2.5. Strictness of employment protection in Peru, OECD countries and selected Latin American countries

Employment protection legislation indicators



Note: Panel A presents the synthetic indicator for individual and collective dismissals for workers with a regular contract (EPRC). The height of the bar represents the value of the EPRC indicator. Panel B presents the synthetic indicator for temporary contracts (EPT). Countries are ranked in decreasing order of EPRC (respectively, EPT) indicator in Panel A (respectively, Panel B).
Source: OECD Employment Protection Database. http://www.oecd.org/employment/oecdindicatorsofemploymentprotection.htm.

2.4.1. Policy options to reduce labour market dualism

The high protection of Peruvian workers on permanent contracts can discourage employers from hiring youth on this type of contracts for fear of not being able to adjust to employees' misconduct or incapacity, or changes in demand and technology. This implies that employers would rely on temporary contracts as "dead ends", rather than stepping stones during the transition to a permanent job, which is especially desirable in the case of youth workers. The function of these contracts as on the "job training" and "screening tool" of young job seekers, would be reduced and the duality of the labour market would increase as a result. Box 2.3 provides a review of the empirical evidence about the links between employment protection legislation and the duality of the labour market.

Box 2.3. Employment protection legislation and labour market duality

According to theoretical arguments, if the use of fixed-term contracts is liberalised while maintaining strict employment protection regulations for open-ended contracts, firms will adjust by substituting temporary for regular workers. There will be no long-run effect on employment, due to the smaller cost involved with the termination of the employment relationship at the end of a fixed-term contract (see e.g. Boeri and Garibaldi, 2007; Bentolila et al., 2008). In addition, a large asymmetry between the employment protection provisions (and, sometimes, tax wedge) applying to the two types of contracts will reduce the conversion rate of fixed-term contracts into permanent ones, thereby transforming fixed-term contracts into a trap rather than a stepping stone into more stable employment (Boeri, 2011).

It has also been argued that in a setting where extensive employment protection for workers with open-ended contracts coexists with lighter regulation for fixed-term contracts, wage pressure and therefore unemployment may increase (Bentolila and Dolado, 1994). The argument behind is that "insiders" on permanent contracts can raise their wage claims without much risk of losing their jobs as any resulting negative effects on employment will be borne mainly by the "outsiders" who work on fixed-term contracts (often youth and other workers with little work experience or fewer skills). More generally, these observations imply that the effect of employment protection regulations on fixed-term contracts cannot be seen in isolation, but is conditional on the degree of stringency of employment protection for regular contracts. In countries with highly protective regulations for permanent contracts, those under fixed-term contracts (often youths and other disadvantaged groups) will bear the main burden of employment adjustment (Saint Paul, 1996). Overall, this literature suggests that a large wedge between regulations for temporary and permanent contracts is likely to contribute to the emergence of a persistent divide across workers holding different types of contract in terms of both current working conditions and future prospects. This situation is often referred to as contractual *segmentation* or *duality*.

There is a vast empirical literature showing that the incidence of temporary contracts tends to be increased by the rigidity of regulations concerning dismissal for permanent contracts and reduced by legislation limiting hiring on, and renewal of, temporary contracts. For example, Lepage-Saucier et al. (2013) analysed hiring patterns in a cross-country regression setting and found that changes in OECD indicators for dismissal of permanent contracts and hiring of temporary contracts have opposite patterns of association with the share of temporary contracts in new hires. Kahn (2010) uses longitudinal microdata for nine European countries and finds that recent policy reforms making it easier to create fixed-term jobs raised the probability that a worker will be on a fixed-term contract. However, he finds no evidence that such reforms increased employment: instead they appear to have encouraged substitution of temporary for permanent work. In a similar vein, several studies focus on major Spanish reforms in the early 1980s that liberalised fixed-term contracts without changing dismissal costs for regular contracts and find, in general, that this led to a very large increase of fixed-term contracts and a reduction in employment on permanent contracts (see e.g. Bentolila et al., 2008; Aguirregabiria and Alonso-Borrego, 2009). Evidence from Spain also suggests that, when the regulatory gap between permanent and temporary employment is large, transition rates across these two states are low (e.g. Güell and Petrongolo, 2007), thereby

confirming the "duality" theory: outsiders tend to move from one temporary contract to another while insiders enjoy high protection and employment stability. Finally, several papers find that the difference in the cost of adjusting the stock of workers on different types of contract explains both the share of workers on fixed-term contracts and their relative volatility of temporary jobs (see, for example, Goux et al., 2001). Overall, this evidence suggests that, all else equal, stringent regulation on regular contracts tends to encourage the use of temporary contracts (see e.g. Boeri, 2011; Boeri and Van Ours, 2013; OECD, 2013a). Indeed, rigid dismissal regulations have also been shown to reduce job and worker turnover in general (see OECD, 2010; Bassanini and Garnero, 2013) but increase churning of temporary jobs (see Centeno and Novo, 2012; Hijzen et al., 2013).

Turning to Peru, until the early 2000s the interpretation of the labour contract law was that the dismissed worker should receive a monetary compensation. However, in 2001 the Constitutional Court issued questioned this interpretation and issued a ruling establishing that the worker could request to be reinstated in the previous position. Evaluation of the impact of this ruling by Jaramillo et al. (2017) suggests that the change has contributed to significantly discourage the use of permanent contracts, ultimately leading to strengthen the segmentation of the labour market. The estimated average short term impact of the reform (during the first five years since the change) is a reduction of 50%in the probability to be hired under a permanent contract, while the long-term impact is a fall of 80%. By 2015 approximately 900 000 permanent jobs might have become temporary due to the reform.

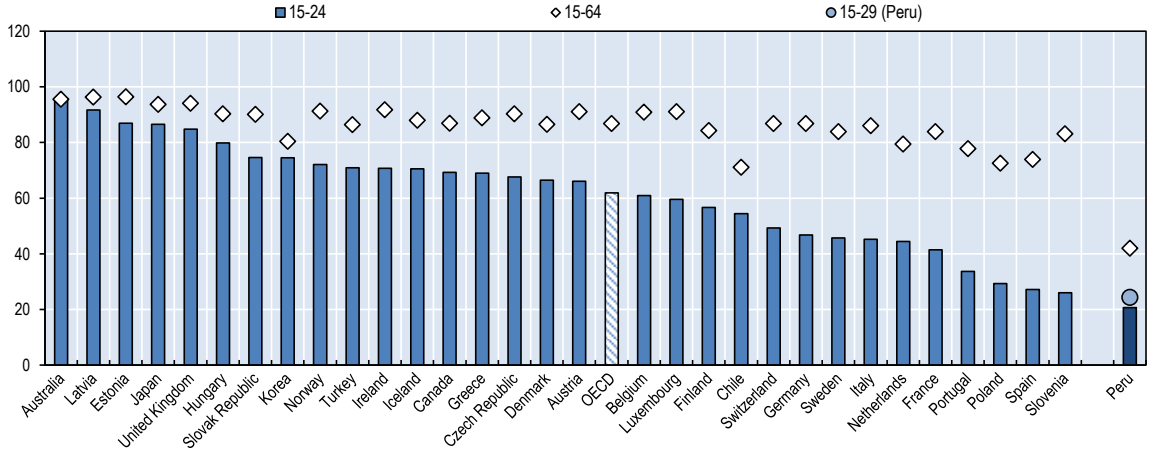
Source: OECD (2014) and Jaramillo et al. (2017).

Figure 2.6 shows the proportion of full-time workers in the formal sector who are employed with a permanent contract (rather than a temporary one) in OECD countries and Peru. On average, workers under a permanent contract constitute a majority in the OECD countries, but a minority in Peru. Moreover, with strict EPL requirements on permanent contracts being particularly harmful to youth access to stable jobs, the probability for young people (15-24) in Peru to work under a permanent contract is half than that of the working age population (21% vs 42%). By contrast, it is only one third lower in the mean OECD country (62% vs 87%).

Tackling the strictness of the EPL on permanent contracts can therefore be an important lever to reduce the large proportion of Peruvian young workers who are either trapped in precarious jobs in the formal sector or entirely excluded due to high informality. For collective dismissals grounded on economic, technological and structural reasons, today's cumbersome compliance procedures preventing the recourse to these dismissals could leave the way to a simpler notification requirement. For individual dismissals, a number of outstanding legal barriers that prevent employers from the possibility to plea for a justified dismissal could be relaxed. The recognition of adverse economic circumstances among the reasons justifying a dismissal is a primary candidate. Moreover, the high penalty following an unfair dismissal could be reduced with a view to aligning it more closely to the standards prevailing in OECD countries. Recent reforms undertaken by a number of OECD countries go in this direction (Estonia, Spain Slovenia and Italy). Regarding temporary contracts, Peru could benefit from a reduction of the administrative barriers that discourage the creation of temporary work agencies. There also seems to remain scope for expanding the circumstances under which Peruvian firms can use temporary contracts for permanent tasks related to the core activities of the firm. At the same time, the maximum cumulated duration should be fixed by regulation as a way of

preventing young workers from being trapped in precarious jobs, but also ensuring that the employers can screen youth workers for future permanent hiring.

Figure 2.6. Incidence and composition of permanent employment, Peru and OECD countries in 2015



Note: Permanent employees are wage and salary workers under contracts without a clear end date. The figures for Peru include individuals working under a verbal contract since in Peru verbal contracts are as valid as written contracts. The OECD figure is calculated as an unweighted average.
Source: OECD Employment database and ENAHO 2016.

In setting up policies to address EPL challenges, policy makers typically face some key trade-offs. In particular, the effect of relaxing employment protection on permanent contracts may not be the creation of more and better quality jobs for youth, if temporary contracts are eased at the same time. Indeed, the overall effect could be that, as a way of benefiting the smaller cost of terminating an employment relationship at the end of a fixed-term contract, firms will adjust by substituting temporary for permanent workers. To counter the risk of this offsetting effect, several OECD countries have introduced measures recently to harmonise the regulation of temporary and permanent contracts. The objective of such reforms should be to reduce incentives for employers to hire people on temporary contracts when not justified by the temporary nature of the tasks.

Several OECD countries have introduced measures recently to harmonise the regulation of temporary and permanent contracts. One policy option to achieve this would be through merging the two employment contracts into one *single* open-ended contract. However, firms not only make recourse to temporary contracts as an on-the-job training or screening device, possibly leading to a permanent hiring. They also rely on temporary contracts to respond to fluctuations in activity, or for filling their truly temporary job openings. Therefore, removing temporary contracts altogether may not be a realistic solution. Moreover, since not all temporary jobs can be expected to be converted into permanent ones it could result in serious employment losses (OECD, 2014).

In order to address these problems, several observers have sueggested implementing a *unified* contract (OECD, 2014). The idea would be to both maintain all types of contracts and have termination costs increasing with seniority, independently of the type of contract. In addition, in the case of termination, firms would pay a layoff tax to the public

authorities, while dismissals would be unfair only in cases of discrimination and prohibited grounds (see e.g. Blanchard and Tirole, 2003; Cahuc, 2012). The layoff tax would yield resources to mutualise the reallocation costs of displaced workers and induce firms to internalise the social cost of dismissals, without any need of reinstating workers, if set at a sufficiently high level (Cahuc and Zylberberg, 2008). The clear advantage of this proposal is that it would leave unchanged the cost of termination of short-term contracts, thereby not making more burdensome their use for tasks that are truly temporary.

However, real situations are complex and actual reform approaches differ, reflecting the specific circumstances of each country. Box 2.4 discusses recent EPL reforms implemented by four European countries during the past decade, Estonia (July 2009), Spain (February 2012), Slovenia (April 2013) and Italy (December 2014). Italy opted for a standard contract, according to which employment protection is set to increase with tenure as a way of taking into account the experience and seniority acquired during a career path.

Box 2.4. Recent EPL reforms in Estonia, Slovenia, Spain and Italy

Estonia. In Estonia, a new Employment Contracts Act came into force in July 2009, in the middle of a sharp contraction of economic activity. Notice periods were shortened and made more dependent on job tenure. Moreover, severance pay was significantly reduced, with some additional compensation being provided by the Estonian Unemployment Insurance Fund (but with no upfront cost for employers at the time of dismissal). Importantly, reinstatement in the case of unfair dismissal was made conditional on the mutual agreement of the parties while compensation was reduced to a maximum of three months wages, except in exceptional circumstances. One significant policy change brought about by the reform was an increase in employers' contributions to the Unemployment Insurance Fund from 0.9% to 4.2% of the gross wage.

Spain. The Spanish labour market reform was approved by the government in February 2012. Substantial changes were introduced with respect to dismissal legislation. The reform redefined the conditions for a fair dismissal, specifying that a redundancy is always justified if the company faces a persistent decline in revenues or ordinary income and that the employer does not have to prove that the dismissal is essential for the future profitability of the firm. Monetary compensation for unfair dismissal was reduced by more than 25% and a much lower ceiling was introduced. At the same time, the reform removed a worker's right to interim wages between the effective date of dismissal and the final court ruling. Prior to this change, employers often exercised the option to declare a dismissal unfair and pay upfront the corresponding compensation, so as to close the procedure and avoid paying interim wages. Indeed, this was the most commonly-used dismissal mechanism by employers before the reform rendered it obsolete. Finally, the reform eliminated the requirement that employers obtain administrative authorisation for collective redundancies. The reform of EPL was also accompanied by a large reform of collective bargaining. In particular, a greater priority was given to collective bargaining agreements at the firm level over those at the branch or regional level and firms were allowed greater latitude to opt-out from a collective agreement and adopt measures to enhance internal

flexibility so as to limit job destruction. In addition, the reform limited the extension of collective bargaining agreements to a maximum period of one year after their expiration in the absence of agreements on their renewal.

Slovenia. A new Employment Relations Act entered into force in Slovenia in April 2013. The proposed reform reduced notice periods, making them more dependent on service duration. A few amendments were also made to severance pay. Moreover, the reform suppressed the requirement that employers provide proof of having attempted redeployment within the company before making redundancies. In addition, opposition by trade unions can no longer delay the date of dismissal. The reform was accompanied by some changes as regards temporary contracts. In particular, it is no longer possible for employers to hire a series of workers on fixed-term contracts to fill the same post for a cumulative period of more than two consecutive years. In addition, the reform has imposed a maximum quota on temporary-work-agency employment in the user-firm, if fixed-contracts are used. Unemployment insurance contributions are no longer paid for the first two years after hiring a worker on an open-ended contract, while they were increased for fixed-term contracts.

Italy. In Italy, with the *Jobs Act* adopted in December 2014, the government received a mandate to introduce measures to rationalise employment protection, expand active labour market policy, make social protection more effective, and boost female labour force participation. As part of this broad strategy and with a view to rebalance job protection, a standard contract with employment protection increasing with tenure was introduced in early 2015. This new arrangement implied quite radical changes for Italy and to avoid unwarranted disruption, a decision was taken to apply it only to new employment contracts ("grandfathering" existing rights). As part of the *Jobs Act* the government also introduced a new form of out-of-court procedure for dismissals, under which the employer pays the worker an indemnity equal to one monthly wage per year of service. The acceptance of this transaction prevents any further dispute by the worker. Both parties have a strong incentive to settle the dispute through this procedure, since the sum paid is not subject to social contribution or fiscal taxation.

Source: OECD (2016b) and OECD (2015c).

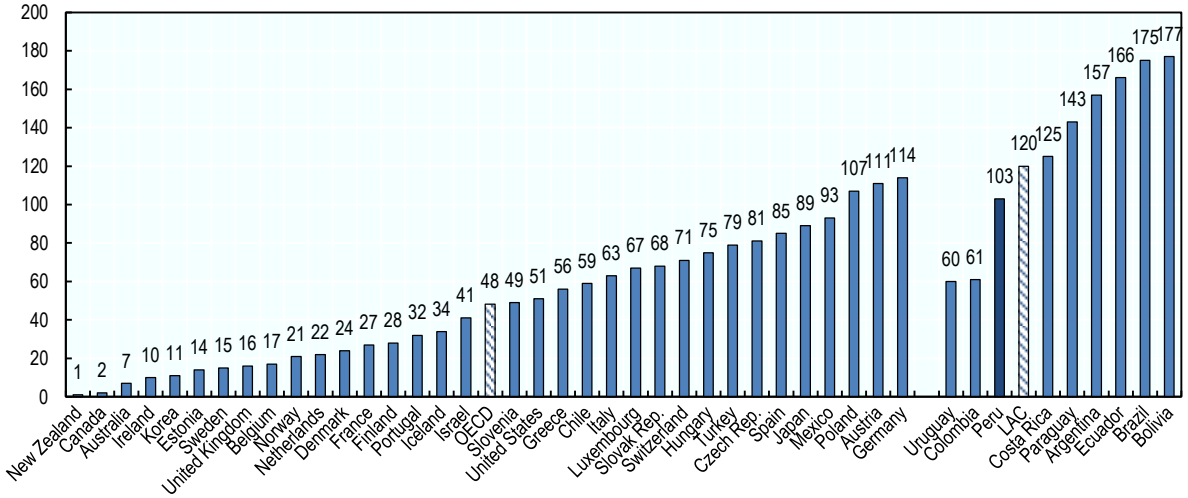
One important requirement to increase the acceptability of the reforms to address excessive job protection is that worker protection is concomitantly reinforced. Policy options for introducing such an element of security are discussed in Chapter 3.

2.5. Complementary strategies to tackle barriers to firm creation

There are other drivers to the creation of a buoyant business sector were firms are created and use opportunities to expand and invest in youth resources (ILO, 2014). These include a friendly administrative environment to formal registration of companies. Yet, "inefficient government bureaucracy" is ranked as the most burdening factor for doing business in Peru by a representative sample of business leaders from the country, just before "restrictive labour regulations" (Schwab, 2017).

The 2017 Doing Business indicator on "Starting a business" produced by the World Bank confirms that Peru is lagging behind on this dimension, despite recent improvements (World Bank, 2017). This indicator records the procedures required to, or commonly confronted in practice by, an entrepreneur to start up and formally operate a business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. Peru ranks 103 out of 190 economies on the ease of starting a business, as opposed to an average rank of 48 among OECD countries. This gap mainly reflects the time and cost involved in starting a business: in Peru, it takes at least 26 days and costs 10% of income per capita to formally register a company, compared to an average of only eight days and 4% of income per capita in OECD countries (see Figure 2.7). By contrast, the number of procedures required (a total of six) is close to the OECD average (at five), and there is no paid-in minimum capital, while a minimum amount of 9% of income per capita is required in the mean OECD country.

Figure 2.7. Ease of starting a business in OECD countries, Peru and other Latin American benchmark countries, 2016



Note: OECD is an unweighted average.
Source: World Bank, Doing Business database.

Unsurprisingly, the two lengthiest and costliest procedures to start a business in Peru regard notaries and subnational governments. Indeed, professional services are typically characterized by anti-competitive regulatory restrictions in many countries and Peru is no exception with the evidence available being that providers' self-imposed regulations heavily limit entry conditions (World Bank, 2017). This notably suggests that notaries do not provide the most competitive and best-quality services to Peruvian firms. Moreover, having municipalities granting the operating license increases their exposure to the pressure of local incumbents in order to limit market entry. As an illustration, barriers imposed by local governments and decentralized bodies account for most of the complaints related to bureaucracy that are processed by the independent competition authority, the National Institute for the Defence of Competition and Protection of Intellectual Property (*Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual*, INDECOPI. See, INDECOPI, 2017).[8]

The international evidence suggests that countries where formal registration of companies requires professional services and/or a license from a subnational government typically perform worse than others with respect to the "Starting a business" indicator. Their involvement is particularly pervasive among LAC countries and may account for their poor average rank of 120 out of 190. It is important to stress that the role played by anticompetitive practices among notaries and municipalities may be even underestimated outside Lima, where oversight by INDECOPI might be more challenging to accomplish.

It is therefore critical that Peru continues the efforts to simplify the administrative procedures to formally register companies and, hence, promote firm creation and youth employment. Since 2004, Peru has reduced the number of procedures to start a business from 10 to 6, the number of days required from 98 to 26 and the overall cost from 40% to 10% of income per capita (OECD, 2015d). However, these reforms must be continued by (i) having government agencies substitute to notaries and municipalities in the registration process in order to limit anti-competitive practices and (ii) creating an online one-stop shop for firm creation. More progress is needed to establish the "e-government" that the Strategic Plan for Electronic Commerce 2012 – 2021 is longing for (OECD, 2016c). One notable step in the right direction was the launch by the MTPE in 2018 of *Formalizate Peru*, an integrated platform to orient and accompany workers and employers in the process of formalization for both labour and business.

Notes

[1] As of 2016, a Tax Levy Unit amounts to PEN 3 950, hence USD 1 172 or EUR 1 155 (DS N° 397-2015-EF).

[2] This is particularly true when a minimum wage is enforced since the potential for wages to be flexible downward is limited.

[3] By contrast, large mature firms have the largest share of total employment.

[4] Notably, it ranges from 10% for manufacturing, fishing and telecommunications, 8% for mining, retail, wholesale and restaurants, and 5% for other industries. Certain legal types of firm are also exempt, such as cooperatives, non-profits, and religious associations.

[5] Family allowances are granted as a fixed amount. They do no depend on the number of children an employee may have. However, in case both parents are employed by the same employer, each parent is entitled to receive this benefit.

[6] Technically, observed gaps in the levels of minimum wages could also reflect a difficulty to fully account for cross-country differences in costs of living using the exchange rate at Purchasing Power Parity.

[7] The list of cases for reinstatement include: (i) *null dismissal* (when dismissal is based on a prohibited ground of discrimination such as sex, race, religion, political opinion or language, participation in union activities, pregnancy…etc); (ii) *dismissal without cause* (when no cause is alleged by the employer for dismissing an employee); (iii) *fraudulent dismissal* (when the employer alleges a cause that is false or dismisses a worker in a disloyal, hostile or perverse manner); (iv) *dismissal in breach of fundamental constitutional rights* (when the employer dismisses an employee breaching a fundamental constitutional right, different from the ones listed in (i) but including the "right to work").

[8] Created in 1992, INDECOPI is a specialised public body attached to the Presidency of the Council of Ministers. It promotes the free and efficient development of markets, protects consumer rights and safeguards intellectual property rights. It plays an important advocacy role by recommending the implementation of pro-competition measures to the legislative, political and administrative authorities (OECD, 2015d).

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Chapter 3. Strengthening the employability of Peruvian youth

This chapter discusses the role of labour market and social policies in increasing the employability of young people in Peru and assesses the impact of skills mismatches on school-to-work transitions. The key challenges it identifies include: the ability of the public employment services to deliver effective activation to vulnerable youth; the capacity of the current social protection system to provide them with adequate income support; and ensuring that youth are provided with the right qualifications to match the needs of the labour market. The chapter provides a set of policy options that may help address each of these issues. It also points to the important role that broader policies to foster the diversification of the economy can play to support the demand of quality jobs for Peruvian youth.

3.1. Introduction

Improving the employability of youth in Peru entails bringing as many young job seekers and inactive people into the labour force and into jobs. Engaging youth in (formal) labour market involves ensuring that they have the incentives to seek employment thanks to the supportive role of: (i) high quality public employment intermediation services and active labour market programmes; and (ii) unemployment insurance and social assistance schemes at least partly conditioned on active job search in the formal sector. Additionally, it requires a set of policies to avoid misalignment between the supply and demand for skills. The skills mismatch indeed hampers the smooth integration in the labour market of job seekers, on top of generating substantial productivity losses due to misallocation of workers to jobs.

This chapter provides a comprehensive analysis of all three aforementioned components. It points to the following challenges:

- **Much can be done to strengthen the still limited, capacity of the public employment services (PES) to provide effective activation of unemployed or inactive youth.** PES are severely understaffed in Peru and the country invests too little in Active Labour Market Programmes (ALMPs).
- **Unemployment insurance is missing in Peru and social assistance does not compensate for this absence.** The unemployment benefit system currently in force, which relies on severance payments (provided the dismissal is judged as unfair) and compensation for length of service (the so-called CTS introduced in Chapter 2), does not provide adequate support to unemployed workers. While severance payments are not automatic, recent regulatory changes have dampened the capacity of the CTS to work as a safety net during unemployment. Additionally, low coverage and low levels of social assistance exacerbate the risk that unemployed Peruvian youth fall into poverty. Finally, access to the unemployment benefits is not conditioned on active job search, which reduces the incentives unemployed workers have to rely on PES.
- **The Peruvian labour market is characterized by substantial over-qualification and field-of-study mismatch.** Peru has experienced a dramatic increase in school enrolment and educational attainments. Yet, the quality of education has not kept up with the pace of change, suggesting that graduates' qualifications overestimate the actual skills acquired.
- **The demand for high-skilled labour remains sluggish.** Many low-skilled positions continue to prevail among the occupations that are in short supply. At the same time, the demand for several high-skilled professions that require specific specializations and therefore do not leave much space for substitution with graduates of different field-of-study, is also becoming increasingly important.

Box 3.1 sets out the policy recommendations to help address the above challenges and better integrate Peruvian youth in the labour market.

Box 3.1. Policy Recommendations

To eliminate the barriers hampering the employability of Peruvian youth the OECD suggests to:

Increase resources and staff for Public Employment Services (PES)

- Expand and increase the efficiency of PES by strengthening recruitment and training programmes for caseworkers.
- Widen the range of modern outreach methods to engage with the most deprived NEETs. The recent experience of the OECD-EU countries suggests that a key to reach out to the NEETs population is by bringing PES services closer to the places where the NEETs meet.
- Compatible with the resources that PES can display, strengthen the efforts to provide the NEETs with tailored job placement and intermediation services relying on personalised approaches.

Enhance ALMP provision

- Remove current administrative barriers that hamper the engagement of the Peruvian business sector in on-the-job training programmes.
- Strengthen the training component of public work programmes. Further to providing income support, public work programmes have the potential to improve skills and therefore promote labour force participation. *Trabaja Perù* could benefit from a strong training component.
- Make employment support measures, such as temporary jobs in the non-market sector or hiring subsidies in the market sector, conditional upon getting a certification of skills at the end of the employment period, at least for previously unskilled youth.
- Support the development of an impact evaluation culture. For example, the Ministry of Labour and Employment Promotion could build on the experience of the Ministry of Education that launched the MineduLAB in 2016. A similar approach could be used to assess the performance of ALMPs.

Re-design the unemployment benefit system

- Improve the effectiveness of the unemployment benefit system. An immediate solution would involve strengthening restrictions on CTS withdrawals until the event of unemployment.
- As a long term strategy, consider re-designing the current unemployment benefit scheme. This could be achieved by drawing, for example, on the strengths of the Chilean system that combines a system of individual saving accounts with a common solidarity fund and encourages job search.

Target social assistance to unemployed people

- Tackle social assistance programmes to make them better geared to the needs of jobless youth deprived of unemployment benefit, while at the same time making recipiency conditional upon active job search. This may require introducing a *Jobseeker Allowance*, in the form of a non-contributory unemployment benefit conditional upon registering with PES and intensely engaging in job search. Adding conditionality to *Juntos* transfer obliging capable beneficiaries to participate in a comprehensive activation strategy could be a viable alternative.
- Take measures to increase access to affordable digital infrastructure, especially in remote rural

areas. An immediate solution that could ease the lack of access to Internet could consist in the creation of toll-free kiosks with PC terminals in regional offices of the *Centro de Empleo*.

Continue efforts to reduce the prevalence of over-qualification and field-of-study mismatch

- Strengthen the role of existing web portals, such as the *Ponte en Carrera* observatory and other instruments, such as SOVIO and *Proyecta tu Futuro*, to ensure that they can support students with effective information about available study options and professional career paths after graduation.
- Develop skills assessment and anticipation exercises to provide guidance on future skills demands as tools to mitigate the incidence of skills shortages and mismatches. In addition, a regular assessment framework would allow tracking progress towards the achievement of policy objectives.
- Strengthen the role of policy co-ordination to achieve better skills outcomes through expanding horizontal collaborations among ministries and vertical collaborations across levels of government.
- Continue efforts to foster the role of collaborations between public and private sector actors with a stake in, and an influence on, skills outcomes. Stronger partnership can increase the relevance of skills developed in VET and higher education.
- Similarly, consider measures to engage the business sector in the design and implementation of ALMPs. Their involvement in training and activation could enhance the skills impact of these programmes and their attractiveness to those searching for jobs.

Strengthen the demand for quality jobs for youth as recommended by the OECD Multi-dimensional Review of Peru

- In depth analysis using the OECD's Skills for Job Indicators, confirms the importance for policy makers to factor in the complementary role of pro-growth policies, which are essential to sustain the creation of more and better quality jobs. In line with the recommendations of the OECD Multi-dimensional Review of Peru, this highlights the importance of maintaining the focus on the broad mix of macroeconomic and structural reform policies that have the highest potential to set Peru on path of more diversified and inclusive long-term economic growth. Important as they are the policies to strengthen employability and to support the supply of qualifications and skills will hardly be enough, if left alone, to boost youth employment in Peru.

3.2. Delivering public employment services that work for youth

Activating the human capital of 1.7 million Peruvian NEETs critically requires the support of PES. The first role PES system plays in tackling youth inactivity is that of labour market intermediary. Namely, it can help increase the efficiency of the job matching process by reducing transaction costs of job search and diminishing information asymmetry. Secondly, PES has a role to play in redressing skill imbalances and labour market flaws, provided that it is supported by a wide array of ALMPs. Thanks to their ability to secure work-to-work transition and to insure labour income, PES and ALMPs are essential pillars to build resilient and adaptable labour markets.

In line with the objective set out in the Constitution to promote effective employment policies, the Peruvian Ministry of Labour and Employment Promotion (MTPE) has been implementing a series of measures since the mid-90s to boost employment outcomes for the most vulnerable people. Reforming the provision of public employment services was

a landmark in this process. In 2012, the decentralized network of intermediation centres at the national level, *CIL-Proempleo*, was put under the umbrella of a new body for the coordination of employment services – *Centro de Empleo* (Employment Centre, initially referred to as a Single Window for the Promotion of Employment, *Ventanilla Única de Promoción del Empleo*).

The Employment Centre, like many other PES authorities across the LAC region, is organized as a line department of the Ministry of Labour, rather than as a separate public agency reporting to the government (IDB, WAPES and OECD, 2015). It has a 'territorial hierarchical structure' spanning three levels: national, regional and local. At the national level, the MTPE sets the direction of labour policy for the country. The regional authorities assume responsibility for providing services through the offices of the Employment Centre (*Centros de Empleo*). The local governments support the operation of employment services through the network of Employment Offices (referred to as *Officinas de Empleo*). Currently, service delivery of the Peruvian PES is operated by 33 Employment Centres and 29 Employment Offices, which work as a one-stop-shop, a single contact point where jobseekers can receive employment support free of charge. Several services are intermediated through an online national jobs portal http://senep.trabajo.gob.pe:8080/empleoperu/Pedido.do?method=inicio. Activities of the Employment Centre are funded from public sources and donors; in 2016 its budget amounted to PEN 8 650 000 (i.e. USD 2.6 million or EUR 2.3 million), which constitutes a tiny, 0.0015%, share of GDP. For comparison, OECD countries spend on average 0.05% of their GDPs for placement and related services only.

As of 2017, the Employment Centres provide twelve types of services for both jobseekers and employers (See Box 3.2 for details). In principle, this service structure should enable the Centres to play a key job broker role in Peru, offering vacancy databases and referrals of candidates. The Centre is also the primary government institution for implementing ALMPs dedicated to youth and vulnerable populations. In practice, however, few unemployed young people rely on public employment services in Peru.

Box 3.2. Services offered by the Employment Centre

Targeted to individual jobseekers

1. *Bolsa de Trabajo* (Employment exchange**) -** This is a job broking service that provides labour intermediation between job seekers and companies, matching candidates to available vacancies in PES job bank. The job bank can be accessed following two modalities: in-person at employment centre offices and employment offices, or virtually through the Employment Centre web portal (http://senep.trabajo.gob.pe:8080/empleoperu/Pedido.do?method=inicio). The service targets the youth population, for the main.

2. *Asesoría para la Búsqueda de Empleo* (Advisory service of job search**) -** This employment search counselling service provides advice and guidance on effective strategies and techniques to successfully undergo a personnel evaluation process. The service is targeted in particular at young individuals. It aims to improve chances of getting and retaining a job. The series of internal and external workshops as well as personalized advice can be accessed through the employment promotion offices of the Employment Centres.

3. *Certificado Único Laboral* (Single labour certificate) - The aim of this fast-track procedure is to provide a unified document, which integrates and verifies information typically required by employers during the recruitment process that would otherwise be sparsely collected: identity documents, police record, education and training authentication and labour career. The service is

targeted at individuals aged18-29 and is free of charge.

4. *Empleo Temporal* (Temporary employment) - As part of the Trabaja Perú programme, this service offers temporary public work jobs in various social and economic infrastructure projects. It is targeted at unemployed people with families, giving priority to: heads of household who have at least one child under 18 years of age; single mothers; people with disabilities; young people between 18 and 29 years of age who assume family responsibilities without being parents.

5. *Capacitación Laboral* (Job training) - Provided through the programmes Jóvenes Productivos and Impulsa Perú, this facility aims at improving employability and labour productivity of job seekers and workers, through a range of labour training courses strongly focussed on the acquisition of practical skills. In addition, beneficiaries receive guidance on the preparation of their curriculum vitae and advice on how to prepare for a job interview. It is targeted at young people aged 15-29 who are unemployed and live in poverty or extreme poverty, as well as people over 29 who are unemployed, or workers at risk of losing job.

6. *Certificación de Competencias Laborales* (Labour skills certification) - Through the programme Impulsa Perú this facility addresses dependent and independent workers who want to formally evaluate and recognize the labour competences that they have acquired through work experience. The programme aims to enhance career perspectives, self-esteem and motivation of workers with possible returns on their productivity and the competitiveness of companies. The labour competences assessment process can be carried out in the same place of work or in a certified evaluation centre.

7. *Información del Mercado de Trabajo* (Labour market information) - This service targets individuals who look for information on the labour market at the national, regional and local levels. The service provides comprehensive information on 1) occupational profiles and characteristics of job seekers and companies; 2) average wages by occupation; and 3) most demanded occupations. It supports job counselling and the employment exchange services.

Targeted to youth still in education

8 *Orientación Vocacional e Informacion Ocupacional* (Vocational guidance and occupational information) – These services are implemented under the SOVIO initiative which provides guidance to young people aiming to facilitate the choice of professional, technical or occupational career and to assist school to work transitions. The service offered by the Employment Centre consists of three stages: orientation and information talk, evaluation with psychological tests and delivery of vocational report accompanied by advice on the subject.

Targeted to job seekers wishing to become entrepreneurs

9 *Orientación para el emprendimiento* (Guidance for entrepreneurship) - This program is aimed at individuals who look for information and guidance on possibilities of starting own business. Advice provided by the *Centro de Empleo* (Employment Centre) relies on the Geographical Information System for Entrepreneurs provided by the National Institute of Statistics and Informatics, which allows visualizing the degree of concentration of the businesses, annual volume of sales of these, characteristics of the population among others.

10 *Capacitación para el emprendimiento* (Training for entrepreneurship) - This programme provides training and advisory courses to help develop and carry out business ideas and plans. Applicants of the best business plans receive a start-up kit to facilitate the start of their business. The courses are targeted at young people between 15 and 29 years old, with little or no work experience, in a situation of poverty or extreme poverty, as well as unemployed and underemployed people. The service is offered through Jóvenes Productivos and Impulsa Peru programmes.

Targeted to companies

11 *Acercamiento Empresarial* (Business approach services) - These services are directed to formal companies to help them addressing staffing needs in three ways: personnel supply through job exchange channel, provision of labour training and certification of labour competences of workers.

Targeted to migrants

12 ***Orientación Migrante*** (Migrant orientation services) - These services target citizens who search for information and guidance on labour migration process or assistance when returning from migration. The service provides also training on productive use of remittances.

Source: MTPE Policy Questionnaire, Centro de Empleo web site, http://empleos.trabajo.gob.pe:8080/empleoperu/portal/quienessomos.jsp

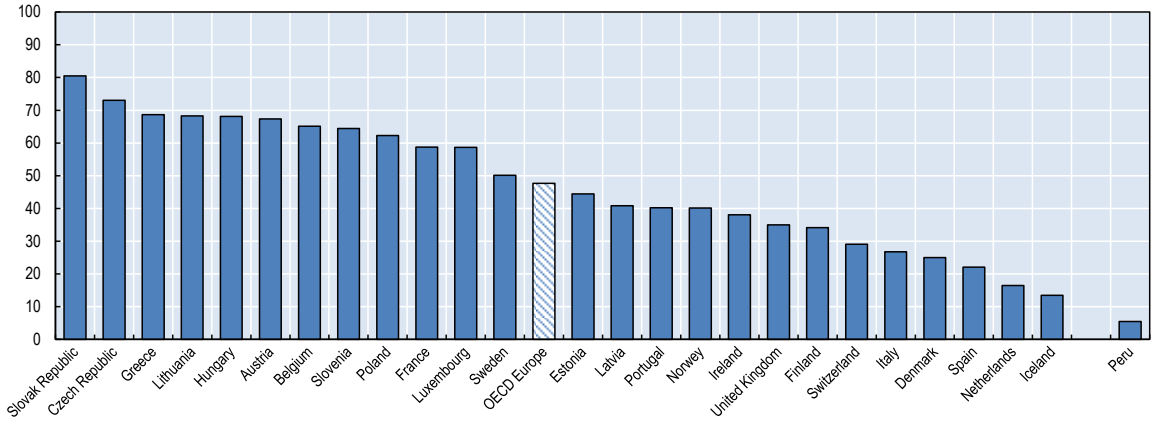
3.2.1. Few unemployed youth use the public employment intermediation services

Public employment intermediation aims to increase the efficiency of job searching and the quality of the related job matching, through services such as counselling, mentoring, monitoring and assistance in the development of a job career plan. The Peruvian PES offers three main options of intermediation targeted at youth jobseekers (see points 1 to 3 in Box 3.2): the *Employment exchange* (matching job seekers with job vacancies), the *Advisory service of job search* (counselling involving support in preparing CV and job interviews) and the *Single labour certificate* (a fast-track free-of-charge procedure, introduced in 2010, to help young people gathering a defined set of official documents, typically requested by employers in the formal sector).

In 2016, only around 5.5% of unemployed Peruvian youth in the age range between 15 and 29 years old sought work through referring to PES (Ministerio de Trabajo y Promoción del Empleo, MTPE, 2016). This figure cannot be easily evaluated in the international context, reflecting the fact that institutional characteristics and the resources each country can make available for PES vary. Nonetheless, the comparison between Peru and a selection of European OECD member countries suggests that the share of unemployed young people who are served by PES is significantly lower in Peru (Figure 3.1). For the European OECD countries shown by Figure 3.1, it ranges between 13.5% (Iceland) and close to 94% (Belgium), with the sample average being 47.6%.

ENAHO survey figures shed interesting light on the key drivers behind the low take up by unemployed youth of the services provided by PES (Figure 3.2). These figures clearly point to the role of the social network (through friends and relatives) and reaching out directly to employers as the two most preferred job-search options used by the youth. The two approaches account for roughly two-thirds of the total number of answers collected through the survey. Many workers (especially those who are relatively low skilled) do not need to refer to the labour intermediation institutions because they look for a job in the informal sector.

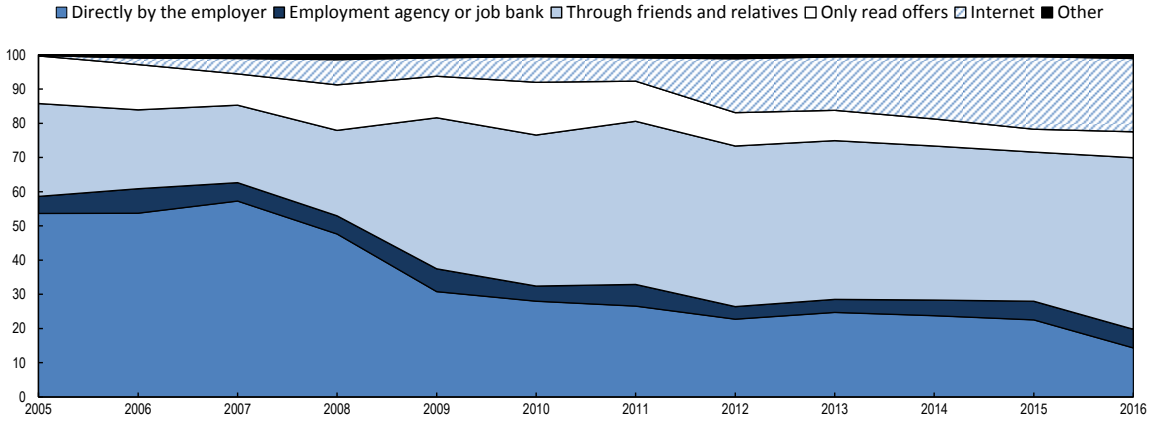
Figure 3.1. Share of unemployed youth who refer to PES while looking for a job, Peru and selected European OECD member countries, 2016



Note: Data refer to the question: *"The last week, what did you do to get work?"* In the case of Peru, the answers to this question assume that different job search channels are mutually exclusive, implying that only one answer can be given. By contrast, for the selected European countries of the OECD, the answers to the equivalent question accept the possibility that the individual follows several job search channels (i.e., answers are multiple-choice). Moreover, the question contemplates a reference period of four weeks, rather than one week as in the case of Peru.
Source: OECD calculations based on Labour Force Statistics for the European OECD countries and ENAHO for Peru.

Figure 3.2. Main channels of job search

As percentages of the unemployed who declared searching for the job within the week preceding the survey



Note: Data refer to the question: *The last week, what did you do to get work?* The question assumes that the job search channels are mutually exclusive, implying that only one answer can be given. Data for 2014 are interpolated using a linear interpolation method. The internet category is available since 2012; for the period 2005-2011 this category is included in "others".
Source: OECD calculations based on ENAHO Surveys 2005-2016.

Past empirical analysis reveals that trust in the services provided by PES is fairly limited in Peru (e.g., Vera, 2005). Nevertheless, considerable progress has been achieved during the past years to address challenges and to increase the capacity of the Employment Centre to reach out to young people. This has been helped by the creation of a new online platform providing broader access to some services and the introduction of the Single

Labour Certificate service. Progress is visible from the fact that the total number of youth clients that PES was able to serve was roughly three times higher in 2016 than in 2010. Much of the progress achieved rests on the introduction of the Single Labour Certificate service, whose main objective has been the simplification of administrative procedures.[1]

3.2.2. And few unemployed youth participate in other types of Active Labour Market Programmes

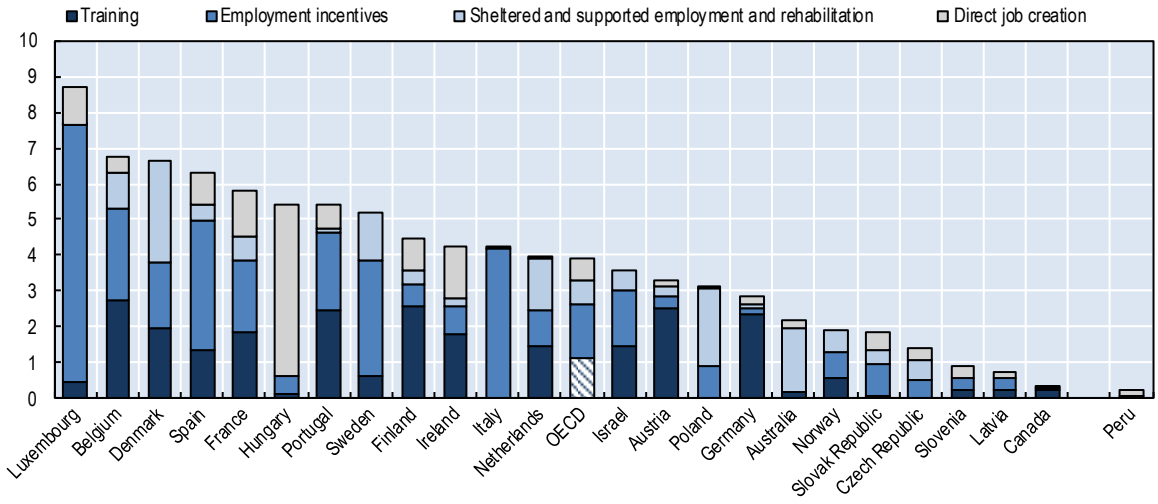
Other than intermediation services, such as job matching and counselling, for example, one important aspect characterising the activities of the Employment Centre is the focus on the activation of vulnerable populations and youth. In the OECD countries Active Labour Market Programmes (ALMP) involve various mechanisms, ranging from training (in classroom and/or on-the-job) and direct job creation services (in the public sector), to employment incentives (i.e. the payment of a portion of the worker's salary or reductions in employers' social security contributions over a specified period of time) and start-up incentives. In some countries, they can also include subsidies to the employment of people with disability and a long-term incapacity to work, vocational rehabilitation and sheltered employment programmes. As far as Peru is concerned, the main programmes implemented through PES are focussed on training (*Jóvenes Productivos* and *Impulsa Perú*) and public works (*Trabaja Perú*). Neither employment incentives, nor sheltered employment are part of the ALMP provided by the Ministry of Labour and Employment Promotion or the Ministry of Production (see Box 3.3).

One primary objective of ALMPs in the OECD countries is to improve the employability of jobseekers and to reduce aggregate unemployment. However in many LAC countries, including Peru, ALMPs tend to address simultaneously several other long-term objectives on top of employability (Kluve, 2016). For example, public works programmes are often used as forms of social protection, becoming a viable alternative to passive social assistance measures, such as cash transfers. Community benefits resulting from public works programmes make them the most socially accepted form of support to the poorest populations.

Between 2011 and 2016 the three main programmes coordinated by the MTPE benefited around 165 000 youth. The country's flagship ALMP that specifically targets the youth, *Jóvenes Productivos* reached roughly 100000 jobseekers, while *Trabaja Perú* and *Impulsa Perú* assisted around 38 000 and 26 000 young people, respectively. The international comparison suggests that participation in ALMPs remains significantly less frequent in Peru than in OECD countries. Taken as a percentage of the total labour force, in 2015 the share of Peruvians who participated in ALMP was as small as 0.2%, while the same rate for OECD on average exceeded 4% (Figure 3.3).

Figure 3.3. ALMP participants as a percentage of labour force, 2015

As a percentage of total labour force (15-64)



Note: Data refer to the share of ALMP participants in total labour force aged 15-64. The stock of ALMP participants excludes beneficiaries of start-up incentives programmes.
Source: OECD labour database.

Box 3.3. Activation programmes targeted at youth in Peru

Programmes coordinated by the Ministry of Labour and Employment Promotion

Jóvenes Productivos (Productive Youth, continuation of *Jóvenes a la Obra*) is the flagship Peruvian ALMP programme focused specifically on youth. It targets in particular vulnerable population living in poverty and extreme poverty. Its objective is to facilitate access to the labour market and support entrepreneurial activities of young people. It involves two training programmes, for job placement and for the self-employed.

Trabaja Perú (Work Peru, continuation of *Construyendo Perú*) is a public work programme that aims to alleviate poverty through creating short-term employment opportunities for unskilled labour force. The activities supported by the programme focus on the construction of new infrastructures, such as schools, healthcare centres and roads, for example. Although the programme targets individuals aged 18-64, 25% of participants were youth (18-29) during the period between 2011 and 2016. More than two-thirds of overall participants are women. The job opportunities offered lack a training component.

Impulsa Perú (Boost Peru, continuation of *Vamos Perú*) targets the population aged 18-64, seeking to promote employment, improve job skills and increase employability levels. It includes three pillars: 1) training for job placement; 2) training for self-employment, and 3) certification of labour competences. The first two pillars focus on the unemployed and underemployed population, along with workers at risk of job loss, between 30 to 59 years. Both are complemented by a Labour Competences Certification component (targeted at individuals aged 18 to 59), which aims to validate and acknowledge capabilities of individuals acquired through work experience. The programme recognises work competences of candidates my means of the issuance of a certificate.

Perú Responsable (Responsible Peru) aims to promote Corporate Social Responsibility (CSR). Its three lines of action are: 1) employment promotion with emphasis on young people, people with

disabilities and female heads of household; 2) strengthened employability through enhancing the competencies of the beneficiary population, including by means of vocational training centres; and 3) entrepreneurship promotion by means of the creation of opportunities for self-employment and initiatives of productive and formal entrepreneurship. Moreover the programme promotes the registration and the certification of companies that adopt social responsibility practices.

Fortalece Perú (Strengthen Peru) is a new labour intermediation programme launched in 2016. It focuses on disadvantaged regions (Arequipa, Ica, Lambayeque, La Libertad, Piura and San Martín, along with Metropolitan Lima). It aims to improve efficiency and pertinence of intermediation services offered by the Employment Centre.

Programmes coordinated by the Ministry of Production

MiEmpresa Propia (My own company) is a programme directed to foster entrepreneurship and includes services to support the expansion of small firms and the formalization of small- and micro-enterprises. These services comprise guidance and advice, the referral to a "one-stop shop" for formalization, advice regarding registration and taxation, and the provision of training vouchers for enterprises. MiImpresa Propia includes the New Entrepreneurial Initiatives (NIEs), a programme specifically targeted to start-up businesses. It offers training and advice to assist the development of new business ideas.

Start-up Perú is a new initiative targeted at entrepreneurs. It aims to stimulate the launch of new companies that offer innovative products and services with high technological content. A long term goal of the programme is to generate quality jobs and to reach out to foreign markets.

Innóvate Perú (the National Innovation Programme for Competitiveness and Productivity) aims to foster the adaptation of companies to technological change and to stimulate innovative entrepreneurship.

Source: MTPE's answers to OECD Policy questionnaire, MTPE web service http://www2.trabajo.gob.pe/, PRODUCE web service http://www.produce.gob.pe/ and ILO Compendium of ALMP in LAC.

3.2.3. Factors explaining the limited capacity of PES to support activation

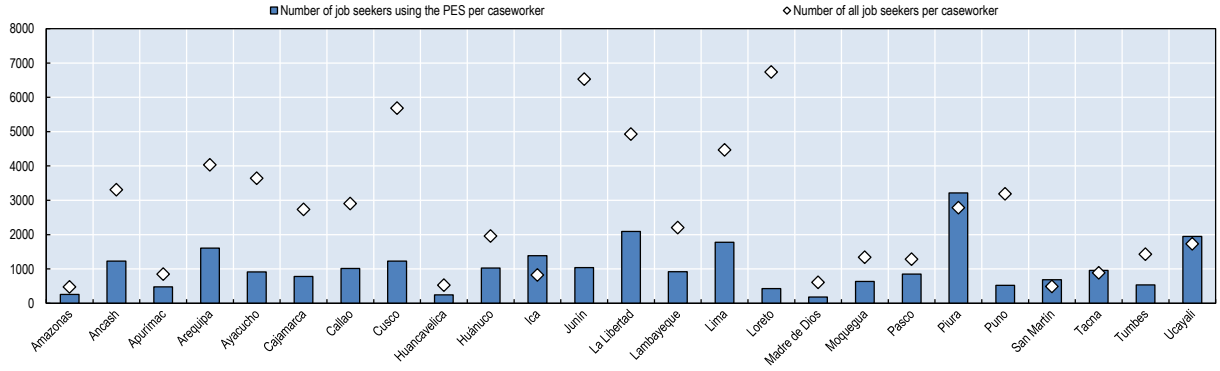
One important explanation of the limited capacity of Peruvian PES to boost the impact of activation policies is to be found in the fact that PES are severely understaffed by international standards. As of 2016, PES counted only 221 caseworkers, corresponding to a caseload rate of 1 300 PES users per caseworker. Although the average figure hides significant variations across regions (Figure 3.4), it makes for a very low number by international standards. For example, the average caseworker provides services to 202 jobseekers among OECD countries for which data are available (France, Germany, Italy, Sweden, Spain and United Kingdom).

Furthermore, the international comparison shows that spending on ALMPs is very low to generate a significant impact (see Figure 3.5). In 2015, spending for the three largest Peruvian programmes (*Jóvenes Productivos*, *Trabaja Perú* and *Impulsa Perú*) amounted to around PEN 300 million (USD 90 million or EUR 80 million), corresponding to 0.05% of its GDP. As a benchmark, the OECD countries devote on average 0.4% of their GDP to labour market activation policies.

Further hindering the effectiveness of ALMPs in Peru, the limited human and financial resources available are not directed towards the programmes characterised by the highest potential to raise youth employability. The evidence available for the Latin American countries suggests that training programmes are particularly well suited to strengthen the

integration of youth workers in the formal labour market (Escudero et. al., 2017). However, the largest share of spending for ALMPs (approximately 75%) is used for public works programmes that typically do not have a training vocation in Peru. Only 25% of this spending is destined to support the implementation of training programmes. By contrast, OECD countries mainly focus on training and employment/wage subsidies programmes that, at least in the OECD region, appear to work as a better option for re-integrating people who are at highest risk of exclusion from the labour market (Card, Kluve and Weber (forthcoming)).

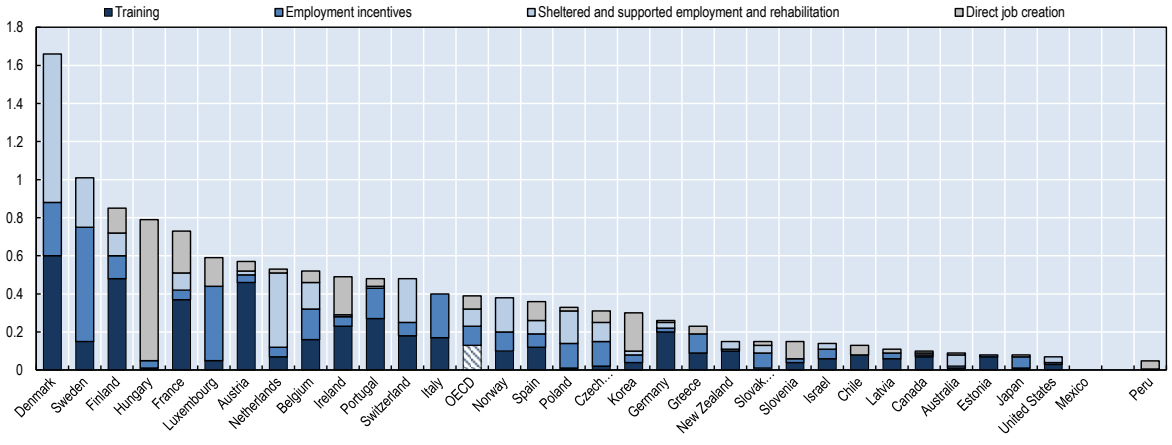
Figure 3.4. Number of job seekers who refer to PES per caseworker in Peru



Source: Data provided by MTPE and ENAHO 2016.

Figure 3.5. Expenditures on ALMP, 2015

As a percentage of GDP



Note: Data cover expenditures for the four types of programmes: Training, Employment incentives, Sheltered and supported employment and rehabilitation, as well as direct job creation. They do not include administrative cost such as cost of PES nor Start-up programmes. Data for Peru comprise expenditures for the three biggest programmes: Jóvenes Productivos, Trabaja Perú and Impulsa Perú. Data referring to the expenditures for Peru Responsible are not available. OECD refers to an unweighted average of the countries considered in the figure.
Source: Data for OECD countries from the OECD Labour Database. Data for Peru were provided by the Ministry of Labour and Employment Promotion.

3.2.4. Policy options for improving the role and attractiveness of employment services

Strengthening the capacity to reach out to young NEETs

The recent experience of several OECD-EU countries that have undertaken measures to widen the outreach activities of PES, with a view to strengthen the support provided to the most deprived low-skilled NEETs, would be beneficial for Peru to consider. This experience suggests the relevance of bringing PES services closer to the places where the NEETs meet. To this end, the European Network of Public Employment Services has proposed a strategy in four dimensions: i) *Communication* (disseminating information on PES offer); ii) *Collaboration* (building networks with partners); iii) *Multichannelling* (Providing new points of entry to PES through digital services); and iv) *Low thresholds* (One-stop-shops in easy access spaces) (EC, 2016 and EU 2015).

The practice to improve PES communication involves, among others, designating youth outreach workers and organising publicity campaigns. At the same time, the effectiveness of PES efforts to communicate with the NEETs could be strengthened by reinforcing the cooperation with the institutions that bring together young people. Intensive collaborations between PES, the schools and teachers, youth organizations and social activists can be instrumental to identifying school drop-outs and youth at risk of becoming NEETs. Examples of "detached" outreach models can be found in Sweden and UK, which have appointed 'street marketers' to provide direct street-based outreach to youth. Among the OECD countries, Italy and Norway have introduced innovative models of cooperation between PES and schools that help monitoring the attachment of young people to the labour market and enable early intervention. In addition, the Belgian *Le Forem* and German *BIZ-mobil* provide successful examples of multi-channelling, which uses a wide range of Information and Communication Technology (ICT) tools to advertise PES services and organize 'low threshold' PES units, capable of implementing out field campaigns in remote areas using mobile centres. These experiences are summarised in (Box 3.4).

Tailoring services better to specific needs

More could be done to gear the assistance currently provided by the Peruvian Employment Centre towards the specific needs of the most disadvantaged youth. For the main, counselling and advice rely on group workshops in Peru. Recent steps to enable Jóvenes Productivos to select training centres for the implementation of specified curricula and to facilitate the intermediation between youth and the firm sector go in the right direction. SOVIO offers access to personalised career guidance. These experiences could be used to inform the development of a new model of personal guidance, aimed at labour market integration of disadvantaged youth.

Greater capacity will be essential to deliver effective employment services

The implementation of personalised services on a larger scale will require the support of adequate measures to expand the number of PES offices, as well as staffing levels. In considering these measures, priority should be given to the most remote regions, where shortages in infrastructure and human resources are largest. Moreover, since the recruitment and the training of new staff to equip them with the skills needed to operate effectively may require some time, partnerships with private employment agencies could

be a viable option to alleviate capacity constraints of the Employment Centre in the short- to medium-term.

Box 3.4. New practices to reach out PES to the NEETs: A review of experiences across European countries

1. Unga-In - Sweden

The project was implemented between June 2012 and May 2014 in selected cities. It focussed on the creation of new outreach practices to communicate with the NEETs. As one key measure, it involved a team of young "marketers" supposed to reach out to vulnerable youth directly in the places most likely to be frequented by them (concerts, festivals and sport events). The programme was extensively advertised through multiple communication channels and was run in close cooperation with the schools.

2. Gang Advisers - UK

The initiative was designed by the UK PES in 2011, as part of the broader programme *Ending Gang and Youth Violence*. The strategy aims to engage vulnerable youth who are most at risk of becoming involved in gang activities. To this end, it uses a network of specialized outreach social workers, equipped with adequate skills to spot and reach out to the youth in their own environments. Such 'Gang advisors' provide a set of tailored advices with the ultimate goal being to succeed in getting them into education, training or employment.

3. Cooperation with education institutions - Italy

Italy has designed an innovative model of cooperation between schools and PES, which relies on data sharing between institutions. Twice per year the schools provide information to PES on early school dropouts. PES contacts the concerned youth directly to inform them about available support services and to encourage registration in PES.

4. Cooperation with education institutions - Norway

Norway has recently implemented a pilot programme to strengthen the effectiveness of the cooperation between the national public welfare agency (NAV) and the schools. Designated youth specialists are placed in high schools four days a week to provide vocational guidance and support to youth with a view to facilitating their transition from school to work.

5. Le Forem - Belgium

In Belgium the Walloon Office for Vocational Training and Employment, known as *Le Forem*, employs broad social media facilities to communicate with young people and disseminate various dimensions of its outreach strategy. It uses extensively Facebook, YouTube and Twitter to promote PES services and advertise job and training opportunities.

6. BiZ-Mobil - Germany

The German PES has introduced mobile career information centres to reach out to individuals who are not yet PES clients. The BiZ Mobil runs field campaigns visiting schools, training institutions and job fairs. In addition to distributing information folders and brochures on all issues related to the application, training, learning and work, it organizes film and slide shows. It provides access to special applications through the internet allowing the identification of individual interests and predisposition and the creation of potential career profiles.

Source: EC (2015) "PES practices for the outreach and activation of NEETs"; OECD (2016) "Society at a glance".

To broaden the job opportunities for youth candidates, the Employment Centre should also increase the number of offers in the job bank. Analysis of the job bank and the posts available at the central web portal of PES shows that as of November 2017 there were no more than 6 500 vacancies. Moreover, most job offers are targeted at medium-skilled or high-skilled professionals with secondary or even tertiary education, which shows that PES does not provide many opportunities for the most disadvantaged low-skilled youth. As a way of upgrading the vacancy bank, private employers should be encouraged to place more job advertisements on the platform. To this effect, employers could be granted free access to the database of youth candidates in exchange for advertising vacancies on PES platform.

Strengthening the training component of youth ALMPs

Recent studies on ALMPs in Latin America have pointed to the positive impact of dual training-with-apprenticeship programmes on the probability for youth participants to find a job in the formal sector (Escudero et. al, 2017; OECD, CAF and ECLAC, 2016). These studies also show that much of the success of on-the-job training depends upon the capacity to engage the employer sector. Countries typically have a range of employment and/or wage subsidies in place to reinforce such an engagement and Peru is no exception. As part of *Jóvenos Productivos*, for example, the Peruvian business sector already participates in the design and implementation of training in close collaboration with the authorised training centres and the government.

Nevertheless, the evidence available is that firms in Peru make little use of the apprenticeship incentives provided to them. The factors behind this little traction include the obligation to use the tax benefits exclusively for employees listed in the electronic payroll system of the company. Since many youth candidates to become training apprentices do not have a job contract, they do not appear in the electronic payroll and therefore are not eligible for the tax benefit. In addition, the tax authority can apply considerable discretion when it decides which parts of the training expenses are eligible for the tax benefits. Given that this discretionary power is not precisely defined, firms prefer to err on the side of caution, which results in an underinvestment in training for fear of being declared ineligible for the benefit.

Public work programmes to boost incomes and work experience

Besides providing income support, public works programmes have been argued to bring a number of other benefits (Subbarao et al., 2013). Because they provide individuals with work experience, they help maintain and/or improve skills and therefore promote labour force participation and more permanent pathways out of poverty than simple cash transfer programmes. They can be particularly helpful for groups at the margins of the labour market, such as women, youth and the low-skilled, and help them raise their bargaining power by guaranteeing work at the minimum wage rate and, therefore, enforcing a minimum wage rate on all casual work. Public works also tend to rely on self-selection as the primary targeting mechanism with the central parameter being the wage at which the work is rewarded. The wage for such programmes has to be set at a level low enough to attract only those in need of temporary work, but high enough to provide an adequate source of income.

In addition, public work programmes have a number of secondary benefits, including the creation of public goods and the promotion of social cohesion. In some countries, they have also been used for environmental (e.g. generation of water storage, afforestation,

and compost generation) and social purposes (running child care centres, nursing homes, school kitchens, etc. see Lieuw-Kie-Song et al., 2010).

More recently, some programmes have also been moving beyond the mere provision of temporary work by providing training opportunities to prepare participants for possible longer-term employment, self-employment, or further education and training. The basic motivation behind this is to provide individuals with a more permanent pathway out of workfare and poverty. The type of training provided can include vocational training, basic skills training (literacy and numeracy) as well as entrepreneurship training. These considerations suggest that *Trabaja Perù* could benefit from a strong training component.

The supportive role of certification

In order to strengthen the labour market prospects of youth, on-the-job training experiences should be certified by an independent certification body. Recent work by Cahuc, Carcillo and Minea (2018) sheds new light on the effects of individual pathways with various forms of labour market experience for youth who have dropped out of high school. Building on information collected through a field randomized experiment (i.e. after sending fictitious résumés to real job postings), their results indicate that the likelihood of receiving a call-back from employers sharply improves when youth get a certification of their skills. Other pathways in the labour market without skills certification seem unable to improve the employment outlook of unskilled youth. Notably subsidized or non-subsidized work experience, either in the market or non-market sector, even for a few years does not significantly improve the chances to be contacted by employers compared with an unemployment spell of the same duration. These results suggest that accruing work experience, even in the market sector, is not always sufficient to get more frequently call-backs. Employment support measures, such as temporary jobs in the non-market sector or hiring subsidies in the market sector, should be conditional on getting a certification of skills at the end of the employment period, at least for previously unskilled youth.

Nurturing a monitoring culture

Developing an impact evaluation culture is also critical. One key challenge in Peru relates to the limited access to data and information on the outcomes of ALMPs; for example, information from randomized experiments about these outcomes are scarce in Peru. To fill this gap, the Ministry of Labour and Employment Promotion could build on the experience of the Ministry of Education, which launched MineduLAB in 2016. Working in partnership with regional arm of the Abdul Latif Jameel Poverty Action Lab (J-PAL LAC) and Innovation for Poverty Action Peru, MineduLAB is actively engaged in evaluating the effectiveness of innovative education policies to improve children's learning in the country. To this effect, it makes extensive recourse to randomized controlled trial field experiments. A similar approach could be used to assess the performance of ALMPs.

Youth guarantees to re-engage NEETs in employment, education or training

Many OECD countries have recently committed themselves – through so-called "youth guarantees" – to providing all young NEETs with a suitable employment and/or educational offer, with a prominent example being the European Union's Youth Guarantee scheme, introduced in 2013. It is meant to ensure that all young people under the age of 25 – whether registered with employment services or not – receive a good-

quality offer of employment, continued education, an apprenticeship or a traineeship within four months of leaving formal education or becoming unemployed. Such initiatives can be a valuable tool to help improve young jobseekers' employment prospects. Their success relies, however, on effective outreach to inactive and disconnected youth. The quality of options offered, moreover, is important, and solutions must be tailored to young jobseekers' individual needs.

3.3. Strengthening income support to unemployed youth, conditional on active job search in the formal sector

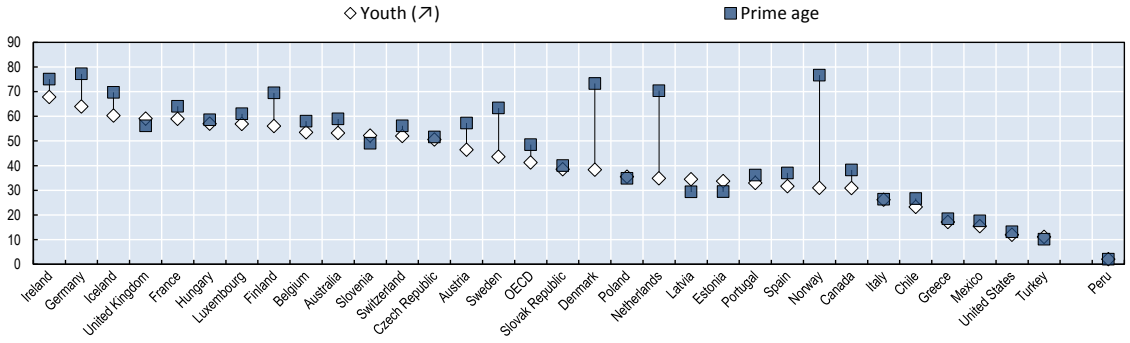
Welfare systems based on the provision of a balanced mix between social insurance and social assistance are a key to reconcile flexibility of labour markets with income security. Social safety nets act as an insurance mechanism to help the jobless overcoming liquidity constraints and protect them from falling into poverty upon loss of labour income (OECD, 2016a). They are of utmost importance for young people on the way to self-sufficiency.

Recent analysis by the International Labour Office points the accent on the extension of social security coverage, the institutionalization of the contributory unemployment insurance, (complemented by social and labour integration policies) and the improvement of the coordination between contributory and non-contributory policies, which are important priorities for Peru to tackle (Casalí et. al, 2015). In line with this diagnosis, several initiatives have been undertaken by the Peruvian government in recent years to broaden the coverage and strengthen the generosity of social protection. In the process, the related public spending reached over USD 2.5 billion in 2015 (1.4% of country's GDP).

Figure 3.6 displays the share of the working age population (youth aged 15-29, in the comparison with prime age workers 30-64) that would be poor if they did not receive social protection payments, such as unemployment benefits, social assistance, family allowances or disability benefits. OECD countries on average protect around 40% of the youth and 50% of prime age individuals (30-64) from falling below national poverty lines, thanks to social transfers. In Peru, the proportion of people effectively protected from (relative) poverty through provisions from the social protection system equals around 2% for both age groups.

Figure 3.6. Ability of social safety nets to keep youth above the national poverty line

Share of individuals with pre-transfer incomes below the national poverty line who are above the poverty line after receiving public transfers



Note: The figure shows the percentage of youth (15-29) and non-youth individuals in working age (30-64) who were poor before public transfers and who are no longer poor after public transfers. Individuals are "poor" if they live in a household with an equivalised household income (i.e. adjusted for the number of household members) that is less than 50% of the median income. Public transfers include family allowances, disability benefits, unemployment benefits and social assistance. They exclude public pensions. Data refer to 2014 for OECD countries and to 2015 for Peru.
Source: OECD calculations based on: for EU countries EU-SILC Survey, for Australia HILDA Survey, for Chile CASEN, for the US CPS and for Peru ENAHO.

3.3.1. Unemployment insurance is not fully developed

Adequate support during unemployment spells provides an essential replacement of lost income to smooth consumption. It can also help enhancing job quality by lessening the constraint on the unemployed to accept first job offers to cover subsistence needs. In emerging economies, where informality is widespread, unemployment insurance may additionally bring important macroeconomic gains through fostering labour force participation and formalization.

As a counterpart to the abolition of the severance pay in the occurrence of *justified dismissals*, Peru established a system of Unemployment Insurance Savings Accounts (UISAs) in the early 1990s, at a time when other Latin American countries were undertaking similar initiatives (Brazil, 1989, and Colombia, 1990). Up until then there used to be a tenure bonus, which became the Compensation for the Length of Services (*Compensación por Tiempo de Servicios*, henceforth CTS, introduced in Chapter 2). This individual saving scheme is financed by the employer with a deposit equivalent to half of the employee's monthly salary payable every six months (May and December). The scheme is intended for private employees not covered by other special regimes. Each worker can choose the financial institution where to deposit the fund. Employers and employees can through a private arrangement agree that the employer is responsible for the deposit.

Important amendments introduced since 1996 have considerably diluted the capacity of the CTS to protect the employees against the risk of unemployment. In particular, workers have been allowed to withdraw all or part of their CTS deposits in case of an emergency other than unemployment (for instance to cancel loans and debts incurred with financial institutions), or at cases to help "stimulate domestic demand". They were also allowed to use the funds as loan guarantees against the purchase or construction of a property, a renovations or the acquisition of land. According to the latest law adjustments

(Emergency Decree 001-2014), workers can withdraw 100% of their contributions above four monthly gross salaries accumulated in the CTS. This means that an equivalent of only four gross monthly salaries must be kept in the individual's CTS deposit to prepare for the eventuality of unemployment.

For youth jobseekers, the limited capacity of the Peruvian unemployment benefit system to work as a safety net is compounded by two additional factors. First, more precarious employment conditions for youth workers than adult workers mean that their contribution records are relatively more volatile, which prevents them from accumulating enough savings in their CTS account. Second, young people are disproportionately hired by small and microenterprises, which are exempt from the payment of the CTS (cfr., Chapter 2, Box 2.2). The combinations between these factors means that merely one in ten youth employees have their CTS accounts contributed parallel to the payment of their wage bill.

In principle, severance pay remains an option in the event of *unjustified dismissal*. As an alternative to the constitutionally backed right of reinstatement, dismissed workers can choose a termination payment equal to 1.5 monthly salary per each full year of service (if employed under a permanent contract) and 1.5 monthly salary per each full month of remaining service up to a maximum of an annual salary (if the work agreement was fixed-term). In practice, however, OECD calculations based on ENAHO figures suggest that in 2015, the severance indemnity was paid to less than 1% of dismissed youth.

3.3.2. Lack of social assistance targeted at unemployed people

Within the Strategy for National Social Development and Inclusive Growth, since 2011 MIDIS has carried out an articulated programme to strengthen income security for all. This strategy relies on a life-cycle approach, embracing five strategic axes dedicated to populations at different stage of live: nutrition and early childhood development targeted at children aged 0-3; integral development of childhood and adolescence for the 6-17 years old; economic inclusion for working age population 18-64; and protection of the older adults (65+).

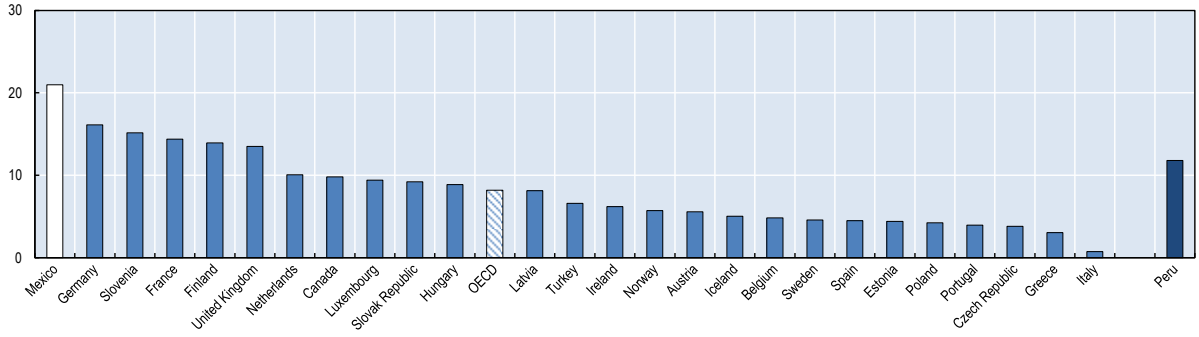
Although the strategy is not specifically intended to provide assistance to the unemployed, it includes schemes that indirectly support youth jobseekers. For example, unemployed youth can take advantage of *Juntos*, a conditional cash transfer programme, when living in a poor household where a child under 19 attends school. Or, they can indirectly benefit *Pensión 65*, a social pension programme, when part of a household with older relatives entitled to the social pension *(*Box 3.5*)*. In 2016 just about 7% of unemployed youth were living in households benefiting from social assistance -- receiving on average PEN 115 per month (equal to USD 35 or EUR 30). The great majority of them received support from *Juntos*. *Pensión 65* covered only around 1% of households with an unemployed youth – although many of them were receiving the *Juntos* allocation, at the same time.

In 2016 one in eight youth in Peru were receiving directly or benefiting indirectly from *Juntos*. While this places Peru well compared to the OECD average (equal to 8%), the coverage of *Juntos* remains limited relative to the needs of the country. Unlike other regional partners - Mexico and Brazil, for example - Peru lags behind in providing assistance to the poorest quintile of the population, as recommended by the 2030 Agenda for Sustainable Development. The coverage of *Juntos* slightly exceeds half that of Mexico's *Prospera* (Figure 3.7). Moreover, there are large disparities in numbers of youth beneficiaries between the regions and urban-rural areas. While around 30% of rural

unemployed youth live in households receiving the transfer, less than 5% of urban unemployed youth benefit from it (Figure 3.8).

Figure 3.7. Share of youth beneficiaries of social assistance

As a percentage of the total youth population (16-29), by country in 2014 or most recent year available



Note: Young people are considered beneficiaries of social assistance either if they received such benefits at any point in the previous year or if they live in a household where any member received it. OECD figures refer to 2014 except for Australia and Switzerland (2013), Denmark and Turkey (2012) and Canada (2011). Figures for Peru refer to 2016.
Source: OECD calculations. For Peru data come from ENAHO Survey 2016.

Box 3.5. Social Assistance Programmes indirectly benefiting youth above 19 years old

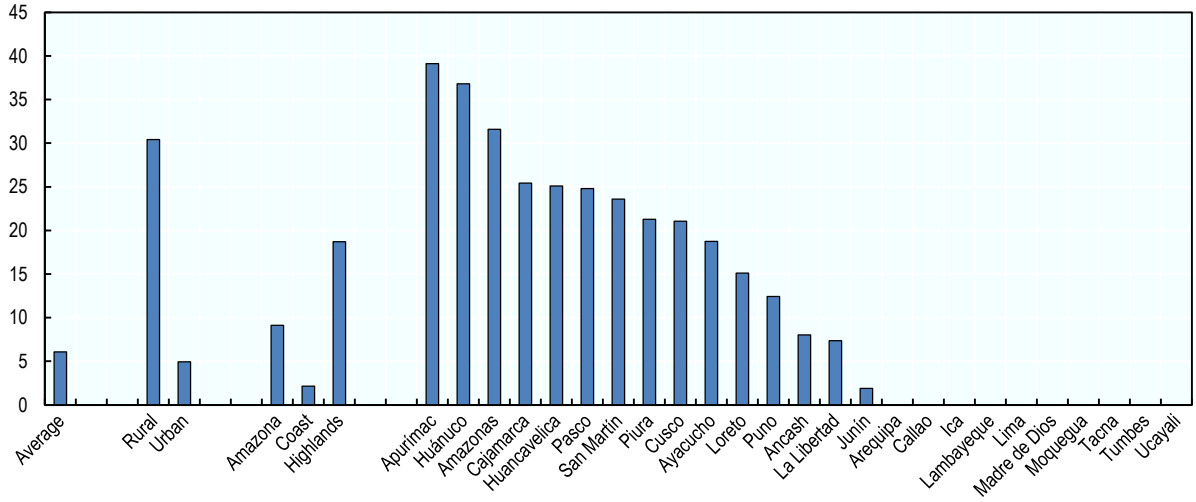
Juntos, a conditional cash transfer programme, is the main social assistance tool available in Peru to target vulnerable populations. Since its creation in 2005, it seeks to alleviate poverty and extreme poverty through a multi-dimensional approach that tackles simultaneously nutrition, health, and education issues. The programme focuses on districts with high levels of poverty (40%, or more) and indigenous communities regardless of their placement. The target units are poor and extremely poor households with children up to 19 years old or with pregnant women. The programme's aim is to break intergenerational poverty by putting children from poor households in a poverty alleviation *trajectory* (i.e. not just immediate alleviation, but creating the conditions for sustainably escaping poverty). In 2016, participating households received a cash transfer of PEN 200 every two months, regardless to the size of the family. Conditions for receiving the transfers are that *families* take care of monitoring health and ensuring school attendance of children, while pregnant women have the obligation to undergo regular check-ups.

Randomized evaluations of *Juntos* have shown that the programme has positive welfare effects in terms of income and consumption and has significantly contributed to poverty reduction. It also contributes to increase the utilization of health services by women and children (Perova and Vakis, 2009), and is seen to positively affect nutritional outcomes (Sanchez, Melendez, and Behrman, 2016, Sánchez and Jaramillo, 2012, and Andersen et al., 2015). Moreover, studies find significant effects on women empowerment, specifically on economic household

decision-making, self-esteem and perceptions of life (Alcazar et.al, 2016).

Programa Nacional de Asistencia Solidaria – Pensión 65 is a social pension programme targeted to individuals aged 65 and over, living in conditions of extreme poverty and not eligible to receive a pension from the contributory system. Beneficiaries are entitled to a monthly transfer of 250 soles. The goal of this non-contributory pension plan is to alleviate poverty and reduce vulnerability of older populations. It is part of the Peruvian social inclusion model, whose long-term objective is to ensure that individuals from vulnerable groups can access a full range of integrated social services during their old age.

Figure 3.8. Percentage shares of unemployed youth living in a household in which any of the members receives the *Juntos* transfer, 2016



Source: OECD calculations based on ENAHO survey for 2016.

3.3.3. Policy options for devising an income support scheme for unemployed youth that encourages job search

Improving the unemployment benefit system

As a short-term solution, Peru could consider strengthening the requirements for CTS withdrawals in the event of unemployment. For example, the threshold above which employees are allowed to withdraw 100% of the CTS funds could be raised to six monthly gross salaries from the current level of four monthly salaries. This means that the equivalent of at least six gross monthly salaries would have to be kept in the individual's CTS account to prepare for the eventuality of unemployment, corresponding to an increase of 50% from today's threshold. In addition, access to the core part of the CTS account could be made at least partly contingent upon the jobseeker's active job search in the formal sector.

A more ambitious approach would involve re-designing the current unemployment insurance system possibly combining a system of individual saving accounts with a common solidarity fund and including elements that encourage job search. This two-tier approach could draw inspiration from the model set up in Chile. Under the first pillar,

individual savings accounts for each worker would be financed by contributions from the worker and the employer in the case of open ended contracts, and only by the employer in the case of workers with atypical contracts. The second pillar would rely on the creation of a solidarity fund (*Fondo de Cesantía Solidario* in the Chilean UISA scheme), financed by the employers and from the government budget. Unemployed workers would only receive payments from the solidarity fund if their own savings are insufficient to cover their period of unemployment.[2] Also, the number of payments from the solidarity fund would be limited – for example, payments can be withdrawn at most twice over a five-year period in the Chilean system.

On top of the inclusion of the solidarity fund, another salient characteristic that sets the Chilean model apart from other unemployment insurance systems in Latin America is the incorporation of a strong link to labour market activation (Sehnbruch and Carranza, 2015). For example, registration with PES is automatic under the Chilean UISA. This ensures that unemployed workers receiving insurance payments and made redundant for economic reasons benefit from preferential access to the vocational education and training programmes provided by the country's national training and employment service. At the same time, insurance payments are contingent upon the worker's acceptance of a place in the publicly provided vocational training programme. Similarly, the unemployed cannot decline without justification a job offer by PES that would have rewarded him an earning at least equal to 50% of the last earning.

A number of potential strengths of the Chilean UISA system could appeal Peru (Ferrer and Riddell, 2009; Huneeu, Leiva and Micco, 2012; Sehnbruch and Carranza, 2015):

- First, the combination between individual savings accounts with pooled risk sharing provides for a more adequate insurance against unemployment risks than the blend of CTS and severance pay.
- At the same time, the individual savings accounts help containing the risk of adverse selection typically stemming from the fact that only those workers likely to become unemployed contribute -- a situation that could lead to undermine the long term sustainability of the system. In fact, the prospect to defer the use of the deposits to after retirement, not only raises the attractiveness of the scheme to a much wider pool of contributors. It also generates an incentive to avoid falling in long-term unemployment since the individual has an interest to accumulate as much as possible funds to increase old-age income. Furthermore, the presence of strong mutual obligation requirements helps reducing concerns about moral hazard that characterise the traditional unemployment insurance systems.
- Finally, the findings of new analysis suggest that affiliation may support job quality. These results point to a small difference between wages prior and after the unemployment spell for workers affiliated to the Chilean UISA. It also finds no difference in contract types (Nagler, 2016).

In thinking about the implementation of a system modelled along the Chilean UISA, some decisions would have to be taken and policy makers will face some key implementation challenges. One challenge relates to the existing high level of turnover induced by the extensive use of temporary contracts in a context of strong labour market duality. The other challenge stems from the extent of the administrative and budgetary efforts required to implement effectively strong mutual obligation requirements in an economic environment characterised by a sizeable informal sector, which implies that abuses may be difficult to monitor. These considerations suggest that initially it might be

more prudent to keep replacement rates relatively low and benefits durations short. From a broader strategic perspective, they underscore the importance of following an integrated policy approach that takes into account the policies discussed in Chapters 2 and 3. The policy insights of Chapter 2 precisely aim to reduce labour market duality. The previous sections of Chapter 3 provide useful insights as to how to improve the effectiveness of activation.

Targeting social assistance at NEETs who actively search a job in the formal sector

The Peruvian government could also take steps to better gear the provisions of social assistance to the needs of jobless youth who, reflecting their very short, or even lacking, work histories, do not qualify for the unemployment benefits. Implementing a mean tested *Jobseeker Allowance* (henceforth JA) that provides financial support to unemployed persons not eligible for any kind of benefits, could represent a desirable option. A salient feature of a JA scheme is that, as a counterpart to the unemployment subsidy, candidates would be mandated to register with PES and to engage intensely in job search. Beneficiaries would not be in a position to reject suitable job offers.

Conceived in this way, the JA scheme is very similar to the non-contributory component of the Chilean UI system. However, qualification criteria are typically less restrictive since they do not require an earlier work history, implying that first-time job seekers can also apply for benefits. The scheme can thus be particularly appealing for attracting Peruvian NEETs into labour markets. Since the costs of implementing the JA on a universal scale can be significant, it could exclusively target the NEETs as a way of containing the expenses.

An alternative solution would involve subordinating access to existing social assistance transfers (i.e., *Juntos*) to the effort to actively search for a job. Obliging capable members of families receiving the subsidy to register with PES and to participate in activation could be a viable way to motivate youth to search for a job. Roughly 10% of Peruvian NEETs, i.e. 180 000 youth, live in households entitled to the *Juntos* transfer. At the same time, Peru could also use *Juntos* as a tool to reward achievements. For example, the Chilean programme *Ingreso Ético Familiar (Ethical Family Income* provides an extra support to beneficiaries who have integrated the formal sector after obtaining an educational degree (See Box 3.6 for details).

Box 3.6. Chile's *Ingreso Ético Familiar*

The programme *Ingreso Ético Familiar*, IEF; Ethical Family Income) was launched in 2013. This innovative antipoverty programme combines unconditional and conditional transfers. The programme is tailored to the extreme poor and vulnerable populations, seeking to develop skills that place the families on stable, long-term production and employment pathways. By 2015, it was serving 137 000 families, or around 549 000 individuals, with an annual budget of 232 billion Chilean pesos (USD 360.25 million), representing 0.16% of Chile's gross domestic product (GDP).

The programme supports families through a package of subsidies organized into three pillars: *Dignity*, *Duties* and *Achievements*. The *Dignity* pillar is unconditional and the subsidies are paid for a maximum period of 24 months to families whose income falls below the extreme poverty line. The second pillar, *Duties*, targets families with children up to 18 years old and is conditioned on fulfilling co-responsibilities related to school attendance and routine check-ups of the health of children. The pillar *Achievement* provides an extra support to families that attain outstanding results. These can include a School Achievement Bonus, provided to students under age 24 who demonstrate outstanding academic performance; a Female Employment Subsidy, aimed at encouraging the engagement of women in formal work; a Secondary School Graduation Bonus provided to students who earn a high school diploma at an institution accredited by the Ministry of Education; and a Formal Employment Subsidy to promote formal work among those participating in the IEF's social and occupational support programme. It is a one-time subsidy given once the individual has made four consecutive health, pension, or unemployment insurance contributions.

Since the programme is still relatively new, the impact has yet to be fully studied. However, reflecting its innovative design, the project has the potential to generate important effects on beneficiaries' income school achievements, employability and formalization.

Source: IADB Conditional Cash Transfers Toolkit : https://www.iadb.org/en/toolkit/conditional-cash-transfer-programs

Using ICT to leverage the development of social protection

ICT can provide a useful support to the development of social protection transfers. For example, it can facilitate the identification of individuals registered with PES and at the same time are beneficiaries of welfare programmes. This could help conditioning the transfer of unemployment benefits on active participation in PES services.

Recourse to systems of unique identification number and unified contribution collections has been marked across LAC countries. The establishment of Brazil's database *Cadasdro Unico* dates back to 2001. It was built on the initial data collection efforts for *Bolsa Família* (the flagship Brazilian cash transfer programme) and now covers more than 20 million households and is used to coordinate several different social safety programmes. Chile's *Integrated System for Social Information* (*SIIS*) is an ICT platform conceived to link many databases belonging to public entities through the internet. *SIIS* is often cited as one of the most advanced example of integrated data management across the social protection sector and beyond (Barca and Chirchir, 2014). In Peru, the civil identification system, *Reniec*, allows social security services to reach out to remote populations in the Andean and Amazonian areas and to indigenous communities (Reuben and Carbonari, 2017). The benefits of these practices to the population are visible in terms of reduced

fragmentation of services and reduced administrative costs and errors. At the same time, the administrations gain in terms of improved data exchanges across institutions and reduced abuses.

Overall, these advantages mean that ICT can play an important role to help strengthening institutional coordination of the system of social protection. Yet, the digital divide remains strong in Peru, where 34% of NEETs still declared non-use of the internet in 2016. Increasing access to an affordable digital infrastructure, especially in remote rural areas, is a key to strengthening regional development and improving the integration of disadvantaged youth into labour markets. An intermediate solution that could ease the lack of access to the internet, while at the same time attracting youth to PES, could be through promoting the wider dissemination of toll-free kiosks with PC terminals in the regional offices of Employment Centre.

3.4. Reducing the skill mismatch

Skill mismatch hampers the smooth integration in the formal labour market of youth job seekers, which in turn has an impact on their job satisfaction, motivation and self-esteem. At the macroeconomic level, it can induce substantial productivity losses due to misallocation of workers to jobs, with over-skilling and over-qualification -- which happens when the individual is hired in a job that requires lower skills proficiency or a lower education level than the one acquired -- being particularly costly.

From a dynamic perspective, the demand for skills by the business sector is in continuous evolution, driven by economic development. Adjustment costs may be significant and are more likely to be borne by the least skilled and the most disadvantaged youth. Combined with rapid technological progress, demographic change and increased globalisation, these trends may lead to exacerbate income inequalities. Moreover, the new forms of work that are emerging raise serious concerns about the quality of jobs that are created.

What is important in this context is to build resilient and adaptable labour markets that allow workers to manage the transition with the least possible disruption, while maximising the potential benefits offered.

3.4.1. High prevalence of over-qualification and field-of-study mismatch

Skill mismatch may arise along two dimensions, a vertical dimension that relates to *qualification,* or a horizontal dimension, related to *field-of-study*. Qualification mismatch arises when workers have an educational attainment that is higher or lower than that required by their occupation. If their education level is higher than the requisite, workers are over-qualified; if it is lower, they are under-qualified. Field-of-study mismatch arises, instead, when workers are employed in a different field than what they have specialized in.

To improve the understanding about the interplay between skill supply and skill demand, the OECD has developed a new methodology that allows gauging country-specific *Skills for Jobs Indicators* (OECD, 2017). The qualification mismatch is obtained by comparing individuals' qualification levels with the qualification requirements specific to a given occupation. Such requirements are approximated by the most common (modal) educational level of workers employed in a given occupation. On the other hand, the field-of-study mismatch is evaluated by comparing the actually pursued occupation against the discipline of education. The reminder of this section applies the new

methodology to the case of Peru, with Box 3.7 providing a description of the indicators used.

Box 3.7. OECD Skills for Jobs Indicators

The *OECD Skills for Jobs Indicators* include, among others, two indicators of skill *mismatch: qualification mismatch* and *field-of-study mismatch.*

The *qualification mismatch* index estimates the share of workers in each occupation that are under- or over-qualified to perform a certain job. This is obtained by computing the modal (i.e. most common) educational attainment level for each occupation (as classified by the 2-digit ISCO codes) and using this as a benchmark to measure whether individual workers' qualifications match the typical education requirement of the occupation. Over-qualification appears when the highest level of education achieved by an individual worker in an occupation is above the modal level for all workers in that occupation, while under-qualification appears when individual's education falls below the modal level.

The *field-of-study mismatch* index is calculated following Montt's (2015) methodology, which assumes that certain fields of study (ISCED) prepare workers to participate in certain occupations (ISCO). As a result, individuals are considered well matched if they work in the occupation that is considered to be a good fit for their field of study and mismatched otherwise.

Source: OECD, 2017.

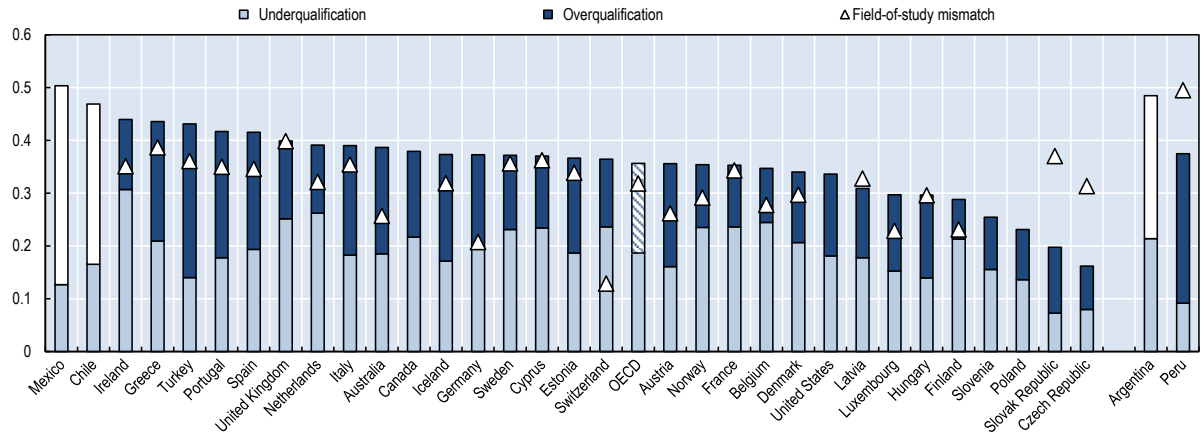
Analysis of the two indicators suggests that skill mismatches are pervasive in Peru, both in terms of misalignment of education levels with respect to jobs that are in demand and field-of-study. Nearly 38% of Peruvians aged 15-64 are employed in jobs that require different qualification level and almost 50% (of those aged 15-34) are mismatched by the field of study (Figure 3.9).[3]

Whereas the overall degree of qualification misalignment in Peru is in line with the OECD average, the nature differs. Unlike in OECD countries, where under-qualification tends to be more prevalent, in Peru roughly three-quarters of qualification mismatch is due to over-qualification. About 28% Peruvians work in jobs that require lower educational levels than they hold, while around 8% perform jobs without sufficient qualifications. Over-qualification seems to be a feature common to different LAC countries. For example, Mexico and Chile, whose over-qualification rates equal 38% and 30% respectively, score worse than Peru, while Argentina does slightly better (27%).

Field-of-study mismatch fuels additional skill imbalances in Peru. With virtually half of graduates working in a different profession than the one for which they pursued education, Peru lags far behind the OECD countries. This means that obtaining a tertiary level education, or specialized secondary education, does not necessarily help smoothing the transition to the labour market since the field of study is not well aligned with labour market needs. It is important to underline that the field-of-study mismatch is not necessarily a reflection of the qualification mismatch. 56% of cases of field-of-study mismatch are associated with over-qualifications. The remaining 44% of cases are individuals employed in jobs at the adequate level, though in a field that does not correspond to the profession learned.

Figure 3.9. Incidence of qualification and field-of-study mismatch, 2016

As a percentage of workers aged 15-64



Note: Field of study mismatch is estimated only for individuals below age 35. OECD refers to an unweighted average of 32 countries presented in the figure. Field-of-study mismatch not available for Argentina, Canada, Chile, Mexico, Poland, Slovenia and United States. Data for Germany refer to 2013.
Source: OECD calculations. Data available at *OECD Skills for Jobs Database*, 2018. Estimates for Peru are based on ENAHO 2016.

Important heterogeneities in terms of skill imbalances exist among different age groups, occupations and educational profiles of job candidates. Young workers are more prone to qualification mismatches than workers of prime age. Roughly 35% of all employed Peruvian youth aged 15-29 do jobs that require a lower education and around 10% are underqualified. The field-of-study mismatch for the cohort aged 15-29, equal to 51%, is also somewhat higher than for the entire group of reference (15-34).

Moreover, the mismatch is more common in less demanding occupations, which absorb the surplus of (over-)educated individuals. Like in the OECD countries, in professions that strictly require formal education, such as medical doctors or lawyers, the mismatches are low. Conversely, in typical medium- and low-skilled occupations such as vendors, construction workers or workers in mining, manufacturing and elementary occupations, up to 60% of the employed hold higher qualifications than necessary for the job.

3.4.2. Reasons behind Peru's skill mismatch

In principle, a persistent skill mismatch may be the outcome of two acting forces. Either, on the supply side of the labour market, workers do not adjust fast enough to changes in skills demand by acquiring the right skills or, on the demand side, the business sector is unable to keep up with changes in skills levels by creating jobs that use the skills available (Rathelot and Van Rens, 2017). In practice, the explanation of the skill mismatch reflects a combination of both acting forces.

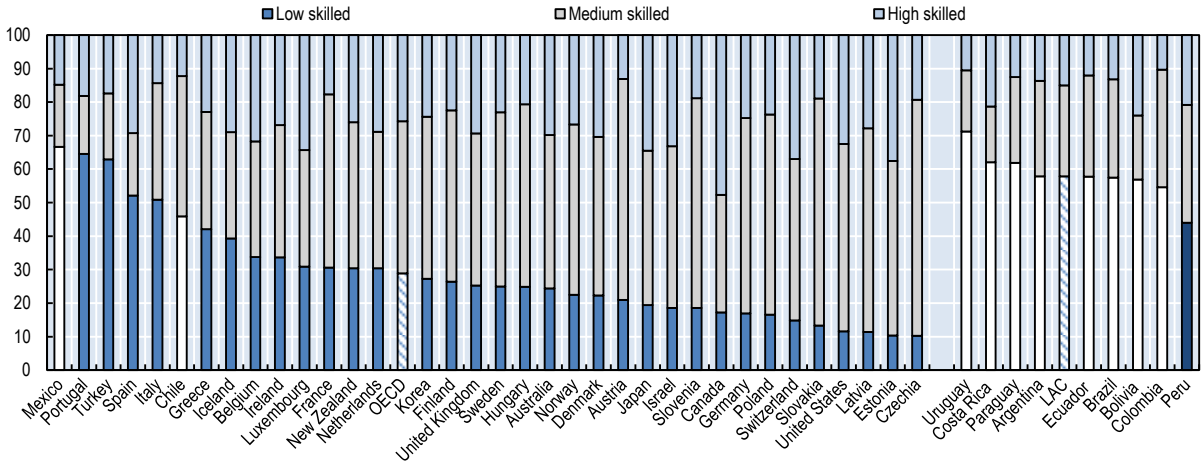
Higher school enrolment and educational attainments but low quality education

Over the past decade Peru made remarkable progress in terms of school enrolment and educational attainments. UNESCO data show that the country is well on the way to creating a highly educated labour force. With 21% of population aged 25 and over holding a tertiary degree, and 35% holding an upper-secondary degree, Peru outranks

many countries from both LAC and OECD regions in terms of human capital endowments (Figure 3.10). At the same time, youth attain systematically higher educational levels than their peers did not long ago. With primary schooling being virtually universal today, 80% of adolescents continue education at a secondary level and nearly 35% of youth aged 18-21 enrol in post-secondary education. Consequently, more youth than ever before are graduating from tertiary level educational institutions.

Figure 3.10. Shares of population by educational attainments

As a percentage of the total population aged 25 and over

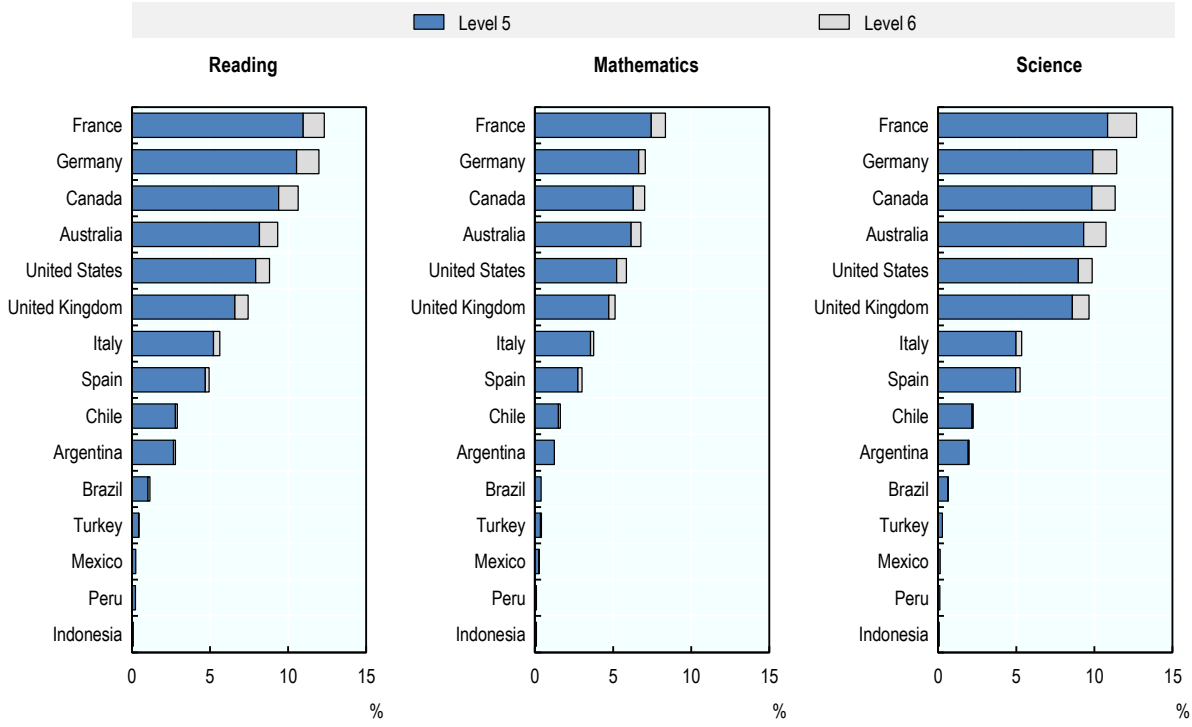


Note: Low-skilled refers to education lower than upper level secondary school; Medium-skilled refers to education lower than a bachelor equivalent tertiary degree; High-skilled corresponds to a bachelor equivalent tertiary degree or higher. OECD is an unweighted average of 35 countries. LAC is an unweighted average of 11 countries (two OECD Member countries and nine Non-Member countries). Data refer to 2016.
Source: UIS database.

Despite the improvement in enrolment and schooling attainments, there is still scope to enhance the quality of the educational system in Peru. The OECD Programme for International Students Assessment shows that Peruvian high school students not only lag far behind their counterparts from the best performing countries, but also score systematically worse than students from other LAC countries participating in the survey. The share of Peruvian pupils who in the latest edition of the test achieved one of the top two proficiency levels (level 5 or 6) in any of the three core competences, i.e. reading, mathematics or science, is negligible (Figure 3.11). Roughly one in two Peruvian students scored below level 2 in all three subjects, which means that almost half of the 15-year olds were unable to solve even simple tasks requiring straightforward reasoning. The small share of top performers combined with excessively high proportion of low achievers places Peru at the bottom of the international comparison, suggesting that the schooling system does not provide students with the basic foundation and cognitive skills that are commonly taught in schools.

Figure 3.11. Top performers in reading, mathematics and science, 2015

Percentage of students reaching the two highest levels of proficiency (5th and 6th)



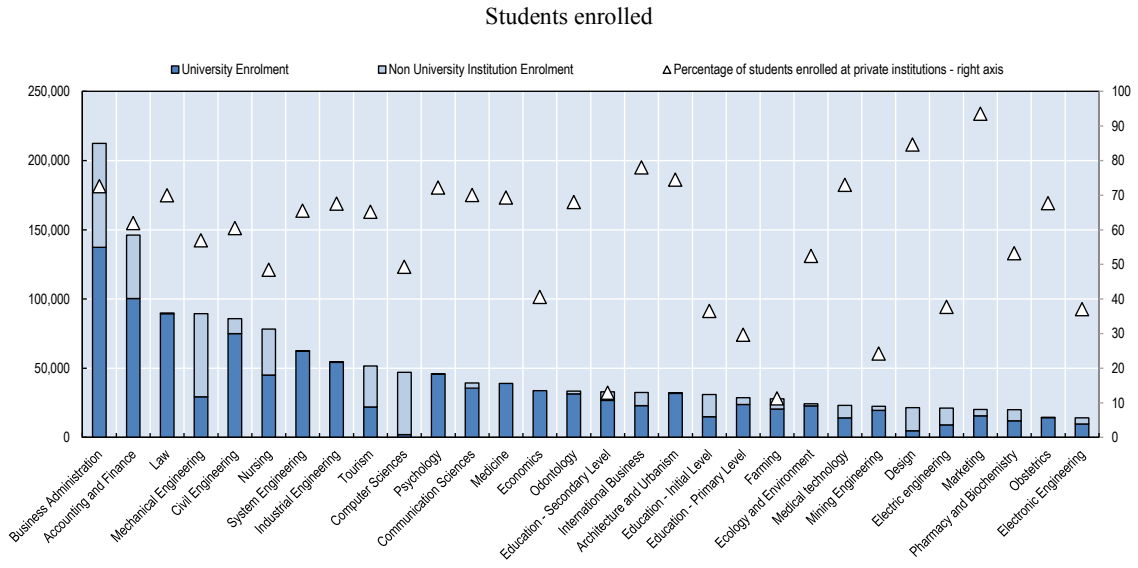
Note: The OECD Programme for International Student Assessment (PISA) tests literacy in three core competences: reading, mathematics and science. Assessment of literacy is based on a 1 000-point scale based on levels of proficiency. PISA proficiency levels range from 1 to 6, where, higher levels correspond to the knowledge, needed to perform tasks of large complexity; middle proficiency levels represent skills allowing drawing adequate inferences and apply simple inquiry strategies; and lower levels stand for ability to address simple problems using straightforward reasoning. For more details, see *PISA 2015 Technical Report* (http://www.oecd.org/pisa/data/2015-technical-report/).
Source: OECD Programme for International Student Assessment (PISA) 2015.

Gaps in proficiency accrued earlier in the lifecycle are likely to be transmitted to higher stages of education and to take a toll on working careers in adulthood. Without addressing issues undermining quality of both elementary and secondary level education, successful decent tertiary level education becomes more difficult. Yet, deficiencies in educational background of students are only one of the many challenges facing tertiary education in Peru. As referred to in Chapter 1 (Box 1.1), one of the country's biggest problems lies in the relatively uncontrolled increase of privately owned post-secondary educational institutions -- itself rooted in the approval of Law N° 882, better known as "*Law to promote investment in Education*" of 1996. There is a growing concern that the significant expansion of tertiary education that has been achieved has not been matched by a parallel increase in service quality (Espinoza and Urzua, 2015). Many of the privately owned institutions provide skills of little relevance and low marketability, which undermines the value of tertiary education and likely affects the returns to education.

According to the *OECD Skills Strategy Diagnostic Report* the reasons behind this situation are manifold (OECD, 2016a). Firstly, the growing number of private schools has led to relax admission requirements, in turn lowering the average skill levels of students.

Secondly, the limited availability of university professors and lecturers has accentuated the reliance on part-time teaching agreements, with staff originating from external educational institutions. This might have led to a deterioration of both the quality of teaching provided and courses content (OECD, 2016a; Castro and Yamada, 2013). Furthermore, financial incentives driving the choice of private university curricula imply that the programmes offered are highly concentrated in a few fields of study, mostly revolving around Business and Finance (Figure 3.12).

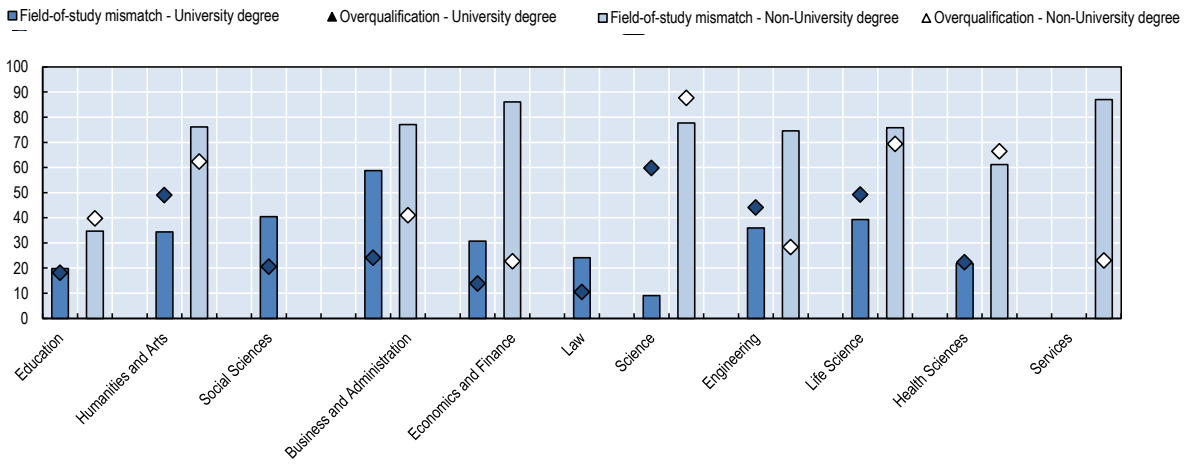
Figure 3.12. Top 30 fields of study in Peru, 2016



Note: Students enrolled at University and Non-University institutions on the left axis; percentage of all students enrolled at private universities on the right axis. Non-University institutions refer predominantly to VET.
Source: OECD calculations from ENAHO 2016.

Figure 3.13 depicts the level of mismatches for graduates specific to broadly defined fields of study, distinguishing between education completed at University and Non-University institutions (which mainly refer to VET programmes). The results clearly show that University education significantly enhances the capacity of students to find an adequate job than education obtained from Non-University institutions. Furthermore, for some of the disciplines reviewed, the labour market appears to be particularly competitive, which reduces the space available to graduates for finding jobs closely corresponding to their educational background. These comprise the broad category of Business and Administration, which ranks high in students' preferences, as well as Life Sciences and Humanities and Arts. While graduates of sciences, i.e. Mathematics, Physics and Chemistry, have the highest propensity to be matched to job in terms of qualification, they typically find employment in segments that do not closely correspond to their field of specialization.

Figure 3.13. Incidence of skill imbalances by field of study in Peru



Note: Imbalances are estimated for individuals aged 15-35 with finished University and Non-University degree.
Source: OECD estimates based on *OECD Skills for Jobs Database*, 2018. Data are from ENAHO 2016.

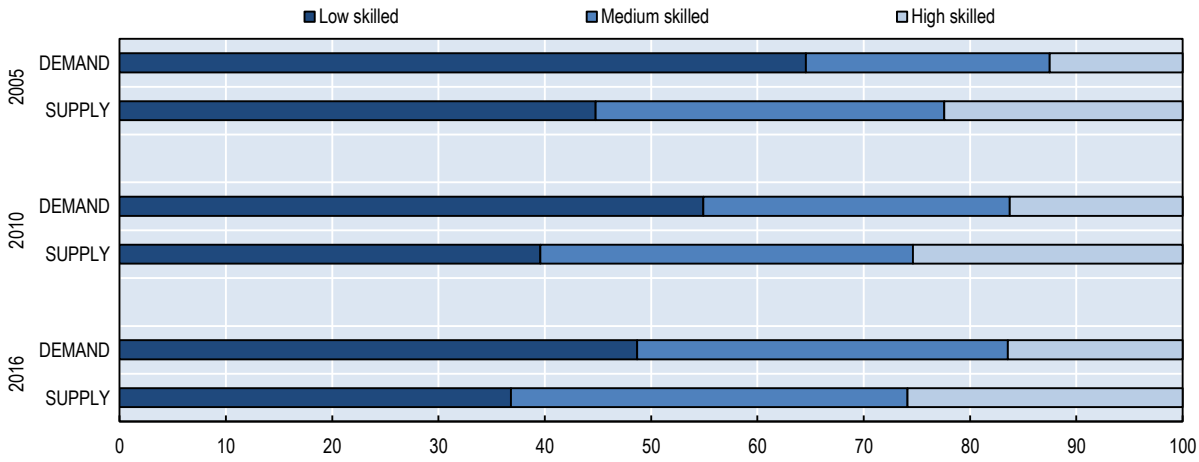
Sluggish demand for high-skilled labour

Compared to 2005, when the low-skilled occupations accounted for roughly two-thirds of total employment, and jobs for medium- and high-skilled comprised together merely one-third of the market, progress towards creating opportunities for highly educated workforce has been visible in Peru. However, roughly half of jobs available in the labour market were still at the low skills level in 2016, requiring at most lower secondary education (Figure 3.14). Jobs for middle-skilled workers with education corresponding to upper-level secondary school constituted around 35% of the market, while some 15% of jobs were related to positions demanding tertiary education.

Comparing the labour market's occupational structure with the educational profiles of the labour force shows that the speed of the increase in the demand for skills in Peru has not been enough rapid to match the increase in supply. Less than two million high skilled jobs provided, corresponding to 16% of the labour market, are far too few to accommodate around three million tertiary educated workers, representing about 25% of the labour force. Conversely, the demand for over five million low-skilled workers, roughly 50% of all jobs in the market, significantly exceeds the labour force with exactly adequate qualification level.

By limiting the capacity of the Peruvian productive sector to accommodate the rise in the supply of skilled workforce, the observed strong concentration of jobs in low added value activities plays a major role in explaining the qualification mismatch in Peru. It may also explain the reversal in the trend of educational wage premium that the country has recently experienced. Closing this gap will likely require more than just skills policies. It will require the support of a broader set of policies to move towards a path of economic diversification, capable of generating new productive employment opportunities for Peruvian youth.

Figure 3.14. Evolution of skill demand and supply in labour market in Peru



Note: Skill supply and demand is derived following the methodology used for the skills for job indicators. Supply of skills is an aggregate sum of workers by skill level: low-skilled refers to education lower than upper level secondary level; medium-skilled refers to education lower than tertiary degree; high-skilled corresponds to a tertiary degree. Demand for skills is an aggregate sum of occupations by skill level: low-, medium- and high- skilled occupations are those where the most common (modal) educational level of workers is low, medium and high respectively.
Source: OECD calculations based on *OECD Skills for Jobs Database*. Data are from ENAHO 2005-2016.

Assessing professional shortages and surpluses

The new methodology for the *OECD Skills for Jobs Indicators* also allows gauging the professions where labour shortages, or conversely surpluses, are most pronounced. Box 3.8 provides a detailed description of the indicators.

Applying the analysis of the occupational needs indicator to Peru reveals that the set of professions currently needed by the country's labour market is very heterogeneous. Many low-skilled positions continue to prevail among the occupations that are in short supply. At the same time, there is evidence that demand is increasing for a number high-skilled professions that require a high level of specialisation that does not leave much space for substitution with graduates from a different field of study.

Figure 3.15 presents results of the analysis for a set of selected occupations. One area where the emergence of middle-skills professional needs appears now to be strong in Peru is that of personal care -- including, child care workers and teachers' aides, as well as personal health care workers, for example. A number of relatively low-skilled occupations also are in growing demand, probably driven by the expansion of certain service activities, particularly in urban centres. These include currier and delivery workers, for example, workers employed in waste collection and recycling, as well as meter workers for the checking and recording of gas, electricity and water consumption. The dynamism of all these occupations appears supported by the same drivers, namely the emerging tensions in the corresponding wage and employment patterns. At the same time, working hours have been lengthening for these occupations during the recent past.

Box 3.8. OECD Skills for Jobs Indicators: Digging into occupational needs

The *OECD Skills for Jobs Indicators* include an indicator of *occupational needs*, which allows assessing the degree of labour shortage and surplus in different profession. This indicator is the result of a combination of sub-indicators: hourly wage growth, employment growth, hours worked, under-qualification and the unemployment rate. For example, the combination of wage growth with employment growth suggests the presence of labour shortages in a given profession. Conversely, a wage decrease accompanied by a decrease in employment is a sign of surplus.

Table 3.1. Interpreting wage and employment growth

Wage growth	Employment growth	Labour market pressure
-	+	Surplus
+	_	Shortage
+	+	Shortage
-	_	Surplus

In order to account more precisely for possible wage and employment pressures within each occupation, the analysis of the indicators of wage and employment also takes into account possible changes of hours worked, degree of under-qualification and the unemployment rate. Some employers may respond to labour shortages by encouraging their employees to work overtime, rather than hiring new ones and attracting them with wage incentives. An increase of the share of underqualified workers can also reveal the emergence of skill shortages. At the same time, the unemployment rate provides a proxy for the relative difficulty that specific workers face in re-entering the labour market because the demand for the skills associated with that occupation has changed. Seen from this perspective, low unemployment rates can signal labour shortages.

For each country, the results of this analysis allow distinguishing between occupations that experience the greatest shortages from those that are in surplus. Information is provided at the 2-digit ISCO occupation level.

Source: OECD, 2017.

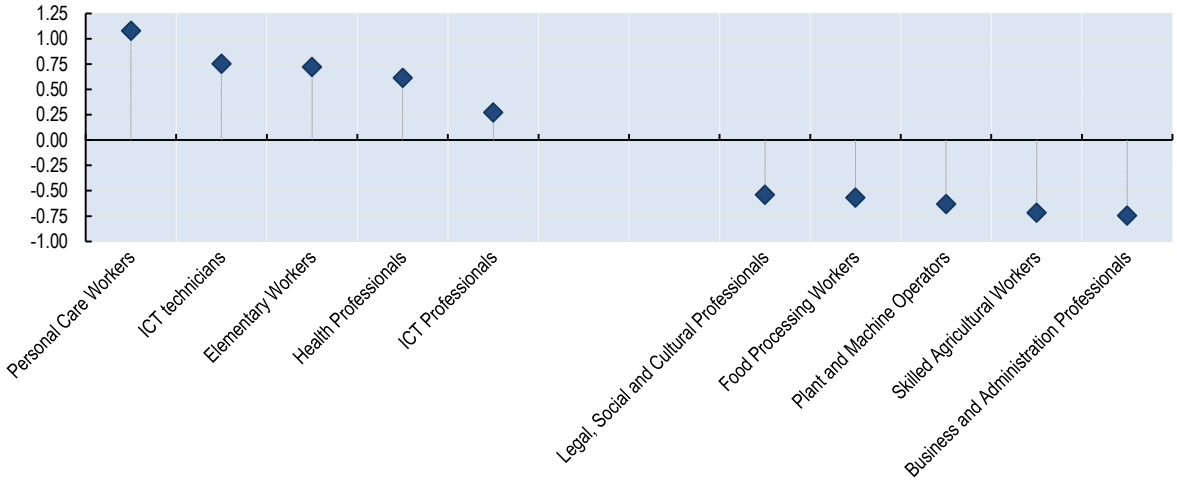
Key examples of highly qualified professionals for which the Peruvian labour market is expanding include the medical professions (doctors, dentists, pharmacists and nursing professionals) and Information and Communications Technology (ICT) specialists (OECD, 2018). Both wages and employment have been steadily growing in the past years for the medical professions, which can suggest that difficulties to attract talent in the Peruvian medical sector are growing. Similarly, ICT professionals, such as software and applications' developers, database and network administrators, appear to be in short supply. This appears again revealed by the observed increase in both wages and employment during recent years.

Interestingly, the results of the OECD's *Skills for Jobs Database* also suggests that business and administration professionals, including finance and administration specialists as well as sales, marketing and public relations professionals, are among the occupations experiencing a significant surplus in the Peruvian labour market. There is evidence of a decrease in employment and hours worked, accompanied by unstable wages for these professions -- a pattern probably compounded by technological progress and

growing digitalisation in a number of service sectors. These changes in demand conditions may help explaining current growing evidence of field-of-study and qualification mismatches among graduates in business and administration (Figure 3.13).

Numerical and material recording clerks, accounting and bookkeeping clerks, finance, insurance and payroll clerks, as well as material recording and transport clerks face similar challenges -- possibly a result of some of these jobs being increasingly automated. Automation may also be taking a toll among a range of low skilled professions such as plant and machine operators and assemblers whose wages and hours worked have been decreasing consistently, as well as food processing workers who have experienced a reduction in employment.

Figure 3.15. Occupational needs for selected groups of professionals, 2016



Note: Higher value of indicator signals higher occupational need. Positive values stand for occupational shortage, negative for occupational surplus. Values of the indicator as such do not have direct interpretation. Occupational categories correspond to ISCO08 codes aggregated at 2 digits level.
Source: OECD estimates based on *OECD Skills for Jobs Database*, 2018. Data are from ENAHO 2016.

3.4.3. Policy options for reducing over-qualification and the field-of-study mismatch

The *OECD Skill Strategy Diagnostic* for Peru (OECD, 2017) provides an in-depth analysis of the Peruvian educational system. As a contribution to policy discussions in Peru, the *Diagnostic* provides a review of enabling policy conditions to strengthen the country's skills system. These enabling conditions are set out below.

Supporting better education and career choices and delivering evidence-based policy making

The *Diagnostics* recognises the progress made by Peru to create the institutional capacity to produce the indicators necessary to implement evidence-based skills policies. However, it also underlines that as in many OECD countries, challenges persist for ministries to make full use of indicators to inform policy making. Moreover, students in Peru, on average, do not have the information they need to make informed field of study and career choices, especially as the upper-secondary education system has become increasingly complex and somewhat opaque.

Web portals, such as the *Ponte en Carrera* observatory (which collects relevant and quality information on educational offerings and labour market demands), and other instruments such as SOVIO should be strengthened to provide students with information about available study options and professional career paths after graduation (see also Ministerio De Trabajo y Promoción del Empleo, MTPE, 2018). In line with the findings of the Section in this Chapter devoted to activation, the *Diagnostic* concludes that workers and job seekers could make better use of labour market information, if it were more accessible. As a promising initiative, *Proyecta tu Futuro* (Project your Future) aims to accompany the youth in the search of a vocational study or training and to provide job orientation.

Furthermore, skills assessment and anticipation exercises – such as those already conducted in a number of OECD countries – could be developed in Peru to provide guidance on future skills demands, thereby mitigating the incidence of skills shortages and mismatches. In addition, a regular assessment framework would allow tracking progress towards the achievement of policy objectives. For example, stronger monitoring would help addressing the issue of the low quality of tertiary education institutions in Peru to ensure that universities meet the expectation of students as well as international standards. The University Law enacted in 2014 created the conditions for a stronger process of quality assurance of tertiary education in Peru. The creation of SUNEDU (*Superintendencia Nacional de Educacion Superior Uviversitaria*), whose mandate is to monitor the quality of services provided by universities, marked a key step towards addressing issues. Notwithstanding this progress, the problem of low quality of post-secondary educational institutions is still widespread, in particular in the VET sector. In 2016 Peru has passed the Law on institutes and schools of higher education (including VET), which aims to ensure quality across programmes and providers. Supporting further the efforts to evaluate the quality of tertiary education is indispensable to improve the supply of adequate skills.

Improving co-ordination to achieve better skills outcomes

Peru could improve its skills outcomes by strengthening horizontal collaboration among different ministries and vertical collaboration across different levels of government. Many ministries and authorities in Peru have an impact on the development, activation and use of skills, but systems of inter- ministerial collaboration are relatively underdeveloped. The *Diagnostic* recognises the initiatives recently undertaken by the Ministry of Labour to foster collaboration across ministries that have a stake in skills. These include the launch of three sector skills committees in the areas of sanitation services, construction and tourism. Sustaining this dialogue and transforming it into co- ordinated action will be critical for the long-term success of such initiatives.

In addition, the *Diagnostic* emphasises the crucial role played by the co-ordination among different levels of governments. In many cases, more than one level of government has responsibility for the same policy area, with unclear division between national, regional and local levels. This issue is particularly visible in the case of education. To achieve a more efficient decentralisation, the capacity of regions and local authorities should be strengthened to allow for a more thorough implementation of place-based policies with the goal of reducing regional and urban-rural disparities in skills outcomes.

Building partnerships to ensure that policies are responsive to changing skills needs

To improve countries' performances in the development, activation and effective use of skills, governments must foster collaboration and co-ordination among the various actors with both a stake in, and an influence on, skills outcomes. Stronger partnerships can increase the relevance of skills developed in VET and higher education. According to the *Diagnostic* Peru's VET system is characterised by the existence of strong sectorial schools, which are designed to respond to the skills demand of specific economic sectors, and a weaker public and private system for the rest of the economy. Engaging firms in the co-design and running of training programmes in non-sectorial schools would ensure a better alignment between the skills developed and labour market demands.

At the same time, corroborating the findings of this chapter's section devoted to activation policies, the *Diagnostic* stresses that employers should play a more active role in the design and implementation of ALMPs. Their involvement in training and activation programmes would enhance the skills quality and relevance of those still searching for jobs and build up a ready-to-use talent pipeline. A more active participation of employers in skills assessment and anticipation exercises would ensure better alignment between skills supply and demand. Partnerships between higher education institutions and the private sector could ensure that local demand for highly skilled workers is met by a relevant tertiary education offering. Partnerships between academia and the private sector could help knowledge dissemination and foster a more productive use of academic researchers' skills. Engagement with the Socio-Economic and Labor Observatories (OSEL) could also be helpful to provide local labor market information to end users (Ministerio De Trabajo y Promoción del Empleo, MTPE, 2018).

Complementary policies to support the demand of quality jobs for youth

Higher levels of skills enable the introduction of new products, while also ensuring that workers can adapt more quickly to the technological and organisational transformations required by the transition towards a more diversified economy. However, important as they are, the policies to support the supply of qualifications and skills will not alone be enough to boost youth employment in Peru. As the evidence provided in this section shows, policy makers will also need to factor in the essential role played by the complementary policies to sustain strong economic growth and to improve the country's record on the creation of quality jobs.

This means maintaining the focus on a broad mix of macroeconomic policies, combined with addressing a range of structural weaknesses that have to date prevented economic growth from being more diversified and inclusive. Many of the policies that could set Peru on such a growth path -- fuelled by technological progress and the diffusion of added-value activities, capable of generating a stable demand for new, more productive and better qualified jobs -- pertain to areas that are beyond the scope of this report. In addition, they must include the actions to bring down structural labour market barriers that affect the willingness and ability of employers to hire youth (Chapter 2). Activation policies and social protection systems will also need to be strengthened, as discussed in this Chapter, given the key role they play in providing an adequate safety net for youth who are out of work.

Notes

[1] A problem that lies beyond the scope of this study but that many regional countries share in common, the World Bank has recently pointed to the need for further progress in the reduction of institutional fragmentation, supported by the development of efficient administrative tools for cross-programme coordination. This is also with a view to allow individuals and families, whose needs differ and vary overtime, more promptly finding their way to the appropriate segment of the system (World Bank, 2012; Cerutti et.al., 2014).

[2] At least 12 consecutive monthly contributions are required to qualify for the indemnity in the case of workers with open-ended contracts and six monthly contributions for workers with atypical contracts over the past 24 months. The benefits can be accrued over a maximum period of seven months, with the replacement rate starting at 50% of the past salary and decreasing in increments of 5% a month to 20%. If a worker has accumulated enough contributions, the number of withdrawals that can be made is higher, although after the seventh month of unemployment the replacement rate is maintained constant at 20%. The conditions for access to the indemnity include voluntary terminations, on top of dismissals (justified and unjustified).

[3] Unlike the OECD, which has chosen to refer to the age bracket 15-64, the MTPE's indicators of the skills mismatch refer to the age bracket 18-64 (See, Ministerio De Trabajo y Promoción del Empleo, MTPE, 2014). The choice of the OECD allows covering the overall age spectrum of a country's labour market and corresponds the international standard. As such it facilitates the international comparison.

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Chapter 4. Specific policies for the most vulnerable youth

This chapter focuses on vulnerable youth at risk of becoming NEET or of working in subsistence employment. Early school leavers, young women and youth with a disadvantaged background face particularly high risks of being left behind in the labour market. The chapter complements the policy recommendations identified in the previous Chapters by developing a set of specific recommendations to help improve the inclusion of these three groups. The challenges addressed range from increasing the enrolment and learning performance of students of disadvantaged background, to boosting the labour and social inclusion of young women and youth from ethno-linguistic minorities.

Introduction

Exposure to economic risks, such as food and income insecurity or job loss, constitutes a major source of economic vulnerability and ill-being (Boarini, Kolev and McGregor, 2014). The NEETs typically suffer from economic vulnerability. But so do young people of strongly disadvantaged background who have to engage in subsistence employment to survive. Close to 40% of Peruvian youth are vulnerable -- 39% in 2016. For the purpose of the present Chapter, this figure is defined as the sum between the level of the NEET (22%) and the percentage share of the individuals in subsistence employment (17%) -- this latter obtained as (i) youth working in the informal sector and (ii) earning an annual salary below the median annual salary earned by Peruvian youth.[1]

Therefore, only focusing on young NEETs would amount to excluding from the analysis a substantial part of young people at high risk of vulnerability and largely composed of very poor individuals. In fact, the relationship between the probability of becoming NEET and their parental income is very ambiguous at lower levels of income. On one hand, poverty increases the probability of being NEET by generating school dropout and thus damaging job prospects. On the other hand, poverty decreases the probability of being NEET by increasing the necessity for individuals to ensure their subsistence once out of school. In extremely poor families, at least those living in areas not completely deprived of economic opportunities, the latter effect may dominate the former. Where this happens, children will be less likely to be NEET and more likely to engage in subsistence employment.

This final chapter of *Investing in Youth Peru* complements the previous chapters by providing a zoom into the policies for three vulnerable groups of youth: early school leavers, women and indigenous and Afro-Peruvian youth. This analysis is a contribution to the strategic vision of the MTPE, which considers that differentiated policies have an important role to play in order to support the impact of the general policies to strengthen the employability of at risk groups. It points to the following hurdles:

- **Early school leavers**

Awareness of the importance to send children to school can be very difficult to acquire for poor families. This reflects a combination of disadvantages, including the lack of access to proper information, poor literacy and numeracy skills of parents and the extra burden induced by a heavy financial resource constraint, which implies that many of these families cannot afford to dispense with their children's labour in order to meet their ends. Even when they go to school, children of disadvantage background will find it more difficult to meet academic requirements if the surrounding home environment does not provide a supportive ground for their physical, social, emotional and cognitive growth. Undernourished children generally score more poorly than better-nourished children on cognitive tests and complete fewer years of schooling. Unsurprisingly, children of disadvantaged background are more prone to negative self-stereotyping since the perception of a wide economic and social gap to fill creates discouragements and damages performances, which undermines their capacity to perceive themselves as worthy. In the face of these difficulties, the perceived costs of education can be particularly high for children of poor background to surmount exacerbating the exposure of these children to the risk of becoming early school leavers.

Early school leavers are substantially overrepresented among youth of disadvantaged background in Peru. Specifically, young individuals whose parents belong to the poorest 25% are four times more likely to become early school leavers than young individuals

whose parents belong to the richest 25%. The resulting wide gap in pupils' educational outcomes by socioeconomic group points to the critical importance to step up efforts to increase the enrolment and learning performance of students of disadvantaged background in Peru.

- **Women**

Young women are nearly twice more likely to be NEETs than young men. This is particularly the case for women with at least one dependent child. This pattern reflects the persistence of traditional gender roles whereby women are expected to bear the brunt of child rearing. Women often have no other choice but to drop out of school in case of teenage pregnancy or to renounce participating in the labour market when they are adults, following the birth of their child. However, the gender gap in NEET rates also prevails among childless women due to the existence of additional barriers that hinder female labour force participation. In particular, violence against women in public transports and related public spaces leads many women to forgo job opportunities, irrespective of their maternal status.

- **Indigenous and Afro-Peruvian youth**

Being born to indigenous or Afro-Peruvian parents substantially increases the probability of being raised in a poor household, thereby contributing to a poverty trap that hampers the full development of indigenous and Afro-Peruvian children. Indigenous and Afro-Peruvian youth are disproportionately more likely to leave school early. Moreover, being female in these populations results in multiple specific disadvantages. The probability for indigenous and Afro-Peruvian adolescents to be pregnant is 60% and twice higher than among white and mestizo girls, respectively. In this setting, ensuring that the policies to boost the enrolment and learning of students of disadvantaged background and to strengthen female empowerment devote particular attention to indigenous and Afro-Peruvian populations is a key priority. In addition, supplementary actions must be taken to address specific hurdles. This entails improving the educational attainments and job opportunities of rural indigenous youth. They also require actively combating the discrimination that indigenous and Afro-Peruvian populations endure.

This chapter develops a set of policy recommendations to help remove these obstacles (see Box 4.1).

Box 4.1. Policy recommendations

Early school leavers, women as well as indigenous and Afro-Peruvian youth are at high risk of vulnerability, i.e. to become NEETs or to fall in subsistence employment. To help removing the obstacles that hinder the economic and social inclusion of these three groups, the OECD suggests to:

Continue the efforts to increase the enrolment and learning performance of students of disadvantaged background

- Improve the perceived benefits of schooling nationwide by scaling up the programme *Decidiendo para un futuro mejor* (Deciding for a better future) devised by the MineduLAB to inform students about the returns to education.
- Further decrease the opportunity cost of sending children to school by easing the existing constraints to the payment of conditional cash transfers from the programme *Juntos*. Notably, this will require potentiating Peru's branchless banking network, using local agents, typically shopkeepers, as deposit and withdrawal points where customers can recuperate the funding with a debit card.
- Enhance the quality of early childhood development interventions.
    - For 0- to 2-year-old children, harness the full potential of *Cuna Más* especially to enhance coverage of disadvantaged children, notably by expanding the staff of care workers, while also providing them with adequate compensations and better career prospects.
    - For children from three years old, evaluate the impact of *PRONOEI* and *Jardines* and identify how these interventions could be improved to maximize their effect on Peruvian pre-school children. Addressing the limits revealed by the evaluation of *Qali Warma* is also critical.
- Develop key non-cognitive skills, a key of which is conscientiousness, using innovative educational approaches implemented by the MineduLAB. In this context, MineduLAB's proposal to devise a new mechanism to help students limit procrastination could deserve particular attention.
- Counter negative self-stereotyping by poor students by notably scaling up the programme *!Expande Tu Mente!* (Expand your mind!) devised by MineduLAB.

Engage in ambitious policies to tackle the vulnerability of young Peruvian women

- Actively engage in ambitious policies to tackle the vulnerability of young Peruvian women with a particular emphasis on:
    - Taking actions to encourage willingness to staying in education, including efforts to strengthen the conditionality of the programme *Juntos*.
    - Generalizing the extended school programme (*Jornada Escolar Completa*) in urban and rural settings where the commuting time between home and school is sufficiently short to enable such an extension.
    - Organising high-quality school-based sexual education programmes to combat teenage pregnancy.
    - Creating a network of sexual and reproductive health facilities targeted at adolescents that are (i) easy to reach; (ii) youth friendly; and (iii) provide the teenagers with free access to modern contraceptives, in combination with

mandatory and effective counselling.

- Alleviate the motherhood penalty in adulthood by:
    - Continuing efforts to ensure that all mothers benefit from a decent maternity leave.
    - Improving children's access to early childhood education and care (see above).
- Ensure women's safety in public transport and related public spaces by creating a zero tolerance environment to violence against women in these settings.
- Generate a switch towards greater gender equality by:
    - Taking advantage of the opportunities provided by "edutainment" (the integration of educational messaging with popular entertainment) to decrease domestic violence.
    - Implementing reservation policies to ensure women's political representation, at least at the local level. On top of inducing political measures that better take into account women's policy concerns, these initiatives improve the overall perception of female leader effectiveness (especially among men) and weaken stereotypes about gender roles. They also contribute to raise aspirations and educational attainments for girls, through a role model effect.
    - Strengthening the gender equality component of the 2009 curriculum. This objective requires reinforcing two consensual approaches to female empowerment through school content: the elimination of traditional gender stereotypes and the reduction of gender gaps in science, technology, engineering, and mathematics (STEM) fields.

Create a more inclusive environment for indigenous and Afro-Peruvian youth

- Improve the implementation of the *Educación Intercultural Bilingüe* (EIB) programme by:
    - Increasing the coverage of EIB in primary schools.
    - Expanding this programme to secondary education in areas where large shares of children enter school with proficiency only in an indigenous language.
    - Creating meal and boarding facilities in bilingual secondary schools to support students at risk of dropout who live far away, in remote rural areas.
    - Developing intercultural bilingual education in city neighbourhoods known to host large shares of rural-to-urban indigenous migrants.
- Boost job opportunities for rural indigenous youth by implementing a national coordinated strategy to help rural populations engage in new and more profitable entrepreneurial activities, such as, for example, tourism, fish farming, organic farming, flower production, agro-food industries.
- Combat discrimination against indigenous and Afro-Peruvian youth by:
    - Creating a "*MincultLAB*", that would be the equivalent of the *MineduLAB* in the field of antidiscrimination policies. This would help the Ministry of Culture to tailor better its awareness-raising campaigns to combat negative stereotypes against indigenous and Afro-Peruvian populations.
    - Introducing quotas for Afro-Peruvians in the *Beca 18* scholarship

programme, as it is already the case for indigenous students from highlands and Amazonian communities. The implementation of quotas for both indigenous and Afro-Peruvian youth in the framework of *Beca Doble Oportunidad* scholarships, which aim to bring early school leavers back to school, should also be considered.

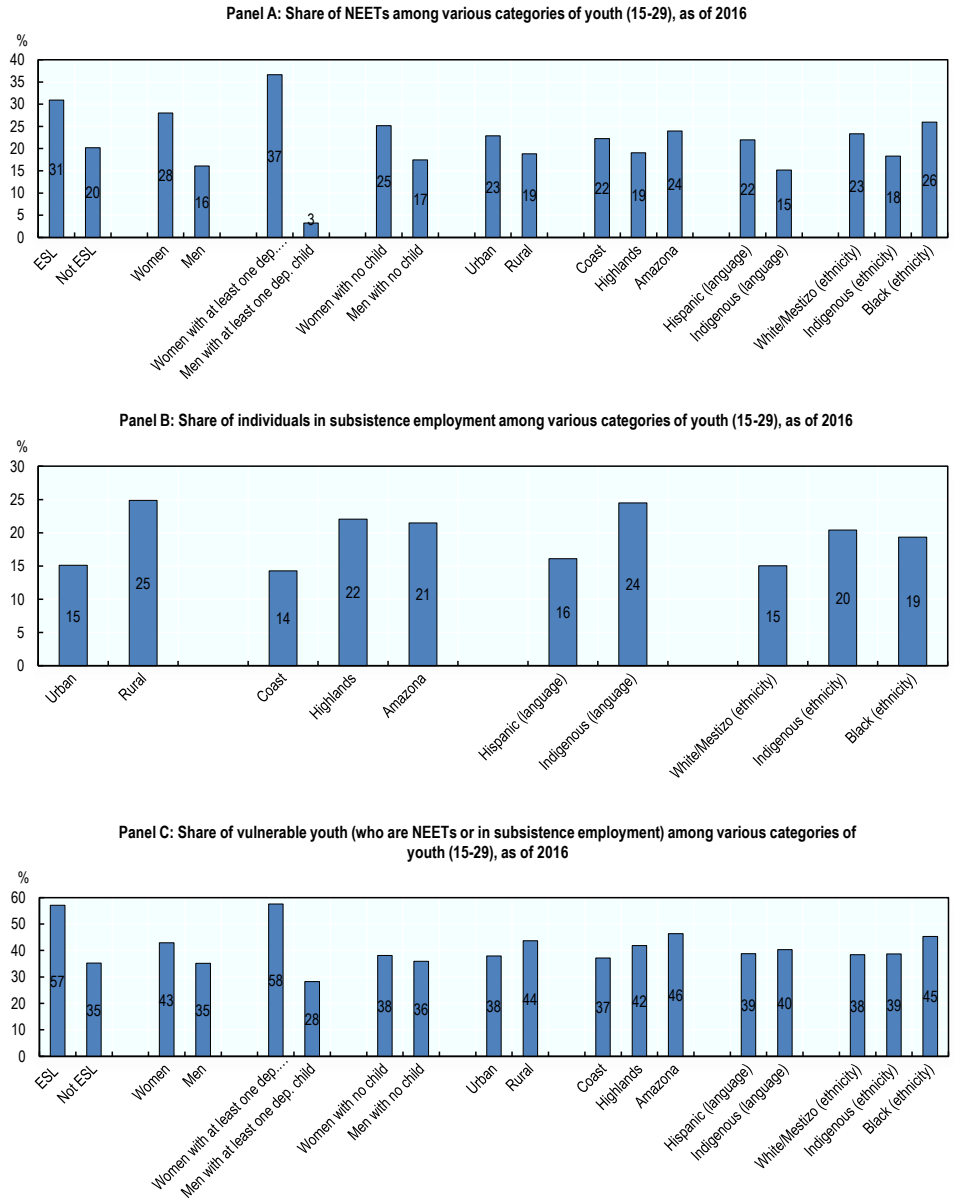
- Setting out targets for indigenous and Afro-Peruvian in the activation programmes offered by PES in urban areas, especially those intended for youth.
- Reaching out to these marginalized populations also requires increasing the share of indigenous and Afro-Peruvian among PES caseworkers. This reflects the fact that it is easier for them to connect with vulnerable individuals of the same ethnic origin. Peru could take advantage of the necessity to recruit and train more PES caseworkers (Chapter 3) to achieve this objective.

4.1. Which socioeconomic characteristics predict economic vulnerability among Peruvian youth?

Figure 4.1 provides the share of NEETs (Panel A) and individuals being in subsistence employment (Panel B) distinguishing by youth categories. Panel C combines these two information by displaying the share of vulnerable youth (defined as being either NEET or in subsistence employment). Consistent with the pattern identified in OECD countries (OECD, 2016a), Panel A shows that early school leavers are significantly more likely to become NEET: nearly one third of early school leavers are NEET, as opposed to one fifth among non-early school leavers. Women also face particularly high risks of becoming NEET, relative to men. In OECD countries, high gender gaps in NEET rates mainly flow from family responsibilities, which fall disproportionately on women. Peru is no exception: Peruvian young women with at least one dependent child are nearly 12 times more likely than young men to become NEETs.

Proxy measures of poverty - i.e., living in a rural area or far from the coastal region and belonging to an ethnic minority - are not all related to an increased risk of being NEET, since poverty concomitantly boosts the need to engage in subsistence employment. Notably, individuals living in rural areas are less likely to be NEET but more likely to fall in subsistence employment than those living in urban areas. This is also the case of youth living in the highlands, as compared to youth living in the coastal region. Similar considerations apply to indigenous youth, identified on the basis of the language learnt in childhood (thus compared to early Spanish speakers), or ethnic self-identification (in this case, indigenous youth is analysed relative to individuals who self-identify as "White" or "Mestizo"). Residing in a rural area, living outside the coastal region, or belonging to an ethnic minority (indigenous or African background) are all associated to an enhanced risk of vulnerability (Panel C).

Figure 4.1. Shares of vulnerable youth in Peru

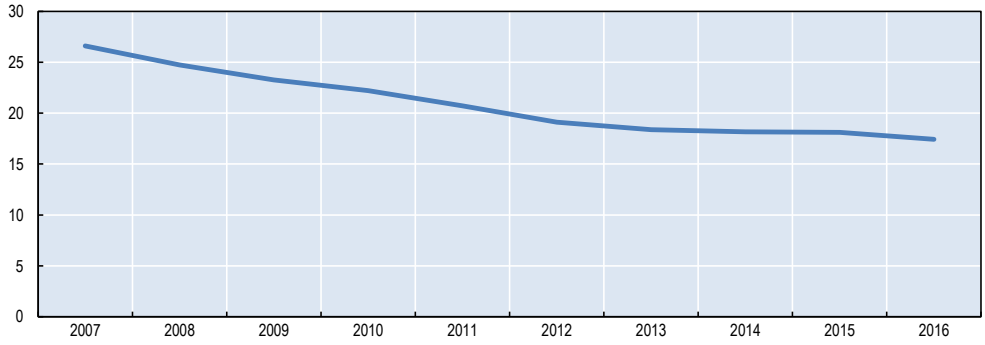


Note: "NEETs" refers to individuals who are not in employment, education or training. "Individuals in subsistence employment" refers to individuals who (i) work in the informal sector and (ii) earn annual wages below the median annual wage among youth (15-29). "ESL" stands for "early school leaver" and refers to an individual who did not complete compulsory education and is not enrolled in education; "dep. child" refers to "dependent child", that is a child aged between 0 and 14; "Hispanic (language)" refers to individuals who report Spanish as their mother tongue or the language learnt in childhood while "Indigenous (language)" refers to individuals who report Quechua, Aymara or other native language as their mother tongue or the language learnt in childhood; "White/Mestizo (ethnicity)" refers to individuals who identify themselves as white or mestizo, "Black (ethnicity)" refers to individuals who identify themselves as "Black", "Mulat Zambo" or "Afroperuano" and "Indigenous (ethnicity)" refers to individuals who identify themselves as "Quechua", "Aymara" or " Native or Indigenous of the Amazonía".
Source: OECD calculations based on ENAHO 2016.

4.2. Early school leavers

As of 2016, early school leavers -- approximated by the number of individuals who have attained *at most* secondary education and are not enrolled in education anymore -- equal 17% of Peruvian youth, a percentage share ten points lower than observed in 2007 (Figure 4.2).[2] This significant decline reflects Peru's achievements to open up access to education at all levels, as highlighted by the fact that the share of the population aged 15 and over with no schooling fell from nearly one fifth in 1980 to about 5% in 2010. The most significant progress concerned the share of individuals with completed secondary education, which jumped from around 14% of the adult population (aged 15 years and older) in 1980 to more than 37% in 2010 (OECD, 2015).

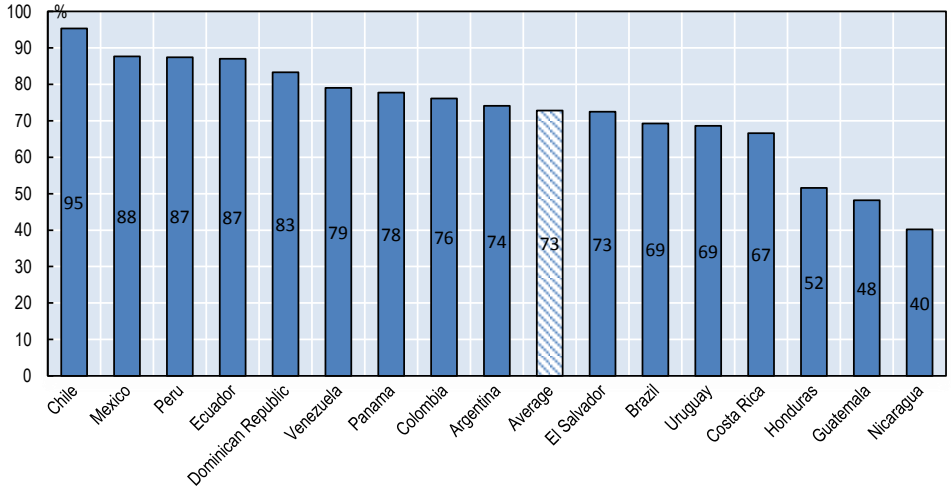
Figure 4.2. Share of early school leavers among Peruvian youth (15-29), between 2007 and 2016



Note: Early school leavers are individuals who have attained at most secondary education and are not enrolled in education anymore.
Source: ENAHO 2007 to 2016.

These achievements have a counterpart in the analysis of completion rates in lower secondary education (Figure 4.3). In 2014, 87% of young people aged 3 to 5 years above the intended age for completing lower secondary education had indeed attained this education level. Figure 4.3 also illustrates Peru's excellent achievements compared to other Latin American countries. Indeed, Peru's completion rate in lower secondary education is 13 percentage points higher than the average among Latin American countries. Only Chile and Mexico perform better than Peru.

Figure 4.3. Completion rate in lower secondary education in Peru and selected Latin American countries, as of 2014



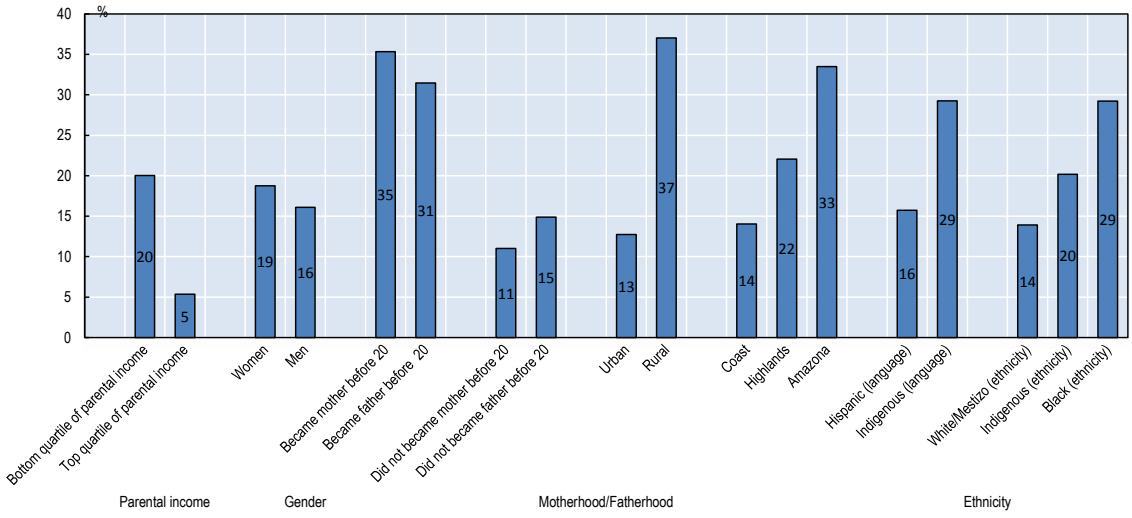
Note: Completion rate in lower secondary education refers to the share of young people aged 3 to 5 years above the intended age for completing lower secondary education who have attained this education level.
Source: UNESCO Institute for Statistics.

The reasons for dropping out are numerous and complex to analyse in detail. The Peruvian national household survey (ENAHO) identifies three underlying factors explaining out-of-school adolescents aged 13-19:

- A disadvantaged background, i.e., dropping out due to economic difficulties or, because the respondent "does not want to study", which can also reflect economic difficulties;
- Explanations that are more frequent among teenage mothers, i.e., leaving school because of "family problems" and the need to "take care of housework"; and
- Situations that typically prevail among individuals living in remote areas, such as, for example, the absence of education centres in the respondent's vicinity.

Figure 4.4 confirms that early school leavers are overrepresented among the groups of youth who most likely combine these set of disadvantages. For example, youth whose parents belong to the bottom 25% of the income distribution are four times more likely to be early school leavers than young individuals whose parents belong to the richest 25%. In addition, teenage parents face a particularly high risk of dropping out. This risk is particularly marked for teenage mothers, as revealed by the fact that more than one third of women who became mothers before 20 left school early, as opposed to one tenth among women who gave birth after 20. Moreover, youth living in rural areas are nearly three times more likely to drop out than youth living in urban settings. Finally, the share of early school leavers is high also among indigenous populations and Afro-Peruvians. A particularly wide ethnic gap characterises the group of Afro-Peruvians with 29% early school leavers, as opposed to 14% among Whites and Mestizos.

Figure 4.4. Share of early school leavers among various categories of youth (15-29), as of 2016



Note: Early school leavers are individuals who have attained at most secondary education and are not enrolled in education anymore. "Hispanic (language)" refers to individuals who report Spanish as their mother tongue or the language learnt in childhood while "Indigenous (language)" refers to individuals who report Quechua, Aymara or other native language as their mother tongue or the language learnt in childhood. "White/Mestizo (ethnicity)" refers to individuals who identify themselves as white or mestizo. "Black (ethnicity)" refers to individuals who identify themselves as "Black", "Mulat Zambo" or "Afroperuano". "Indigenous (ethnicity)" refers to individuals who identify themselves as "Quechua", "Aymara" or "Native or Indigenous of the Amazonía".
Source: OECD calculations based on ENAHO 2016.

The reminder of this section provides a review of the policies for combating the phenomenon of school dropouts among children from disadvantaged background. Attention will be devoted to early intervention mechanisms to encourage parents to keep their children at school. These policies play an important role to reduce risks of child labour. The programmes to stimulate a learning curiosity among children, including early childhood initiatives, will also be discussed since their payoffs can also be important as a way of encouraging children to stay at school later on during their educational career. Other more specific policies for avoiding dropouts due to teenage pregnancy, or the fact of being indigenous, or Afro-Peruvian, will be discussed in the next sections.

Box 4.2. Why are individuals of disadvantaged background overrepresented among early school leavers?

Becker's canonical model of human capital views education as an investment, where costs are compared to the discounted stream of expected future benefits (Becker, 1964). Empirical evidence confirms that households' decision to send their children to school largely results from a cost-benefit analysis. The benefits consist in the so-called "returns to education" that indicate by how much individual earnings in the labour market are raised by an additional year of schooling.

As to the costs, the pattern observed in Peru is common to many other countries. Although education is free (at least in public schools and for pupils aged between 5 and 16), the subjective perception of the benefits of school enrolment may vary across households. Due to poor information, deprived households may substantially underestimate the returns to secondary and tertiary schooling (Jensen, 2010). Many poor families cannot afford to dispense with child labour if they are to meet their subsistence needs. Moreover, recent empirical analysis shows that school attendance declines and child labour increases when families undergo difficult economic times (Edmonds, 2005; Beegle, Dehejia, and Gatti, 2009; Bandara, Dehejia, and Lavie-Rouse, 2015).

The cost of learning can be significant for children of underprivileged background. First, poor parents are less likely to be able to provide their children with an environment conducive to cognitive skills development, in particular early in life. This could happen, for example, when financial constraints prevent them from nourishing children properly with undernutrition an important factor hampering neurological development (Maluccio et al., 2009). Additionally, low-income parents typically show poorer literacy and numeracy skills, meaning that their children have a greater gap to fill than children of privileged background in order to meet academic requirements. Furthermore, poor parents may face greater barriers to transmit to their children the personality traits (also referred to as non-cognitive, soft or socioemotional skills) that matter for educational achievements. Finally, children of disadvantaged background are more prone to negative self-stereotyping: awareness of their inferior social status undermines their capacity to perceive themselves as worthy and thus damages their performance. This is the "stereotype threat" effect (Steele and Aronson, 1998) documented in many contexts.

4.2.1. Improving the perceived benefits of schooling nationwide

In 2015 and 2016 MineduLAB (see Chapter 3 for an introduction to MineduLAB) and the NGO Innovation for Poverty Action (IPA) implemented *Decidiendo para un futuro mejor* ("Deciding for a better future") a pilot randomized experiment, aimed at informing students about the returns to education. Students of disadvantaged background substantially underestimate the potential benefits of a learning curriculum in Peru, at all educational levels.

Focusing on 1 800 urban public schools (900 in the treatment group and 900 in the control group), this pilot resulted in a significant decrease of the number of dropouts, while at the same time improving the academic achievements of the students who most strongly underestimated the returns to education before being informed of their real value. Replicating this experiment nationwide could be a promising approach to reduce the

share of early school leavers among Peruvian youth. This seems even more desirable in light of the fact that the information campaign has proven to be highly cost-effective.

4.2.2. Decreasing the opportunity cost of sending children to school

Free education is a necessary condition to help decreasing the opportunity cost of sending children to school, especially for poor families. However, free education may not be enough since the subjective perception of the benefits of school enrolment may vary across households, as discussed in Box 4.2. To account for this, conditional cash transfers (CCTs) could provide a much-needed incentive, by providing regular transfer benefits to parents of poor background who chose to keep their children at school. Qualifying for such benefits is contingent upon school enrolment, typically associated with an 80-90% attendance obligation. Meta-analysis of 94 studies from 47 CCTs programmes shows that participation boosts school enrolments and attendances, reducing school dropouts. It also reduces the exposure of children to child labour.[3]

In Peru the programme *Juntos*, introduced in 2005 and operated by the *Ministerio de Desarrollo e Inclusíon Social* (MIDIS, Ministry of Development and Social Inclusion), provides a bi-monthly transfer of 200 soles (approximately USD 70) to 660 000 poor women who are either pregnant or have children under 19 years. The transfer is conditional on the mother providing access to education, nutrition, and health services to their children. Experience with *Juntos* suggests that the access to the benefit may be difficult for some beneficiaries, which possibly discourages enrolments. The state bank, *Banco de la Nación*, is in charge of opening a savings account for all *Juntos* beneficiaries. However, while 67% of users collect payments through these accounts, only 18% of users have a bank branch or a cash dispenser in their district. According to IPA, the average recipient of a CCT payment has to travel five hours to get to the nearest point equipped to perform a financial transaction. This implies a disbursement of 10% of the payment in transportation costs.

To enhance the positive impact of *Juntos* on schooling outcomes, easing mothers' access to the benefit is a key priority. One currently envisioned option is to potentiate the branchless banking network in Peru. Local agents, typically shopkeepers, would serve as deposit and withdrawal points enabling customers to recuperate the funding with a debit card. This option is under evaluation in partnership with IPA, using a randomized experiment.[4]

4.2.3. Enhancing the quality of early childhood development

Early childhood development (ECD) provides an unparalleled opportunity to invest in the learning of children and to support their curiosity. It can be instrumental in easing the cognitive skills of children, in particular of disadvantaged background. For example, the Perry Preschool Project, one among the oldest ECD programmes, carried out from 1962 to 1967, provided high-quality preschool education to three- and four-year-old African-American children living in poverty and assessed to be at high risk of school failure. Evaluation of this preschool programme several years later shows substantially better educational attainments and improved labour market outcomes at adult age by those who benefited from the programme (Heckman, Pinto and Savelyev, 2013). Although coverage is not uniform across children at early ages (see section below on womem), Peru's ECD programmes are already well-identified. This provides a good basis for further improvements going forward, building on the lessons acquired so far.

Children below three years

In 2012, MIDIS created *Cuna Más*, a large-scale ECD intervention that replaced the former and less comprehensive *Wawa Wasi* programme.[5] *Cuna Más* aims to support the development of children aged below three years who live in poverty, to improve families' childrearing and to strengthen attachments between caregivers and children. A day-care service (*Servicio de Cuidado Diurno*) in marginalized urban areas provides comprehensive care to children between 6 and 36 months. In rural communities, a home visiting service (*Servicio de Acompañamiento a Familias*) delivers individual weekly visits and monthly group sessions for children under three and their primary caregivers, as well as pregnant women.

Preliminary results from an experimental impact evaluation by the Inter-American Development Bank of the home visiting services provided by *Cuna Más* (Araujo et al., 2016) points to a robust and positive impact of the programme on children's cognitive development (problem solving) and language proficiency.[6] What is more, this impact is concentrated on kids living in the poorest households.

However, evaluation also suggests a need for further improvements. As of December 2016, the home visiting service reached 85 000 families. Yet, the programme is not reaching out to all the children who meet the criteria for eligibility and there seems to be scope for broadening the range of targeted communities (only 580 out of 713 eligible districts are covered). Additionally, not all children covered by the programme receive home visits of the length and frequency recommended by the *Cuna Más* guidelines. Finally, the training of home visitors is not always adequate, which compromises their capacity to trigger better maternal and child engagement. Taken together, these findings point to a need to extend coverage capacity, while at the same time strengthening service effectiveness.

Recent analysis by Josephson, Guerrero and Coddington (2017) assesses the pros and cons of the cascade structure of *Cuna Más*. Such a structure includes community members who are trained by field supervisors to play the role of home visitors (*facilitadoras*), technical companions (the *acompañantes técnicos,* ATs) and regional trainers and specialists (the *formadores* and *especialistas*) who are in charge of training and mentoring the ATs and are themselves trained by a central team in Lima. Interviews and focus group discussions with 50 *Cuna Más* staff members from central, regional, and community levels were carried out between October 2016 and January 2017. Results depict a problem of heavy workloads at all levels of the cascade, which generates discouragement and exacerbates turnovers. Addressing these challenges is a key priority to keep the morale of a staff that typically reports a strong level of identification with the objective of improving the lives of vulnerable children.

Strengthening the current structure of incentives should entail ensuring that the monthly compensations of the *facilitadoras* match that of trainers in other public community-based ECD programmes, such as the PRONOEI pre-school programme, which targets children aged between three and six years (see below). Additionally, given the significant travel required by the work of the field supervisors, each AT should be assigned to a maximum of one community centre. This would allow reducing both travel times and work hours. A small increase in the level of starting salaries for regional trainers and specialists would be a way of recognising their supervisory activities.

As one option to strengthen the participation of hard-to-reach families in the programme, the *facilitadoras* could receive more training about how to disseminate the benefits of the

programme. Partnerships with higher education institutions to accredit the training offered by regional trainers and specialists, as well as ATs, could help further improving the quality of the training provided to *Cuna Más* staff. In addition, the creation of annual scholarships for outstanding *facilitadoras* would not only enhance their competencies in the field but also put them on a career perspective. This is important to enable them to become ATs at a later stage.

Pre-schooling for children above three years

There exist two mandatory pre-schooling services in Peru targeting the development of cognitive and non-cognitive skills for children aged between three and five years (General Education Law of 2003). *Jardines* are formal pre-schools mainly located in densely populated urban areas. Teachers are certified and offer four-to-five hours classes a day, five days each week. The *Programas No Escolarizados Educación Inicial* (*PRONOEI*) is a public community-based programme created in the late 1960s for children living in marginalized urban and rural areas not having access to *Jardines*. *PRONOEI*'s teachers are mothers from the community who receive training in child development and teaching techniques from a certified teacher hired by the Ministry of Education. *PRONOEI* operates four hours a day, usually four days a week (the remaining day is devoted to training and preparation).

Assessment of the two programmes reveals that primary school achievements are generally poorer for pupils previously enrolled in *PRONOEI* compared to *Jardines*, an outcome influenced by the lower number of class-days provided (Cueto et al., 2016). However, no study has so far exhaustively addressed the critical question as to whether the children who attend *PRONOEI* or *Jardines* perform better than those in a counterfactual situation without access to the programmes. Such an impact evaluation would provide useful insights on how to raise the impact of the two programmes -- on the cognitive skills of children but also from the perspective of their capacity to keep children at school later on, throughout their educational career.

4.2.4. Interactions with nutritional objectives

ECD intervention also encompasses nutrition programmes directed at pre-primary and primary school students. In 2012, the Peruvian Ministry of Development and Social Inclusion launched the programme *Qali Warma* ("strong child" in Quechua language), which aims to provide quality food services to children who attend pre-primary and primary public educational institutions located in poor and extremely poor districts. A focus on the nutritional dimension can also be a key to persuade parents from poor household to keep children at school. *Qali Warma* delivers two rations of food (breakfast and lunch) to children in extremely poor districts, and one ration (breakfast) to children in poor districts. Food delivery is also associated to educational actions to sensitize children to healthy eating habits. In 2017, the programme reached 3 731 448 children and 63 285 schools.[7]

Qali Warma report carried out by the *Contraloría General De La República* (Office of the Comptroller General) highlights several areas for improvements (La Contraloría General de la República, 2017).[8] First, most of the educational institutions visited lack a copy of the contract signed between *Qali Warma* and the food suppliers. This hinders the possibility to check if the quantity and quality of the rations received correspond to those agreed by contract. Second, educational institutions do not have a list of the children targeted by the programme, which prevents keeping track of their number and evaluating

beneficial effects. Third, it often happens that the food is delivered late, which disrupts the organisation of classes and damages the proper assimilation of food by the children. Finally, there are concerns regarding the poor nutritional contribution of some foods. Addressing these deficiencies is critical in order to allow Peruvian children reaping the full benefits of *Qali Warma*.[9]

4.2.5. Developing key non-cognitive skills

The strategies for raising awareness about the importance of personality traits (also referred to as non-cognitive, soft or socioemotional, skills) in supporting learning and later on the transition to the labour market are also important to keep at-risk students in education. Such traits, often referred to as the "Big Five" -Conscientiousness, Openness to Experience, Extraversion, Agreeableness and Neuroticism/Emotional Stability - are depicted in Table 4.1.

Consciousness stands out in the empirical evidence as a key trait at all levels of education (Carcillo et al., 2015). For example, conscientious students typically put a stronger and more regular effort into succeeding their studies. In addition, the learning attitude and curiosity shown by these students allow them to appreciate the importance of certain tasks that may considerably enhance the long-term returns of schooling, notwithstanding their relatively low returns in the near term. These traits include, for example, paying attention in class, being organised and avoid procrastination.

Table 4.1. The "Big Five" personality traits and their facets

Personality trait	Facets (and correlated trait adjective)	Related traits
Consciousness	Competence (efficient), Order (organised), Dutifulness (not careless), Achievement striving (ambitious), Self-discipline (not lazy), Deliberation (not impulsive)	Grit Perseverance; Delay of gratification; Impulse control; Achievement striving; Ambition work ethic
Openness to experience	Fantasy (imaginative), Aesthetic (artistic), Feelings (excitable), Actions (wide interests), Ideas (curious), Values (unconventional)	
Extraversion	Warmth (friendly), Gregariousness (sociable), Assertiveness (self-confident), Activity (energetic), Excitement seeking (adventurous), Positive emotions (enthusiastic)	
Agreeableness	Trust (forgiving), Straightforwardness (not demanding), Altruism (warm), Compliance (not stubborn), Modesty (not show-off), Tender-mildness (sympathetic)	Empathy; Perspective taking; Cooperation; Competitiveness
Neuroticism/Emotional Stability	Anxiety (worrying), Hostility (irritable), Depression (not contented), Self-consciousness (shy), Impulsiveness (moody), Vulnerability to stress (not self-confident)	Internal vs. External locus of control; Core self-evaluation; Self-esteem; Self-efficacy; Optimism; Psychopathologies (mental disorders) including depression and anxiety disorders

Source: Almlund et al. (2011), Table 1.3 adapted from John and Srivastava (1999).

In this context, the MineduLAB proposed initiative to devise an innovative intervention to help students combat procrastination through in-class training could deserve attention. If implemented, it might be desirable to complement the in-class component of the training with some out-of-class mentoring. Mentoring can help youth from disadvantaged background filling certain behavioural gaps such as the lack of positive role models at home and of guidance on how to develop socio-emotional skills. The outcomes of the mentoring programme Big Brothers, Big Sisters of America (BBBSA) can be relevant in this regards given that this is one of the oldest and largest programmes worldwide in its kind.[10] They show that weekly meetings between mentors and mentees over a eighteen-

month period can cut school absenteeism by half (Tierney, Grossman and Resch, 2000). They can also lead to a significant strengthening of the youth self-esteem.

Conscientiousness can also lead students to acquire an early familiarity with performance-based incentives, which can be important to qualify for a scholarship, for example (Levitt et al., 2016; Levitt, List and Sadoff, 2016). Through *PRONABEC* (*Programa Nacional de Becas y Crédito Educativo*) Peru devotes considerable resources to scholarships and educational loans to talented people from poor backgrounds. In particular, the scholarship programme *Beca 18* tailors poor and extremely poor students who have excelled in secondary education (see below Box 4.9). The programme supports their access to higher education and guarantees resources for successful completion and subsequent job preparation (OECD, 2015). As the largest *PRONABEC*'s programme, *Beca 18* grants scholarships to more than 49 000 young people during the 2011-15 period (McCarthy and Musset, 2016; OECD, 2016b).

4.2.6. Scaling up strategies to counter negative self-stereotyping by poor students

Peru should be commended for the initiative *!Expande Tu Mente!* (Expand your mind!), which was implemented in 2015.[11] Taking advantage of a short and cheap-to-implement in-class training (90 minutes), students learned how the brain works as a "muscle", implying that intelligence is malleable and accordingly can be expanded. The initiative aimed to change students' perception of their own intelligence and to develop an awareness of the importance of effort, perseverance, achievements and control. The randomized experiment was conducted among 55 000 students enrolled in the second grade of secondary education in 800 public schools in the regions of Áncash, Junín and Lima. The outcomes show a significant increase of the students' scores in Mathematics and Reading Comprehension, especially in poorer areas located outside Lima (Outes, Sanchez and Vakis, 2017). As one policy option to effectively counter negative self-stereotyping by poor students, Peru could consider scaling up *!Expande Tu Mente!*.

Other approaches have proven to be helpful to reduce stereotype effects. As an illustration, disadvantaged high school students in the US who had been admitted to two- and four-year colleges were randomly chosen and invited to participate in an online module designed to dissipate the belief that disadvantaged students are the only group that has difficulty in college. One year later, 45% of the students who had participated in the intervention were enrolled full-time in school, compared to 32% of the students from the control group.

4.3. Women

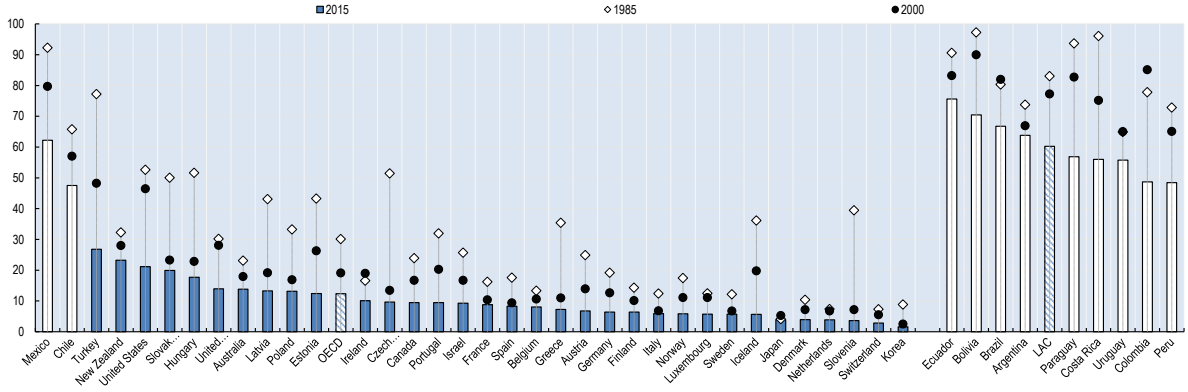
In Peru young women are nearly twice more likely to be NEETs than young men (see above, Figure 4.1). This is particularly the case among women with at least one dependent child. The phenomenon is part of a broader pattern that reflects the persistence of traditional gender biases, whereby women are expected to bear the brunt of child rearing. Women often have no other choice but to drop out of school in case of teenage pregnancy or to renounce participating in the labour market when young adults, following the birth of their child. However, the gender gap in the NEET rate also prevails among childless young women, due to the presence of additional barriers that hinder female labour force participation. In particular, violence against women in public transport and related public spaces leads many women to forgo job opportunities, irrespective of their maternal status (VAWG, 2015).

This section addresses some key aspects of the vulnerability of young Peruvian women. It provides policy recommendations in view of (i) preventing teenage pregnancy; (ii) alleviating the motherhood penalty; (iii) improving women safety in public transport; and, (iv) generating a switch towards greater gender equality.

4.3.1. Preventing teenage pregnancy is a key priority challenge in Peru

Adolescent fertility rates, defined as the number of births per 1 000 women aged between 15 and 19, has been declining worldwide, from 70 per 1 000 in 1980 to 44 per 1 000 in 2015 (data from the United Nations Population Division). Peru is no exception and its rates are very close to the worldwide average. Peru's fertility rate is also among the lowest in Latin America and performs nearly as well as Chile. This being said, the Peruvian adolescent fertility rate (48 per 1 000) was still four times higher than the OECD average in 2015 (12 per 1 000, Figure 4.5).

Figure 4.5. Adolescent fertility rates in OECD countries, Peru and other Latin American benchmark countries



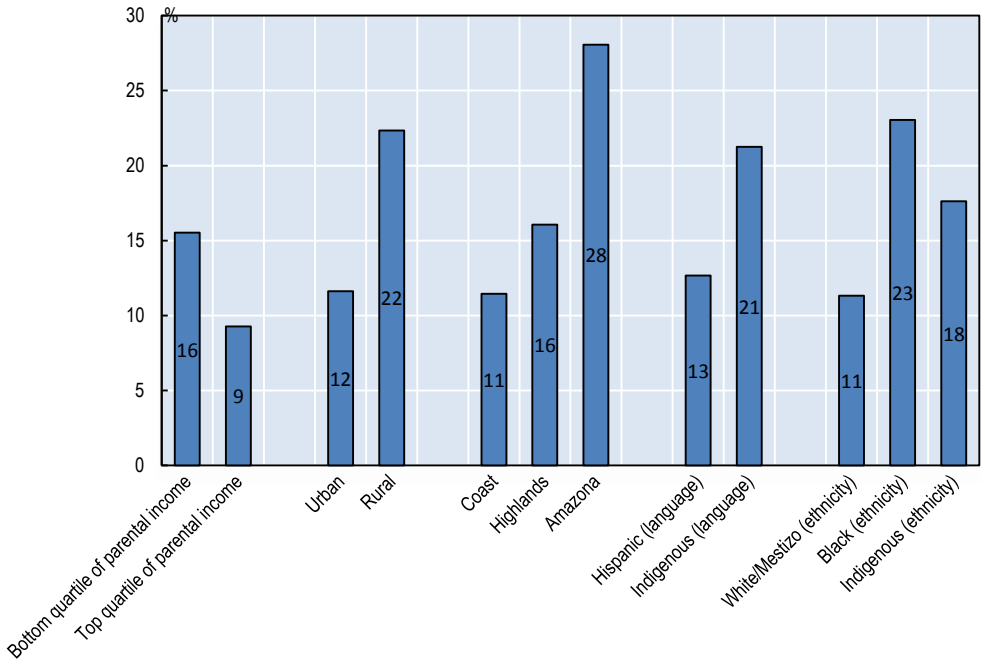
Note: Adolescent fertility rate refers to the number of births per 1 000 women aged 15-19.
Source: United Nations Population Division, World Population Prospects.

In 2016, about one out of seven Peruvian young women (15-29) had at least one child by the age of 19 (ENAHO 2016). Teenage pregnancy and the child caregiving responsibilities that ensue imply that it is very difficult for women to finish school. Indeed, eight out of ten teenage mothers drop out of school in Peru (INEI, 2015). Moreover, motherhood dramatically hampers mothers' economic prospects since it precludes them from holding regular jobs, leading to long-lasting negative effects on their participation in the labour market. Women who became mothers before 20 usually report significantly less years of schooling and less work hours than women who delayed childbearing (Arceo-Gomez and Campos-Vazquez, 2014).

Further compounding these detrimental effects, teenage mothers cannot rely on any family supports. As shown by Figure 4.6, Peruvian teenage mothers are overrepresented among adolescents of disadvantaged background (Favara, Lavado and Sanchez, 2016) with a non-negligible share of these mothers being rejected by the family. In 2013, more than 40% of teen mothers reported experiencing physical violence from their mother and their father (INEI, 2015). Finally, although pregnant adolescents have relatively high marriage or partnership rates in the short run, the frequency of splitting is very high. In

2013, only two-thirds of Peruvian teenage mothers were married or cohabitating. The others reported to be single, separated or divorced (INEI, 2015).

Figure 4.6. Share of teenage mothers among various categories of Peruvian female youth, as of 2016



Note: "Hispanic (language)" refers to individuals who report Spanish as their mother tongue or the language learnt in childhood while "Indigenous (language)" refers to individuals who report Quechua, Aymara or other native language as their mother tongue or the language learnt in childhood. "White/Mestizo (ethnicity)" refers to individuals who identify themselves as white or mestizo, "Black (ethnicity)" refers to individuals who identify themselves as "Black", "Mulat Zambo" or "Afroperuano" and "Indigenous (ethnicity)" refers to individuals who identify themselves as "Quechua", "Aymara" or " Native or Indigenous of the Amazonía".
Source: OECD calculations based on ENAHO 2016.

This situation depicts a ground conducive to intergenerational poverty traps. Babies born to women under 20 are more likely to be preterm or to have a low birth weight. As a result, the rate of neonatal mortality is comparatively high for these babies. Further down the road, these children face a higher risk of deviant behaviours when they become adolescents. Using longitudinal data for Peru, Azevedo et al. (2012) find a significant positive effect of adolescent pregnancy on the probability that the child engages in risky behaviours. Moreover, the younger is the mother, the more likely is the risk that the child will report drinking alcohol sometimes or more, or to try marijuana at least once. More importantly, the evidence available points to a strong risk of intergenerational transmission of young motherhood: even after controlling for individual background and family factors, daughters of mothers who were relatively young when they started childbearing are significantly more likely to have their first birth at young ages (e.g. Stanfors and Scott (2013), based on Swedish data).

Reducing adolescent fertility rates in Peru seems all the more critical in light of the fact that only a minority of teenage mothers report having wanted to be mother by the time they became pregnant. The related proportion has been decreasing steadily through the years, down to 32.7% in 2013 from 49% in 1996 (INEI, 2015). These dynamics point to

the fact that supporting women will of *not* becoming pregnant during their adolescence should be a clearly stated policy priority for the Peruvian government. In this context, Peru should be commended for having included the objective of reducing teenage pregnancy by 20% among the six targets of the Peruvian National Action Plan for Childhood and Adolescence (2012-20).[12]

Investing in girls' education

The findings of recent analysis for Colombia by Cortés, Gallego and Maldonado (2016), show that CCT programmes can have positive effects on the need to reduce adolescent fertility rates, provided that they are made "conditional enough". This requires the use of well-stated and enforceable pre-defined criteria to track school success and attendance. Accordingly, strengthening the focus of *Juntos* on regular attendance, as a criterion for conditionality, may be an effective strategy for Peru to consider. For example, the government could require that students complete the school year and enrol in the following grade in order to continue benefiting of *Juntos* and/or that the subsidy cannot be recuperated after a too long interruption in the programme.

However, reinforcing the role played by education also requires other means, with extended school-hours programmes and school-based sexual education first candidates. The following sections discuss how Peru could make the most of these additional options.

Extended school-hours programmes

Empirical findings corroborate the presumption that longer school hours play a useful role in limiting the exposure of adolescents to risky behaviours. For instance, Jacob and Lefgren (2003) and Luallen (2006) find that extended school hours significantly reduce the incidence of certain juvenile crimes. Extended school hours can also reduce teenage pregnancy. Work by Berthelon and Kruger (2011) has analysed the effects of the school reform that was launched by Chile in the late 1990s to gradually lengthen school days from half to full-day shifts on certain days of the week. The authors find that the amount of time spent by students in school increased by almost 22% (from 32 to 39 hours per week) and that concomitantly the probability of motherhood lowered for teens living in municipalities with access to full-day high schools.[13] This effect concentrated on the population that is typically the target of poverty alleviation programmes, i.e. poor young women.

These results suggest that the extended school programme (*Jornada Escolar Completa*) launched by the Peruvian Ministry of Education in 2015 represents a policy move in the right direction. The initiative should be generalised to all urban and rural settings where commuting times between home and school are sufficiently short to enable implementation. Particular attention should be paid to the quality of the teaching provided during these extended hours. Options to take advantage of the reform to improve curricula include providing extra academic support, strengthening the focus on the development of non-cognitive skills and on career counselling.

School-based sexuality education programmes

Comprehensive school-based sexuality education programmes (UNESCO, 2018) include two key objectives: (i) to disseminate the message that teenage pregnancy can and must be avoided; and (ii) to provide competent information explaining how to avoid pregnancy. However, programmes can vary in terms of the approaches used implying that discerning those that have proven to be most effective is a key priority.

To convince students that teenage pregnancy is to be avoided, the approach often consists in stressing its long-term costs, i.e. that as a result of child caregiving responsibilities it may be impossible for teenage parents to finish school, which would prevent them from reaping the economic and social returns of acquiring a good education. This is the main objective of the campaign *Todo a su tiempo!* (All in good time!) that was launched by the Peruvian Ministry of Health following the publication of the National Action Plan for Childhood and Adolescence (2012-2021). However, the short-term costs of teenage pregnancy are also important to stress. As an illustration, in a qualitative study on adolescent fertility in Ecuador, several young parents (both fathers and mothers) emphasized that they ignored the immediate consequences of early parenthood. They underscored the importance of learning more about the burdensome implications of early parenthood at an age when people are usually eager to enjoy life, rather than taking care of children (Azevedo et al., 2012).

With regard to the issue about how pregnancy can be avoided, until now sexuality education programmes in Peru have for the main focussed on abstinence. Accordingly, delaying sexual initiation is the primary objective of these programmes. [14]However, the conclusions of a strong body of evidence underscore that "abstinence only" programmes are of very little help to reduce teen pregnancy.[15] The role played by the complementary approaches that inform students about the contraceptives that exist is a key in this context.

Another important aspect of school-based sexuality education programmes relates to the question about who should be in charge of delivering the training and to whom. Of essence here is ensuring that both girls and boys feel that they can safely and comfortably raise questions, clarify doubts and address concerns. Creating such a supportive setting requires that the sexuality education programme be delivered by a trained young person who the students can easily identify as a peer, rather than by their regular teachers.

4.3.2. The composition of the audience also matters.

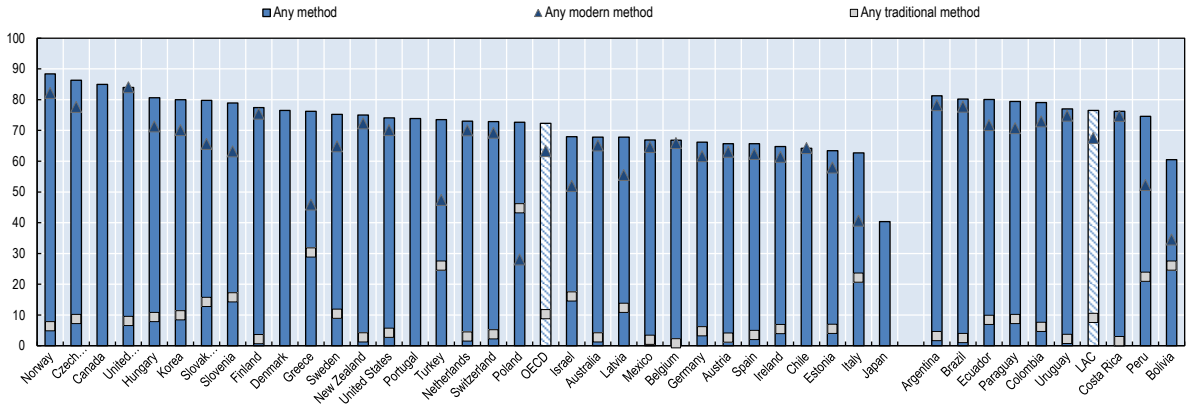
Building on a set of rigorous randomised control trials aimed at reducing teenage pregnancy, the US Department of Health and Human Services finds that school-based interventions tend to be more effective when they target students above 13.[16] In addition, the impact appears to be much lower when the gender composition of attending students is mixed, an outcome that reflects the reluctance by many to ask sexuality-related questions in front of the other sex. In this context, it may be preferable to organize at least part of the intervention in subgroups of students of the same gender. Appropriate engagement of the parents, by teaching them how to communicate with their children on avoiding teen pregnancy, is also important. Providing low-threshold, well-informed access to modern contraceptives

The share of Peruvian women of reproductive age (15-49), married or in-union, who use modern contraceptives has more than doubled between 1985 and 2015, reaching 52%. This increase largely reflects the adoption of a national law promulgated in 1985 to guarantee "couples the right to freely determine the number and spacing of their children." The law recognized all voluntary contraceptive methods except abortion. Subsequently, the first National Family Planning Programme (1987-90), developed by the Ministry of Health, aimed at lowering the average number of births per woman to 2.5 by the year 2000 (an objective that was reached in 2010). In particular, the Ministry of Health coordinated public and private sector family planning efforts while various donors provided technical and financial support. Peru's second National Family Planning Programme (1991-95) lead to further progress in the use of contraceptives by expanding

service delivery in underserved (mostly rural) areas. Starting from 1995, Peru mandated free modern contraceptives for all individuals through government facilities (USAID, 2016).

Figure 4.7. Contraceptive prevalence, 2015 or latest year available

Share of married or in-union women of reproductive age (15-49)



Note: Modern methods include: female sterilisation, male sterilisation, intrauterine device, implant, injections, pill, male condom, female condom, vaginal barrier methods, lactational amenorrhea method, emergency contraception, or other modern methods. Traditional methods include periodic abstinence (rhythm, calendar method) and withdrawal (*coitus interruptus*). Data refer to 2015 for Mexico and Japan; 2014 for Portugal and Peru; 2013 for United States, Turkey, Netherlands, Belgium, Austria, Argentina, and Brazil; 2012 for Australia, Ecuador and Switzerland; to 2011 for Costa-Rica; to 2010 for Colombia; 2009 to United Kingdom, Korea; 2008 for Bolivia, Czech Republic and Paraguay; 2006 for Canada, Chile and Spain; to 2005 for Norway, Germany, Ireland, Estonia; and 2004 Uruguay and to 2001 for Greece.
Source: UN DESA.

Despite these early efforts, the use of modern contraceptive has plateaued in Peru since 2000 and remains low in the international comparison. The share of Peruvian women who rely on modern family planning methods is nearly 15 percentage points lower than the OECD and LAC averages, while the share of those relying on traditional methods is 15 percentage points higher (Figure 4.7). This situation raises several policy challenges since traditional methods are typically associated with a higher risk of unintended pregnancy, as evidenced by comparatively higher failure rates (Sedgh, Ashford and Hussain, 2016).

International best practices also point to the crucial importance of combining free access to modern contraceptives with careful counselling. This reflects the fact that the impact of free modern contraception on teenage pregnancy has both intended and unintended effects. On the one hand, free access to contraceptives reduces the likelihood of an unwanted pregnancy among sexually active teenagers. At the same time, it means that sexual activity is facilitated, possibly leading to increase adolescent fertility rates if teenagers are not well-informed on how to use the contraceptive efficiently (Box 4.3).

The above considerations underscore the key importance of developing a well-coordinated system of sexual and reproductive facilities targeted at adolescents. The salient features of such a system include (i) easiness to reach the facility; (ii) youth friendliness of the facility; and (iii) complementing free access to modern contraceptives by the teenagers with a mandatory counselling. Such a system could be part of a

partnership between the Ministry of Women and Vulnerable Populations and the Ministry of Health. It could result in the creation of a network of teenage pregnancy prevention units within the local services and facilities that the two ministries are already responsible for. These are the DEMUNA services (*Servicio de Defensoría del Niño y del Adolescente*), which are coordinated and supported by the Ministry of Women and Vulnerable Populations, and the health centres, which are managed by the Ministry of Health.

Box 4.3. Counselling is a key to ensure that free access to modern contraception leads to a decline in teenage pregnancy

Free access to modern contraception can have ambiguous effects on teenage pregnancy in the absence of a well-thought implementation strategy.

Indeed, there is evidence that without the support of careful counselling campaigns on how to use contraceptives properly, free access programmes can even lead to an increase in adolescent fertility rates. As an illustration, Buckles and Hungerman (forthcoming) find that free access to condom in schools has led to *increase* teenage pregnancy where school condom distribution programmes have been carried out alone. When introduced in combination with mandatory counselling, school condom distribution programmes tend to decrease adolescent fertility rates.

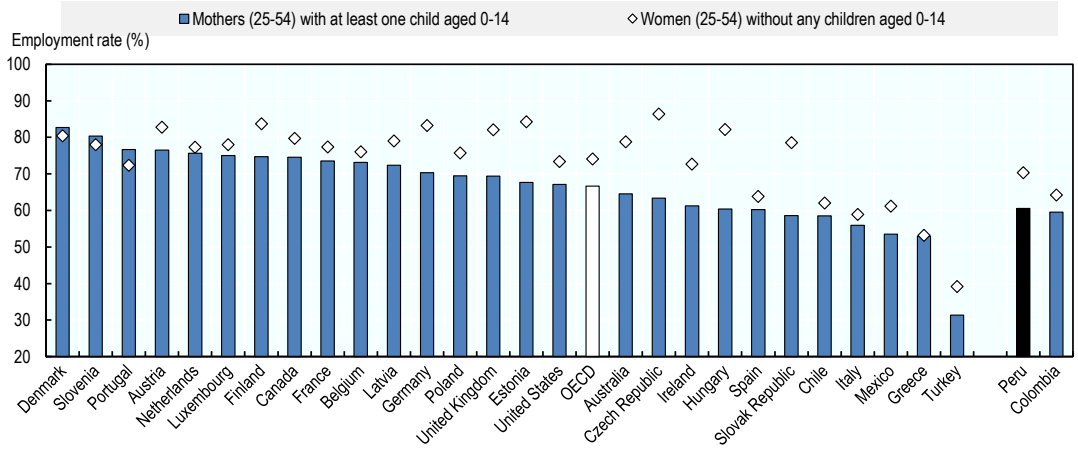
The same logic applies to emergency contraception. The available evidence suggests that unless girls have been informed in advance that the "day after pill" must be taken as soon as possible after sex, its free access may just lead to encourage girls to engage in risky sexual behaviour with hardly any effects on teenage pregnancies (Girma and Paton, 2011; Durrance, 2013). The situation is different however when access to contraception is accompanied by proper counselling. The Pill, that is prescribed by a physician who teaches women how to use it efficiently, does lower teenage pregnancy (Goldin and Katz, 2002; Bailey, 2006; Guldi, 2008 and Ananat and Hungerman, 2012). Proper counseling seems a key to reap the benefit of free access to modern contraception and, hence, reduce teenage pregnancy.

It is essential that the services provided by these units are youth-friendly to ensure that young people use them (Bhuiya et al., 2006). Various qualitative studies among Latin American teenagers show that the use of contraception requires the removal of various psychological barriers that can prevent the youth from accessing the contraceptives (Azevedo et al., 2012). In particular, many adolescents feel uncomfortable when faced with the prospect of interacting personally with an adult, with whom they may not want to share that they are planning to have sexual intercourses. Compounding this embarrassment is the attitude of the adults, often described as openly hostile by teenagers.[17] Some training of the providers may be necessary to address these barriers. One additional reason why youth friendly facilities play an important role is that they provide a vehicle for spreading information about types of contraceptives and their effectiveness.[18]

4.3.3. Alleviating the motherhood penalty

Not only entrenched gender roles push girls out of school in case of teenage pregnancy. They also mean that women renounce participating in the labour market following the birth of their child. In Peru, like in many other countries, adult women who are mothers of dependent children (age 0-14) are much less likely to be in the labour market than women without dependent children. Descriptive evidence reveals that 25- to 54-year-old Peruvian who are mothers of at least one dependent child are about 10 percentage points less likely to be in paid work than comparably-aged women without dependent children. As shown in Figure 4.8, the motherhood employment gap in Peru (10 percentage points) is larger than in most countries observed. This includes in the comparison with Mexico (where the gap amounts to 8 percentage points), Colombia (5 points) and Chile (4 points).

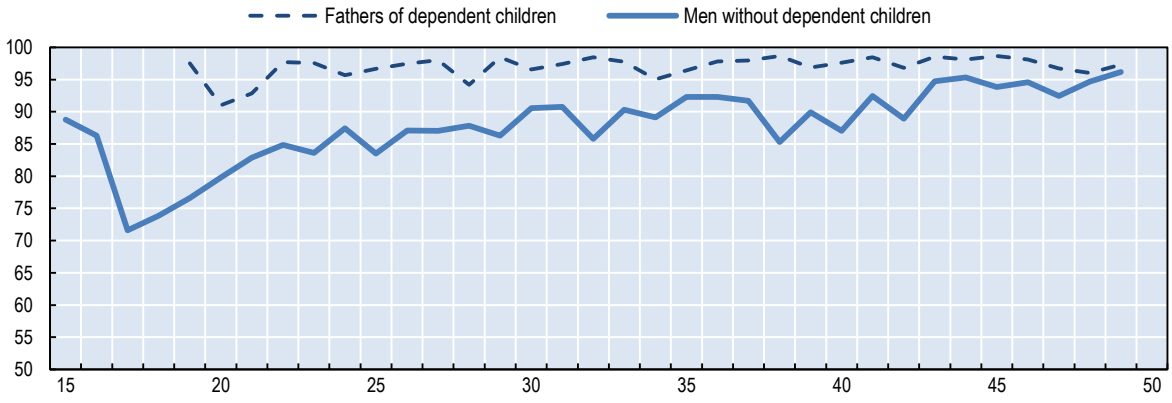
Figure 4.8. Mothers are less likely to be in paid work than women without dependent children in most countries



Note: Data refer to 2012 for Denmark and Finland; 2013 for Chile, Germany and Turkey; 2015 for Colombia and 1024 for all other countries. Data for Canada refer to women with and without at least one child aged 0-15, and for the United States to women with and without at least one child aged 0-17.
Source: OECD Family Database (2016) and OECD calculations based on ENAHO (2016) for Peru.

Fathers, in contrast, suffer little penalty for becoming a parent. Fathers are viewed as more stable and reliable workers, compared to mothers who are on the front-line of family care commitments. In many countries fatherhood is also associated with a beneficial effect on men's income and career trajectory (Correll, Benard and Paik, 2007; Hodges and Budig, 2010). Descriptive evidence from Peru confirms that fathers have higher rates of employment or education enrolment than men who are not fathers, although the extent of the gap has shrunk overtime (Figure 4.9).

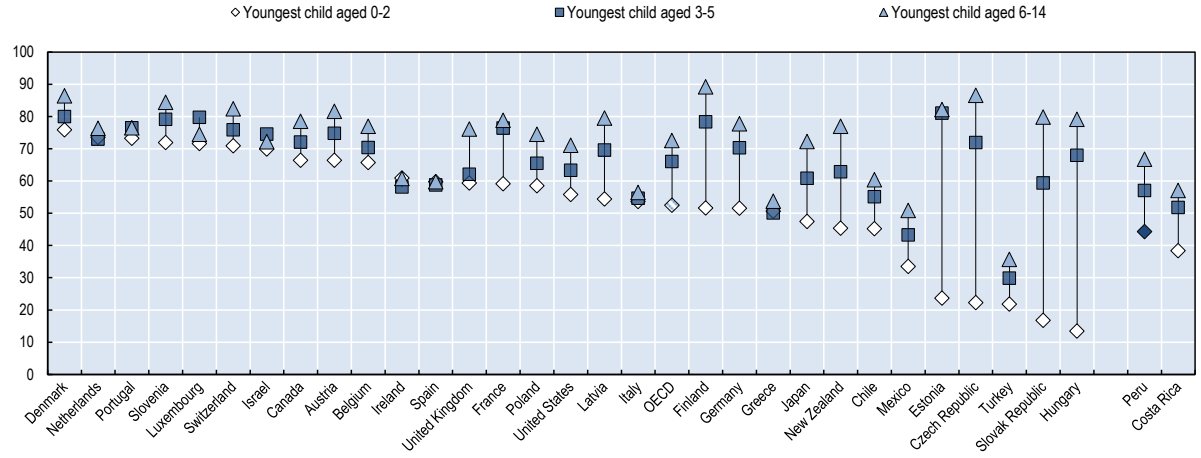
Figure 4.9. Peruvian fathers are more likely to be in education or employment than men without dependent children



Note: Fathers are defined as having dependent children aged 14 or younger.
Source: OECD calculations from ENAHO (2016).

Social policies can help women enter, remain and progress in the workforce. A key determinant of a mother's likelihood to engage in paid work is the age of her child. Across OECD countries and in Peru mothers are less likely to work when children are younger. In Peru only 44.3% of mothers (aged 15-64) whose youngest child is aged two or younger are in paid work, compared to 66.7% in the case of mothers whose youngest child is aged between six and fourteen years (Figure 4.10).

Figure 4.10. Child age influences maternal employment



Note: Data for Peru refer to 2016, For Chile, Germany and Turkey to 2013, for Denmark to 2012. Data for Canada refer to women with and without at least one child aged 0-15, and for the United States to women with and without at least one child aged 0-17.
Source: OECD Family Database (2016) and OECD calculations based on ENAHO (2016) for Peru.

While this result reflects the influence of family preferences and societal norms, it also emanates from inadequate access to workplace supports -- especially paid maternity leaves -- and a lack of affordable and good-quality childcare options that are amenable to give mothers and fathers equal opportunities to earn an income. Remedying these barriers

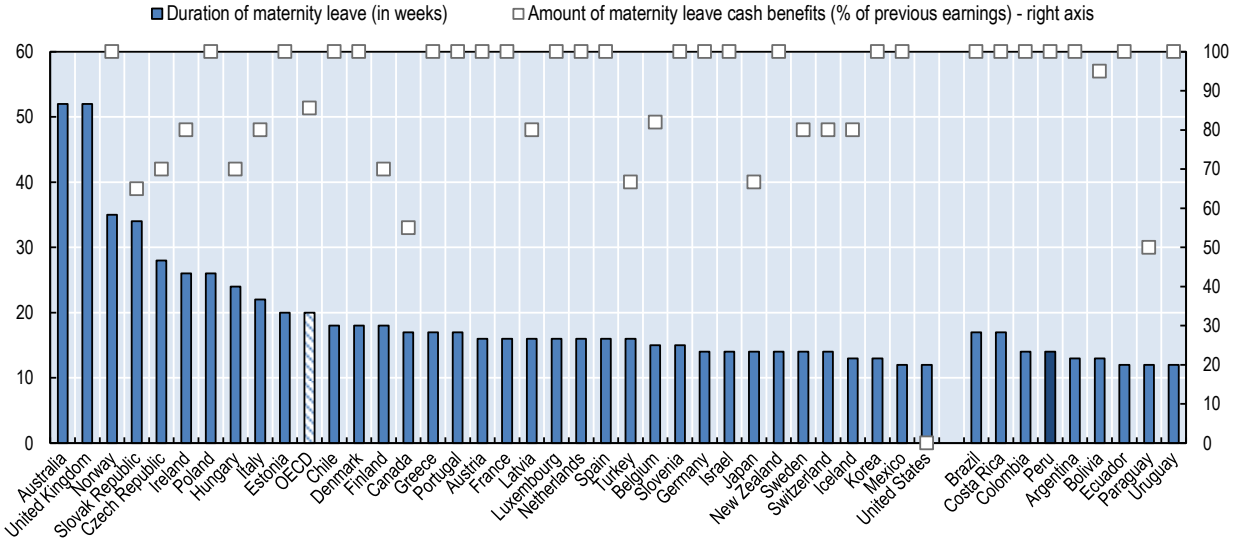
is a challenge of key importance, especially given the rise of female-headed households in Peru. The percentage of households headed by women was 35% in 2016, a share that has steadily risen since 2006, when it was 32%. Excluding these women from participating in the labour market therefore risks marginalising more than a third of Peruvian households.

Ensuring that all mothers benefit from a decent maternity leave

Maternity leave policies provide mothers with the right to take a limited period of time off work around childbirth and when children are very young, and to return to the same position or an equivalent one that is paid at the same wage. Unless they are too long, in which case they can lead to detachment from work and human capital depreciation, job-protected maternity leaves are essential to support maternal labour supply (Kunze, 2016). They provide the security that mothers need to re-enter the labour force after childbirth.

The length of maternity leave in Peru has been increased to 14 weeks in March 2018, following Supreme Decree 02/2016. As shown in Figure 4.11, although this length is lower than the average among OECD countries (20 weeks), it matches the minimum lenght set by the ILO's Maternity Protection Convention (No. 183). Moreover, maternity leave in Peru provides mothers with full compensation of their income loss. By terms of comparison, mothers receive 85% of their earnings on average in OECD countries. Overall, the regulatory setting for maternity leave in Peru provides mothers with enough time and decent resources to take care of themselves and their new-borns, while avoiding work detachment.

Figure 4.11. Maternity leave in Peru meets the minimum duration set by ILO on top of providing mothers with full compensation for their income loss



Source: ILO (2014) and MTPE for Peru.

This said, only a minority of women, i.e. those working in the formal sector, are entitled to a maternity leave, which suggests that continuing efforts to combat informality is a key to enhance the labour force participation of (young) women in Peru. Chapters 2 and 3

have provided a broad set of policy recommendations to reduce the cost of formalization while increasing its benefit, for both employers and employees.

Improving children's access to early childhood education and care

Even if supported by more efforts to boost formalisation, the policies to facilitate the access to maternity leave will never be enough to boost the participation of women in the labour market. These policies must be integrated by the support of adequate child care options when the maternity leave ends and the mother is back to active work. Yet, access to affordable and good-quality early childhood education and care (ECEC) remains very unevenly distributed in Peru for children below six (the age by when compulsory schooling begins).

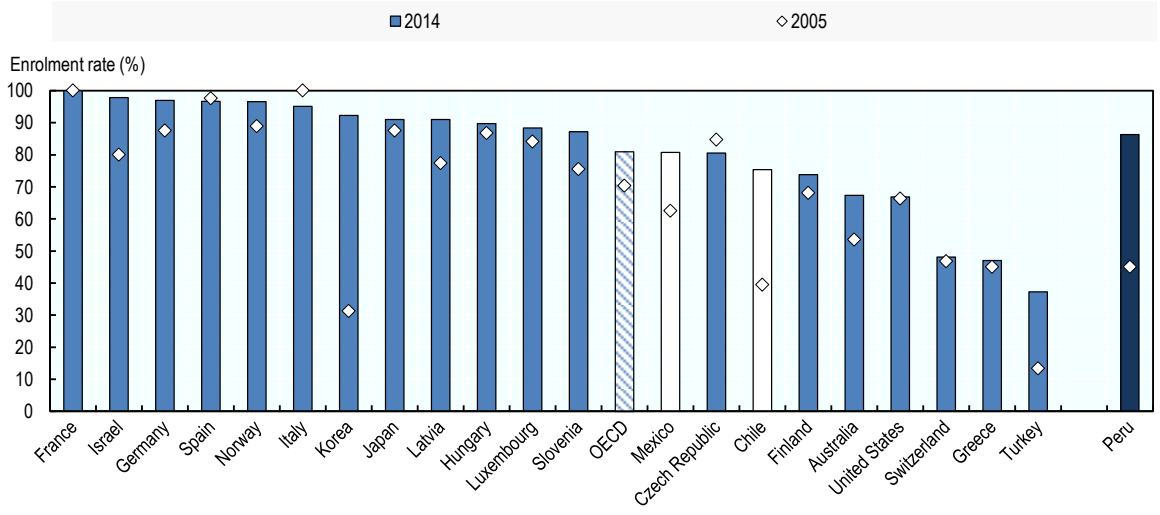
For example, fewer than 12% of 0- to 2-year-old children were enrolled in *Cuna Más* in 2014 (GRADE, 2016). ECEC coverage varies considerably across OECD countries, ranging between 67% of children between 0 and 2 years in Denmark, to 3.1% of the same age group in the Slovak Republic. In this setting, ECEC participation rates of infants and very young children (below three) in Peru is comparable to that at the low end of the OECD rankings (OECD Family Database, 2016).

By contrast, enrolments figures have undergone a remarkable increase for Peruvian children in preschool ages, between 3- to 5-year-olds. An impressive 86.3% of these children were enrolled in public or private preschools in 2014, up from only 45% in 2005 (GRADE, 2016). The 2014 coverage is in fact higher than the OECD average at 80.9% (Figure 4.12). However, the Peruvian average masks strong disparities by age. At 92.8% and 96% respectively, the enrolment rates for children aged 4 and 5 are impressive. For children aged 3 they are significantly lower, with only 70% of them being covered by *Jardines*, *PRONOEI* and their private equivalents.

Overall, improving children's access to ECEC remains a key to boost maternal labour supply in Peru where maternal employment is relatively low to begin with (Cattan, 2016). As a priority, this objective would require a significant expansion of *Cuna Más* day-care services for 0- to 2-year-olds children, as well as of the absorption capacities of *Jardines* and *PRONOEI* preschools for three-year old children. Such a service expansion can be expected to be highly cost-effective since it would build on already existing programmes. From the social and economic viewpoints, the first beneficiaries would likely be children from disadvantaged households. As a result, their mothers, for whom affordability of ECEC is the main barrier to the labour market, would feel encouraged to search for a job. Concomitantly, this policy would have the merit to allow achieving the important goal of promoting child development, while at the same time reducing socio-economic gaps in education (Waldfogel, 2015).

Figure 4.12. Enrolment of 3- to 5-year-olds in preschool has grown substantially in Peru

Enrolment rates (%) in pre-primary education or primary education, 3- to 5-year-olds, 2005 and 2014



Note: Data reflect the number of children aged 3 to 5 enrolled in pre-primary education (ISCED 2011 level 02) or primary education (ISCED 2011 level 1), as a proportion (%) of the corresponding 3- to 5-year-old population. Potential mismatches between the coverage of the population data and the enrolment data mean that enrolment rates may be underestimated for countries (such as Luxembourg) that are net exporters of students, and overestimated for countries that are net importers. Enrolment rates are capped at 100% where they exceed 100%. Countries shown only if data are available for both 2005 and 2014.
Source: OECD Education Database (2016) and GRADE (2016) for Peru.

4.3.4. Ensuring women's safety in public transport and related public spaces

A sizeable gender gap in the NEETs rate is not only observable among women with at least one dependent child. It represents an issue for concerns also among childless women, as shown by Figure 4.8 and Figure 4.9. The traditional gender roles that are behind this outcome appear exacerbated in Peru by a pervasive phenomenon of violence against women in public transports and spaces. This particularly worrisome source of distress leads many Peruvian women to decide to forgo job opportunities, irrespective of the number of their children (VAWG, 2015).

In 2014, the Thomas Reuters Foundation conducted an international survey about women's safety in transports across 16 of the world's largest capitals.[19] The results show that Lima's transport system ranks as the third most dangerous for women, behind Bogota and Mexico City. Respondents in Lima are significantly more likely to disagree with the survey's statement according to which safe public transport is available in the city where they live. They are also much more likely to report cases of verbal and/or physical harassment when using public transports.

This situation calls for the establishment of a zero tolerance environment to violence against women in public transports and related public spaces in Peru. In this regard, the pilot project *Hazme el Paro* (Have my back) that the World Bank is conducting in Mexico City is particularly inspiring. It aims to help public transport users intervene more actively when they witness violence against women (Box 4.4). A similar initiative, of a key importance to improve women's accessibility to transportation and, hence, to the workplace, could be replicated in Lima.

Box 4.4. Preventing violence against women in Mexico city's public transport

The pilot project "*Hazme el Paro*" ("Have my back") aims to create an environment with zero tolerance to violence against women in Mexico City's public transport by inducing bystanders who witness verbal or physical harassment to take action.

The proposed intervention has three components:

1. A marketing campaign, which provides information to bystanders about what they can do to interrupt harassment in a non-confrontational way;
2. Training for bus drivers on non-confrontational strategies for intervening when harassment occurs; and,
3. A mobile application, which enables bus users to report when they are either victims of or witnesses to harassment.

Each time a passenger reports an event (ranging from verbal to physical abuse) and requests help, a system alert is created and the information is sent to the centre of operations of the bus company, which immediately launches an action protocol. Action ranges from broadcasting a warning message, through the sound system, to the driver actually stopping the bus and calling the police. Experience shows that just sending a message through the system makes people aware and creates a reaction of public shame.

Source: Bianchi Alves and Dominguez Gonzalez (2016).

4.3.5. Moving towards greater gender equality requires the support of a change in mind-set

The case for complementing the above measures with policies to combat women's vulnerability at both the household level (domestic violence) and political level (women's representation) is also strong in Peru. Domestic violence is widespread in Peru, where 40% of women between 15 and 49 report having experienced physical or sexual violence by their partner at some point in their lives. This places Peru at the high end of Latin American rankings (Bott et al., 2013). Although gender policies have a general role to play, thus generating beneficial effects that go beyond the scope of a youth report, these effects can be disproportionally bigger on a range of youth-specific challenges (OECD, 2017c).

The media can play a potentially powerful role to support the fight against domestic violence. As one example, access to cable television in India, including international programming where women are more outspoken, have lead to generate a much welcome momentum against domestic abuses (Jensen and Oster, 2009). The most promising results seem to flow from "edutainment", which is the integration of educational messaging within popular entertainments (Ball Cooper, Paluck and Fletcher, 2014). Such is the "Soul City" initiative developed in the late 2000s in South Africa where domestic violence is typically described as endemic. Based on prime time radio and television dramas devised to achieve strong audience identification with characters and stories, this initiative aimed to perpetuate the norm that "people in South African communities disapprove of gender-based violence." For example, one episode portrayed people

beating pots and pans to voice their disapproval each time they overhear their neighbour beating his wife. The "Soul City" initiative successfully impacted disapproval of domestic violence. The share of respondents disagreeing that domestic violence is a private affair increased by 10 percentage points, from 56% to 66%. Anecdotal reports also indicate that some communities have made recourse to the pot-banging. Finally, the approach triggered a significant increase in the share of abused women who engage in help-seeking behaviours such as contacting supportive organisations and the national helpline (Usdin et al., 2005).

Increasing women's political representation can also have remarkable effects. Women's political empowerment can be achieved by reserving seats to women in assemblies at the national, regional or local level. This approach aims at ensuring that women are not only a few token in the political life but constitute instead a critical minority of 20, 30 or 40%, for example. Indeed, such reserved seats are increasingly popular. As of today, 37 countries have made them legal, through constitutional amendments or new electoral laws (Institute for Democracy and Electoral Assistance[20]): 21 in Africa,[21] one in the Americas (Haiti), 12 in Asia,[22] one in Europe (Kosovo) and two in Oceania (Samoa and Vanuatu).

Problem is that quota requirements are not always implemented. When they do, evidence shows that they lead to more female-friendly policies. This is for instance the case in India. In 1993, an amendment to the constitution of India required the States to both devolve more power over expenditures to local village councils and to randomly reserve to women one-third of all councils' chief positions. Evaluation of this reservation system confirms that mandated representation of women has important effects on policy decisions. Women elected as leaders under the reservation policy tend to invest more in public goods that take into account female preferences, such as water infrastructure for example (Chattopadhyay and Duflo, 2004).

In addition, reservation policies substantially improve perceptions of female leader effectiveness, especially among men. This is very important to weaken stereotypes about gender roles in the public and domestic spheres (Beaman et al., 2009). This outcome is also consistent with the perception that there are no gaps in qualifications between male and female leaders. More importantly, research has documented an increase in the "overall" level of qualifications among politicians following the implementation of gender quotas. Indeed, on top of being at least as competent as their male counterparts, female candidates boosts electoral competition and push mediocre male leaders to resign, when a good representation is assured (Besley et al., 2017). Finally, by increasing the number of women in leadership positions, reservation policies contribute to raise aspirations and educational attainments for girls, in particular through a role model effect. Compared to villages in which leadership positions for women in councils were never reserved, the gender gap in aspirations closed by 20% among parents and 32% among adolescents in villages that have chosen a female leader for two election cycles. Moreover, the gender gap in adolescent educational attainments was erased and girls spent less time on household chores (Beaman et al., 2012).

Further to the policies aiming to combat domestic violence and improve women's political representation, another vector for change of gender stereotypes is the reform of the educational curriculum. Particularly, Peru could opt as an immediate priority to strengthen the gender equality component already present in the 2009 curriculum. This could be achieved by means of reinforcing two generally consensual approaches to using school content as a tool for female empowerment. One would consist in focussing on the

elimination of traditional gender stereotypes; the other would require to emphasise the reduction of gender gaps by broadening opportunities for educational choices. Chief among the latter, the study of STEM (science, technology, engineering, and mathematics), financial, and entrepreneurship issues, as well as education, arts, and the humanities, should be made equally inclusive and attractive to boys and girls. Many OECD countries, including Germany, Iceland, and Ireland, have launched official guidelines for educational materials to ensure that they foster gender equality along these lines. Peru could draw inspiration from the experience of these countries, which appears outlined in Box 4.5.

Box 4.5. Promoting gender equality through school content

Stereotypes are learned, and they can be changed. Starting early in school it is important that textbooks and other educational materials avoid presenting stereotypical expectations of women and men's behaviour. Many OECD countries, including Germany, Iceland, and Ireland, have launched official guidelines for educational materials to ensure that they foster gender equality. Teachers, too, should be trained to become aware of gender stereotypes. In Mexico, the *Programa Sectorial de Educación 2013-2018* explicitly addresses gender stereotyping. It takes the good step of calling for the elimination of sexist or misogynist images and content in textbooks, as well as the inclusion of gender equality perspectives in curriculum and anti-discrimination messages in course materials.

Moreover, the study of STEM (science, technology, engineering, and mathematics), financial, and entrepreneurship issues, as well as education, arts, and the humanities, should be made equally inclusive and attractive to boys and girls. Getting more students to study mathematics and science and reducing the related gender gap could involve making mathematics applied to real-world problems, identifying and eliminating gender stereotypes in course materials, promoting female role models, and using learning materials that appeal to girls.

Drawing on experiences in the private sector, countries across the OECD have tried a variety of strategies to raise awareness about opportunities in STEM careers. Countries like Belgium (Flemish Community), Germany, Luxembourg, Austria, and Poland organise "girls" days at workplaces, during which companies and research institutions invite girls for visits to introduce them to non-traditional technical jobs and careers, although some of these projects are small in scale. In Germany, the Go MINT! Initiative ("MINT" is the STEM acronym in German) was launched in 2008 to increase young women's interest in scientific and technical degree courses.

Source: OECD (2017).

4.4. Indigenous and Afro-Peruvian youth

Indigenous people and Afro-descendants represent a significant share of the Latin American population. According to the latest figures available, there are about 42 million indigenous people in Latin America, corresponding to nearly 8% of the overall regional population (World Bank, 2015). In addition, about 130 million people of African descent

live in Latin America, corresponding to roughly a quarter of the population in the subcontinent (Project on Ethnicity and Race in Latin America at Princeton University). Despite their significant size, these groups face important challenges related to their economic and social exclusion, a reflection of their disproportionate share among the poor. Indigenous people and Afro-descendants make up 14% and 40% respectively of people living with less than two dollars a day in the region.

In Peru, people who identify themselves as indigenous or Afro-Peruvian make for roughly 27% of the total population (ENAHO 2016). However, the breakdown between the two groups is reverse compared to the division that prevails on average in Latin America: 25% of respondents view themselves as indigenous[23] and 2% as Afro-Peruvian. Yet, the latter figure likely corresponds to an underestimate; in effect, the nationally representative survey conducted in 2017 by the Peruvian Ministry of Culture (MINCULT, 2017) suggests a share of Afro-Peruvians equal to 9%.

Similar to the other Latin American countries, indigenous and Afro-Peruvian people are significantly more likely to be in subsistence employment than people who self-identify as white or "mestizo" (Figure 4.1). Specifically, being born to indigenous or Afro-Peruvian parents substantially increases the probability of being raised in a poor household, which contributes to a poverty trap that in turns undermines the well-being of indigenous and Afro-Peruvian children, as well as their social and economic potential (World Bank, 2015; Benavides et al., 2015). For example, Indigenous and Afro-Peruvian youth are disproportionately more likely to leave school early (Figure 4.4). Moreover, consistent with poverty being linked with low female empowerment (Duflo, 2012), being a women in these populations leads to multiple disadvantages. As an illustration, the probability for indigenous and Afro-Peruvian female adolescents to be pregnant is 60% and twice higher than among white and "mestizo" girls, respectively (Figure 4.6).

In this setting, ensuring that the policies set in place to boost the enrolment and learning opportunities of students from disadvantaged backgrounds and to strengthen female empowerment devote a particular attention to indigenous and Afro-Peruvian populations is a key priority. Further to the policies discussed in Chapter 3, this entails improving the educational attainments and job opportunities of rural indigenous youth. It also requires actively combating the discrimination that indigenous and Afro-Peruvian people endure.

4.4.1. Improving educational attainments and job opportunities of rural indigenous youth

Improving bilingual education and implementing a coordinated national strategy to promote rural development are important policy priorities to boost the educational attainment and job opportunities of rural indigenous youth.

Boosting educational attainments

Indigenous children in Latin American countries face many barriers to accessing education. For the important share of the region's population that speak an indigenous language, access to education remains largely contingent upon understanding and using the dominant language as medium of instruction, usually Spanish. In Peru for example, approximately 20% of the population reports Quechua, Aymara or other native languages as their mother tongue or the language learnt in childhood (ENHAO 2016). In order to close the important ethnic gaps in learning achievements that are associated to this situation, several Latin American governments have introduced in recent decades

multilingual education programmes that use all learners' (and their teachers') best languages, without neglecting the acquisition of dominant languages.

Introduced during the 1970s, bilingual education has expanded significantly during the past 20 years in Peru. At the core of this effort lies the programme *Educación Intercultural Bilingüe* (EIB), which aims to achieve two main objectives: (i) increasing educational opportunities for indigenous children; and (ii) recognizing the multilingual and multicultural character of Peruvian society. This is in line with the spirit of other constitutional and education laws in Latin American countries, along with international agreements (Box 4.6).

Peru's EIB programme focuses on primary education. It emphasizes teaching and learning in indigenous languages at the lower grades of primary school. At the same time, importance remains also attributed to the acquisition of a proficiency in Spanish language, which is essential for children to continue develop a curriculum in the dominant language. The programme allows the gradual adaptation of the speed at which teaching shifts from indigenous language to Spanish, reflecting the child's proficiency. For example, indigenous children who enter school as monolingual in an indigenous language should learn all subjects in their mother tongue in grades one and two, including Spanish as a second language. In third grade, Spanish-medium instruction should make up to 20% of a class' time with this share increasing gradually -- by 10 percentage units each year, reaching 50% by the end of primary school, when the child reaches grade six (DIGEIBIR, 2013).

Precisely detecting the outcomes of the EIB programme would require more monitoring. While fairly limited, the evidence available suggests that EIB can play a crucial role in helping narrowing achievement gaps between indigenous and non-indigenous children. For example, Hynsjö and Damon (2016) find that indigenous children who can access bilingual schools with Quechua-medium education achieve substantially higher scores in mathematics compared to indigenous children who attend schools with only Spanish-medium education. Moreover, they perform at least as well as others in Spanish.

In perspective, expanding the coverage of primary schools by EIB in Peru would require to further increase the number of bilingual teachers, who are in short supply at present (a situation common to many other Latin American countries; see, Hynsjö and Damon, 2016). Reinforcing teachers' access to training opportunities also seems essential. In addition, expanding the EIB programme to secondary education could be a way to help mitigating school dropouts. This could be achieved following a targeted approach that prioritises the geographical areas characterised by the largest shares of children with a limited proficiency in Spanish, among those who access secondary education. In order to increase the potential of this strategy to produce results, more housing facilities could be created as a way of supporting the large number of students who live in remote rural areas. Importantly, in a setting where, reflecting intense rural-to-urban migration flows, about half of indigenous people live in urban areas, it would be worth considering developing bilingual education opportunities also in urban neighbourhoods known for their high density of indigenous inhabitants.

Box 4.6. Indigenous peoples' rights to education

Educational rights of indigenous peoples are granted by Part VI of ILO Convention No. 169 on Indigenous and Tribal Peoples (Articles 26-31). This makes explicit reference to the right of indigenous peoples to be educated in their own languages and cultures, with content based on their own history, knowledge, value systems, social practices, and technologies, as well as the right to maintain their own educational institutions under state funding. The Convention also calls for equal access and opportunity to attain educational services at all levels and without discrimination. Article 30 acknowledges promoting multiculturalism as a route to fostering a dignified image of indigenous peoples in contemporary society.

The 2007 the UN Declaration on the Rights of Indigenous Peoples has ratified and expanded most of the above aspects, with Articles 11 to 15 relating more specifically to educational rights. Articles 11 and 12 state the right to practice and maintain present and future cultural traditions and customs of indigenous peoples, including religious and spiritual practices and ceremonies, as well as the responsibility of states to protect and provide access to religious and cultural sites. Articles 13 and 14 establish that indigenous peoples "...have the right to revitalize, use, develop and transmit to future generations their histories, languages, oral traditions, philosophies, writing systems and literatures, and to designate and retain their own names for communities, places and persons" as well as to "...establish and control their educational systems and institutions providing education in their own languages, in a manner appropriate to their cultural methods of teaching and learning."

Furthermore, the declaration recommends that "states...in conjunction with indigenous peoples, take effective measures, in order for indigenous individuals, particularly children, including those living outside their communities, to have access, when possible, to an education in their own culture and provided in their own language" (Article 14, numeral 3). In addition, states are encouraged to take effective measures, in consultation with indigenous peoples, "...to combat prejudice and eliminate discrimination and to promote tolerance, understanding and good relations among indigenous peoples and all other segments of society" (Article 15).

Source: World Bank (2015).

Boosting job opportunities

Development policies in Peru still tend to view rural development and poverty alleviation as interdependent. This means, in practice, that a strong policy attention remains devoted towards providing poor people with short-term relief until they migrate to urban areas where it is unlikely that they will make their lives easier (OECD, 2016c). Poor people of rural origins typically lack the skills to get a decently paid occupation in the informal sector, not to mention a formal job.

To tackle these challenges, the Ministry of Development and Social Inclusion launched the *Haku Wiñay/Noa Jayatai* programme in 2012 ("We are going to grow" in both Quechua and Amazonic languages). This programme relies on the so-called Graduation Approach for building food security and sustainable livelihoods, whose aim is to help poor families to become self-reliant and have active and productive lives, while

maintaining strong social and economic ties with their communities of origin. Box 4.6 reviews the salient features of the Graduation Approach.

Box 4.7. The Graduation Approach to poverty alleviation: the example of the Village Enterprise programme in Uganda

The Village Enterprise programme aims to help extreme poor households in rural East Africa developing sustainable livelihoods. This non-profit initiative is made of four services, usually sequenced over a period of 12 months:

- ***Training.*** A business mentor leads sessions for groups of around 30 participants. The training consists of 16 sessions on topics such as record keeping, business planning, marketing, the importance of savings, and financial management. Participants form small groups of three people with each group expected to write a business plan and to start a small business.
- ***Capital grants.*** Three months after training, each small business group receives a grant of about USD 100 to start their enterprise. A second grant (half the amount of the first) is provided six months later; the second grant is conditional on the group's proper utilisation of the start-up capital and regular participation in the savings groups.
- ***Mentoring.*** Business mentors recruited locally as well as Village Enterprise field coordinators provide on-going mentoring and coaching, monitor the small business groups' use of the capital, and advise them on specific challenges.
- ***Business savings group (BSG).*** BSGs function similarly to Village Savings and Loans Associations. Members contribute to the group's savings pool, and can also borrow from it. The goal of a BSG is to allow participants to access a stable flow of financial services and to support each other after the programme is over. The same group of 30 participants that attends the training forms the BSG together.

Innovations for Poverty Action (IPA) conducted a randomized evaluation between 2013 and 2016 to test the impact of this programme. The results reveal the high cost-effectiveness of the programme, associated to improved levels of subjective well-being.

Source: Innovation for Poverty Action.[24]

Particularly, *Haku Wiñay/Noa Jayatai* includes the proviso of basic income support to the poorest families. This direct support is integrated with activation measures to increase the self-sufficiency of recipient families, including skills training (e.g., how to rear the livestock, including vaccinations, feed and treatment of diseases), asset purchase assistance (e.g., chickens, guinea pigs, and so on), awareness about the importance of savings, as well as knowledge of banking and financial services. Lessons from a randomized experiment reveal that this policy is cost-effective (Banerjee et al., 2015). Although it shows relatively high up-front costs (the total implementation and programme costs amount to 2014 PPP USD 5 742), the estimated benefits from consumption and assets growth amount to 2014 PPP USD 8 380 per household, representing an overall 146

percent return. The *Sierra y Selva Alta* is the second main initiative in Peru that aims to create income-generation opportunities in the Peruvian highlands and Amazonia. Developed by the Ministry of Agriculture and Irrigation, the salient feature of this project are similar to the *Haku Wiñay/Noa Jayatai* programme.

At present, the geographical coverage of the *Haku Wiñay/Noa Jayatai* and *Sierra y Selva Alta* programmes remains relatively limited. In addition, Peru's strategy for rural policy is highly dispersed across a large number of programmes. This granularity may facilitate the adaptation of policy responses to local needs. However, it could also lead to duplications and reduced opportunities for critical mass effects and economies of scales. As these initiatives are part of a national strategic framework or governance arrangement, they suffer a problem of lack of coordination, which lives little scope for exploiting complementarities (OECD, 2016c).

The training offered and close mentorship of participants should aim to spur trainees' engagement in new activities (such as tourism, fish farming, organic farming, flower production and agro-food industries, for example), rather than privileging the focus on traditional farm activities. Moreover, rural development strategies could be tied to the preservation of the ecosystems, notably by taking advantage of the knowledge of local populations on how to avoid unsustainable exploitations of resources. Conditions for access to markets by the newly created businesses would benefit from a scaling up of the local road networks connecting rural areas with provincial and regional capitals (OECD, 2016c). The experience of the province of San Martín with regards to the implementation of the *Sierra y Selva Altapr* programme offers an interesting example of good practice to address some of these challenges (See Box).

Box 4.8. *Sierra y Selva Alta* in the province of San Martín

In the province of San Martín, *Sierra y Selva Alta* provides local communities with information and funding to engage in new activities such as tourism, fish farming and flower production, among others. The programme favours a sustainable use of local environmental assets. This includes:

- Initiatives promoting birdwatching to attract international tourism. The programme pays an ornithologist to work with the community and work with people to identify ways to capitalise on the fact that their territory displays record high biodiversity.
- Likewise for fish farming, projects try to capitalise on the fact that rivers are abundant in the region and there are several species with a good commercial value that can be easily farmed in the rich Amazon's waters.
- Flowers are another abundant resource of the Amazon. Some small-scale pilot projects have started supporting communities to collect orchids from trees.

Source: OECD (2016c).

4.4.2. Combating discrimination against indigenous and Afro-Peruvian people

Discrimination is another hurdle faced by indigenous and Afro-descendants in Peru. According to the nationally representative survey conducted by the Peruvian Ministry of Culture in 2017 among 3 800 adults (MINCULT, 2017), the share of respondents who

consider that (i) Afro-Peruvians; (ii) Quechua and Aimara people; and (iii) the Amazonian population are discriminated is 60%, 59% and 57%, respectively. By contrast, the percentage share of respondents who see mestizos and whites as unfairly treated is smaller, 31% and 16%, respectively. Studies on remuneration and income in Latin America have found that indigenous workers "are confronted with 'glass ceilings' or access barriers while trying to obtain high-paid positions" (Ñopo, 2012).

A multi-faceted national strategy to fighting negative prejudice and stereotypes against indigenous and Afro-Peruvian people has been developed recently by the Ministry of Culture (Benavides et al., 2015). This strategy comprises a range of initiatives from awareness-raising campaigns among the general public, to the design of specific training programmes directed at students. For this policy to be impactful, it seems critical that the Ministry of Culture develops a "MincultLAB", that would be a correlate of the "MineduLAB" in the field of antidiscrimination policies. Indeed, little is known about how best to overcome biases against ethnic minorities in Peru, although the new evidence available provides some useful insights into "what works" (Valfort, 2018). For example, testing the impact of pilot interventions before scaling them up is a key to guaranteeing the implementation of cost-effective antidiscrimination programmes.

To be effective, antidiscrimination policies should also focus on de-biasing teachers at school as well as the employers, rather than just the students and the general public. Numerous studies have documented the incidence of what is known as the "Pygmalion effect", according to which students perform better (or worse) simply because teachers expect them to do so. Accordingly, if teachers' expectations about minority students are lower, their actual performances will also be lower. Moreover, for a given level of performance, teachers tend to give lower grades to minority students (Hanna and Linden, 2012). The bias of teachers against minority students exacerbates the fact that only a third of indigenous and Afro-Peruvian people aged between 18 and 26 access tertiary education, as opposed to 43% in the total population (Benavides et al., 2015).

To reinforce the integration of minority students in education, it seems critical to combine de-biasing with affirmative action programmes. In particular, the *Beca 18* scholarship programme could include quotas for Afro-Peruvians, as it is already the case for indigenous students from highlands and Amazonian communities.[25] Implementing quotas for both indigenous and Afro-Peruvian youth in the framework of *Beca Doble Oportunidad* scholarships, which aim to bring early school leavers back to school, should receive attention. Box 4.9 discusses these two programmes in details.

Risks of discrimination against indigenous youth and Afro-Peruvians go beyond schools. These youth also face unequal treatment in the labour market, a reality shown by the results of correspondence studies. These analyses consist in sending out, in reply to real job offers, the curricula of fictitious applicants who are identical in every respect, except their group membership. Employers' differing rates of replies across types of applicants reveal a problem of discrimination based on group membership. Lima was analysed by two correspondence studies, recently. The first compared the call-back rates of white and indigenous fictitious applicants, using their first names and paternal and maternal surnames as a proxy for race (Galarza and Yamada, 2014). For instance, the selected white surnames had a predominant foreign origin (British, French, Italian, and Spanish) in order to convey an idea of skin colour. They included *Anderson*, *Freundt*, *Bresciani*, *Visconti*, *Camogliano*, *De la Puente*. By contrast, the indigenous surnames were clearly distinctive of their origin: *Ccolque*, *Chanca*, *Cusi*, *Orcco*, *Paccsi* or *Sullca*. The results reveal that indigenous applicants need to send 80% more applications than whites with

similar qualifications in order to be considered. The impact of racial discrimination is greater among professional jobs than among technical and unskilled jobs.[26] A second correspondence study, based on a comparison between callback rates of white and Afro-Peruvian fictitious applicants, also pinpointed significant discrimination against candidates of African descent (Galarza, Yamada and Zelada, 2015).

Labour market discrimination against indigenous and Afro-Peruvian job seekers might not only reflect employers' prejudice. It could also derive from a rational process. Because they do not observe candidates' productivity perfectly, employers often rely on their own perceptions about individual competences and productive capacities, associating them to group membership. Employers indeed easily view marginalised groups as less proficient in mastering social codes and the soft skills that matter for their productivity once hired. Biased inferences are highly detrimental to the labour market integration of these groups.

In this context, a promising way of reducing labour market exclusion of ethnic minorities in Peru would consist in introducing targets for indigenous and Afro-Peruvian in Active Labour Market Programmes offered by the Public Employment Services.[27] This approach would allow caseworkers provide a more objective advice to employers about the competencies of "minority" applicants, in terms of both cognitive and non-cognitive skills, for example. To reach out to these marginalized populations, a requirement would be to increase the share of indigenous and Afro-Peruvian caseworkers, given that it might be easier for them to connect with vulnerable individuals of the same origin. Peru should take advantage of the broader need to recruit and train more PES caseworkers (Chapter 3) to achieve this objective. Furthermore, the role played by regional *Semanas de Empleo* (Weeks of Employment), or local Labour Fairs, promoted by the MTPE, could also be reinforced as a vehicle to encourage the labour insertion of these vulnerable groups.

Box 4.9. Programmes to reduce educational inequalities in Peru

Beca 18

Implemented by PRONABEC, *Beca 18* is a scholarship programme that supports students coming from poor and extremely poor socio-economic backgrounds who have excelled in secondary education. The objective of the programme is to reduce inequalities in access to higher education by financing full scholarships to technical and professional programmes related to science and technology. The programme supports low-income students in their access to higher education with grants to pay tuition fees. Between 2011 and 2015, *Beca 18* granted scholarships to more than 49 000 young people in poverty or extreme poverty, covering 94% of districts nationwide, with 75% of young people coming from districts in extreme poverty. The granting of scholarships has focused on keeping gender equity, although 55% remain granted to young men.

Public funds (in the form of student financial aid) go to schools that operate in line with the government's goal of widening access to high quality post-secondary education for low-income students. Institutions participating in *Beca 18* are chosen based on a set of pre-defined parameters of quality assessment. The careers identified relate to the needs of productive development and labour market requirements in the region of origin of the beneficiaries. *Beca 18* recipients have for the main been admitted to private higher education institutions (over 90%). Regarding the field of study, 60% of recipients study degree programmes in the areas of engineering and technologies; 69% have chosen higher technological or teaching institutes, and 31% universities.

Beca Doble Oportunidad

Implemented in 2015 by PRONABEC, *Beca Doble Oportunidad* targets young people aged 17 to 25 who have been outside the basic education system for three or more years, but have not completed the last two years of high school and are at a severe disadvantage in the labour market. Through this programme, students are offered the opportunity to return to the education system to complete basic studies, participate in productive training, and complete extension courses to enter their regional labour market. The scholarship covers tuition fees and a living subsidy for two years. The programme has benefitted 1 754 students to date, and over 90% of students have chosen to study in two technical institutes of the country: SENATI (technical training for the manufacturing industry) and TECSUP (technological training). Most in demand fields of study are mechanics and maintenance of computer equipment. Most of the recipients are men (61%), and 88% come from different regions of the country (12% come from Lima). According to the Ministry of Education, 41% of recipients come from a low socio-economic background, and 20% have at least a child.

Source: OECD (2016b).

Notes

[1] According to ILO, vulnerable workers are defined as self-employed or contributing family workers, for the reason that these types of workers "have a lower likelihood of having formal work arrangements, and are therefore more likely to lack elements associated with decent employment, such as adequate social security and a voice at work" (see https://www.ilo.org/wesodata/definitions-and-metadata/vulnerable-employment). Since ENAHO data provide information about individuals' type of work arrangement, this chapter relies on a more precise definition conditioned upon whether the respondent works in the informal sector, as well as on her earnings (referred to as "subsistence employment", to differentiate it from ILO's concept of "vulnerable employment").

[2] Similarly to many other countries the end of secondary education in Peru coincides with the end of compulsory education.

[3] Recent work by Del Carpio, Norman and Wada (2016) analyses the impact of conditional cash transfers on the amount and type of child labour in poor households in Nicaragua.

[4] See https://www.poverty-action.org/publication/financial-inclusion-rural-poor-using-agent-networks-peru

[5] This program, whose name means "House of girls and boys" in Quechua, was launched in 1993 and deployed in the whole country in 1999. *Wawa Wasi* comprised the daycare service, but not the home visit service that compose *Cuna Más*.

[6] Assessment of *Cuna Más* day-care services by the Group for the Analysis of Development (GRADE), a Peruvian think tank, is ongoing.

[7] See http://app.qaliwarma.gob.pe/InfoQaliwarma/#/indicadores/prestacion-alimentaria

[8] The assessment was carried out in 2016, and addressed more than 1 600 educational institutions (operation "*EduQa*" 2016).

[9] The analysis of 158 rations of food distributed in Metropolitan Lima also revealed that sugar content could significantly exceed (up to 400%) the maximum limit recommended by the Pan American Health Organization (PAHO) to prevent the occurrence of over-weight, obesity, and chronic diseases. In addition, the saturated fat content exceeded by more than 230% the maximum limit recommended. By contrast, the combination "milk with cereal flour and biscuit" in the breakfast delivered by *Qali Warma* provides less protein than the minimum required.

[10] Founded in 1904 in the US BBBSA involved some 75 000 active matches between volunteer adults and youngsters in the early 2000s.

[11] This field experiment was conducted by the MineduLAB in partnership with World Bank's behavioural science unit.

[12] See Ministerio de la Mujer y Problaciones Vulnerables (2012), *Plan Nacional de Acción por la Infancia y la Adolescencia 2012-2021 - PNAIA 2021*. The five other objectives of this action plan are: (i) reducing chronic malnutrition during early childhood to 5%; (ii) ensuring that 100% of girls and boys between three and five have access to pre-primary education; (iii) guaranteeing that 70% of girls and boys enrolled in the second degree of primary education get proper literacy and numeracy skills; (iv) allowing teenagers to enrol in and complete quality secondary education on time; (v) reducing family violence against boys, girls and teenagers.

[13] Specifically, an increase of 20 percentage points in the municipal share of full-day high schools reduces the probability of motherhood in adolescence by 3.3%, a statistically significant result.

[14] For instance, in the brochure prepared for the campaign "All in good time!", the first section explains: "If you are in high school and your classmates are talking about having sex, you should know that the best thing for you to do is to postpone this activity. Adolescence is a very important stage of life where you achieve your identity as a unique and valuable person, establish friendships, consolidate your habits, direct your studies and strengthen your life project. Sexual relationships should begin when you have completed your physical and emotional maturity."

[15] see Santelli et al. (2017) for a review of "abstinence-only-until-marriage" programs in the US. See also Dupas (2011) and Duflo, Dupas and Kremer (2015) for the results of randomized experiments in Kenya.

[16] See https://tppevidencereview.aspe.hhs.gov/

[17] These words used by a 19-year-old Ecuadorian pregnant girl to explain her pregnancy well summarise the problem: "The fear, or embarrassment, to have to go to a drugstore and buy contraceptives - because I knew, I have studied biology. But the fear and shame of having someone looking at me and saying: 'What is this little girl going to do?' That was my mistake, not being proactive to go and buy it. But even the sales people at the drugstore, they discriminate and look at you, and I said to myself: 'I better don't buy anything.'"

[18] For example, making long-acting contraceptives widely available and cost-free to women and girls has turned out a success in the US state of Colorado where adolescent fertility rates were skyrocketing (Lindo and Packham, 2017). From 2009 to 2013, following the introduction of free LARCs, Colorado's teenage birth rate dropped by 40% and its abortion rate fell by 42% among 15- to 19-year-olds. Colorado experienced the most rapid decline in teen pregnancy in the country in this period, and saved an estimated USD 49 million to USD 111 million in public, means-tested health-related childbirth costs.

[19] The capitals surveyed were Bangkok, Beijing, Bogota, Buenos Aires, Delhi, Jakarta, Kuala Lumpur, Lima, London, Manila, Mexico city, Moscow, New York, Paris, Seoul and Tokyo.

[20] See https://www.idea.int/

[21] These 21 countries are : Algeria, Burundi, Djibouti, Egypt, Eritrea, Guinea, Kenya, Lesotho, Libya, Mauritania, Morocco, Niger, Rwanda, Sierra Leone, Somalia, South Sudan, Sudan, Swaziland, United Republic of Tanzania, Uganda and Zimbabwe.

[22] These 12 countries are : Afghanistan, Bangladesh, China, India, Iraq, Jordan, Pakistan, Philippines, Saudi Arabia, State of Palestine, Taiwan and Timor-Leste.

[23] One must bear in mind that Peru has experienced a long and complex process of *mestizaje* (racial mixing) since the beginning of its colonial era, back in the 16th century. This *mestizaje* makes it complicated to classify a person into a specific racial category. For instance, Sulmont (2011) reviews several studies on ethnicity and identity conducted in the early 2000s, and finds that the "indigenous population" may represent between 19.2% and 74.8% of the country's population, depending on the criteria used (language, place of birth, race, or a combination of these variables).

[24] See https://www.poverty-action.org/study/variations-ultra-poor-graduation-programming-uganda

[25] See https://www.pronabec.gob.pe/2018_Beca18.php

[26] The correspondence study focuses on three types of jobs: professional (requiring at least a University degree, which takes no less than five years in Peru), technical (requiring the completion of a degree at a technical college, which takes between two and four years), and unskilled (requiring secondary school or a lower education level).

[27] As an illustration, the percentage of indigenous people living in slums almost twice as large as the proportion of non-indigenous urban dwellers (World Bank, 2015). The situation of urban Afro-Peruvian populations is not better (Benavides et al., 2015).

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