



# NOPOOR POLICY BRIEF



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Enhancing Knowledge for  
Renewed Policies against Poverty

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## **CHALLENGES AND OPPORTUNITIES FOR THE VULNERABLE YOUTH IN PERU**

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**Hugo Ñopo**, Group for the Analysis of Development (GRADE), Peru, [hnopo@grade.org.pe](mailto:hnopo@grade.org.pe)<sup>1</sup>

In this policy brief, we document a panorama of the situation of vulnerable youth in Peru, highlighting their main challenges and explore some avenues for policy options.

### INTRODUCTION

Peru has experienced a long and sustained period of economic growth during the last decades. As a result, the country's macroeconomic indicators depict a picture that can be compared to the one of a middle-income country. Many social and development problems in Peru, however, are still in place. Youth's employability, especially that of the vulnerable ones (that is, individuals aged between 15 and 24 years old living in poor or extremely poor households), is one of the pending challenges.

The vulnerable youth in Peru show low labor market participation (with a decreasing tendency), high unemployment (although its tendency is towards a decrease of it), high informality and high incidence of part-time jobs. In turn, the vulnerable youth shows low levels of development of cognitive and socioemotional skills, configuring in this way a vicious circle of maladies.

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<sup>1</sup> with the collaboration of Ana Paula Franco and Mauricio Ibañez.

Due to the sustained economic growth and overall poverty reduction, the incidence of vulnerable youth in Peru has dropped at an impressive rate. In 2006, they were 48% of the youngsters, in 2015 it reached 20%. It substantially reduced in only one decade. Evidence shows that, even though poverty has diminished, poor individuals have deficient living conditions. Educational and employability problems persist. These issues are especially important for a country aspiring to become an OECD member.

Within a context of future economic slowdown, employment outcomes acquire special relevance as households typically get about 80% of their total income from the labor markets. Then, youth employment outcomes become even more relevant as they traditionally perform worse than the adults in the labor markets. And among them, the poor ones worry us more. Why? There are mainly two reasons: low labor market participation and poor labor market conditions.

In a decade, the share of vulnerable youth who are part of the Economically Active Population (EAP) has fallen by 10 percentage points: from 68% in 2006 to 59% in 2015. This implies fewer youngsters working or looking actively for jobs. This tendency is worrisome.

Beyond participation, there are good news with unemployment. Vulnerable youth are doing better than years ago: the unemployment rate decreased by 4 percentage points during the last decade. In 2015, this rate was 5% and the adults' rate was 3%. The stylized fact is that youth's unemployment rate is two times the adults' unemployment rate. A priori, a conclusion could be that only productive youth remained in the labor market (due to lower EAP). If this were the case, labor market conditions of the employed ones would be decent. Unfortunately, this is not the case.

Vulnerable youth are, to an important extent, informal and part-time employed. Both are indicators of inadequate job conditions. Informality comes with the cost of social and legal dis-protection. Almost all vulnerable youth hold jobs with at least one informal characteristic.

Part-time jobs have increased by 10 percentage points during the last decade. It should be noted that part-time employment is not per se a bad labor condition. Two main reasons usually drive it: (i) an employee seeking flexibility or (ii) an employer not offering more hours. The first one is more common among developed countries. Peruvian part-time employment is related to the second one which would imply time-related underemployment. A time-related underemployed worker works part-time but wants to do more hours. The consequences are the absence of labor benefits, job polarization and persistence of gender wage gaps (see Goldin 2014 and OECD 2015).

Why are the vulnerable youth working in poor-quality jobs? Labor market conditions are, to an important extent, the reflection of human capital accumulation. There are basically two channels for it: education and work experience. Thus, poor labor outcomes among vulnerable youth would suggest deficient human capital accumulation.

The first main channel to gather human capital is educational attainment. In that regard, there are important differences between vulnerable and non-vulnerable youth. Among the former, only 30% reaches at least complete secondary as their highest educational level. The share of university level is even lower: only one out of ten reaches it. Among the latter, 70% reaches at least complete secondary and 35% reaches university level. This is bad news: vulnerable youth have fewer years of education. Not holding a secondary degree probably means that skills required by firms have not been acquired. This supposes a disadvantage for vulnerable youth.

Labor markets are increasingly demanding socioemotional skills: teamwork, commitment, grit, agreeableness, and the like. The literature has pointed the central role of these on labor outcomes (Heckman et al. 2006; Cunha and Heckman 2007; Hanushek and Woessmann 2008). Evidence shows that firms' demands have changed due to technological improvements. In Peru, the demand for socioemotional skills is higher than the demand for cognitive skills: whereas 35% and 20% of firms

demand language and mathematics skills respectively, 35 to 40% of firms demand attitude, commitment and responsibility (World Bank Group 2011).

Peruvian youngsters are not doing better in socioemotional than in cognitive skills. And also, the vulnerable fares worse on these indicators. The PISA test, which has become the world's most important measurement of cognitive skills, also gives some insights regarding socioemotional skills. Borghans and Schils (2012) exploited the design of the test to measure one of these skills: perseverance. They propose that students need both cognitive and socioemotional skills while taking a test. Perseverance and determination do not play an important role at the beginning of it. However, attention diminishes as the test progresses: success ratios to first question are higher than success ratios to last question. The decay between both scores proxies a negative measurement of student's perseverance. Whereas Nordic and Asian countries do not show pronounced declines, Latin American countries do.

The second main channel to gather human capital is job experience. However, data shows that an important share of youngsters neither study nor work (NWNS). Among the vulnerable, the rate of NWNS youth is alarmingly increasing. Such scenario looks even worse for vulnerable women. This is mainly explained by teenage pregnancy, arguably, the main factor that affects women labor supply. In Peru, household work is still largely female. Gender equality within households is still a pending task. Teenage pregnancy incidence is higher among poor households: the rate for the poorest quintile is four times higher than the rate for the richest quintile. One in every five poor young women have at least one child by the time they are 19. Comparatively, only one in 20 young men is a father by the same age (Favara et al., 2016) These disparities are likely to have long run effects on women's employability.

## POLICY IMPLICATIONS

Due to technological advances, firms are demanding different skills than 20 years ago. The future does look different. The rate at which the demand for skills will change is expected to keep rising. Socioemotional skills are gaining importance and becoming as relevant as cognitive skills for individuals' success within the labor markets and life.

The skills content of occupations notably varies. Each occupation needs a different set of skills. The role of the training sector and the educational system can be highlighted here. The development of the relevant skills on the young population is a pending task. The good news is that recent research has shown that these skills are malleable, even beyond the early years. That is, it is never late to work on the development of those skills. The joint venture of the educational system (elementary, high school, vocational and university levels) and training programs will be required for this.

Vulnerable youth's skills must be improved. However, this will not be a sufficient condition to find a job. An additional challenge for vulnerable youth is their limited access to labor markets networks. Their young condition means they do not have experience and, therefore, references. Their poor condition means they lack access to mentorship during the job search process. Thus, job placement programs and open information flows emerge as crucial instruments to cover part of the existing gaps. As highlighted above, working and studying are the main channels for human capital accumulation. Job placement programs help those with no work experience to find a job and open information platforms help those who lack skills to identify firm's demands.

Regarding job placement programs, Red CIL PROEmpleo exists since 1996 in Perú. It is a public network that helps improve employability of vulnerable groups (poor youngsters, disabled individuals and elderlies). It works jointly with technical education centers, NGOs, municipalities, churches and institutes. After many years of operation, the network can show successful results: 23642 individuals

found a job. They account for the 28% of the enrolled into the network and for the 68% of the offered jobs by firms.

Regarding access to information, “Ponte en Carrera” is an education and employment website for youngsters launched in 2015. It is a public-private initiative. The website presents information about degrees, universities and employability. Similar initiatives launched in Colombia and Chile have been successful and similar results are expected in Perú. The continuous challenge, however, is twofold. On the one hand, it is necessary to assure youngsters actually visit periodically the site. On the other, it is necessary to update the site with information that the targeted population can easily decode.

There is also a role for the demand side within the labor markets, the firms. As much as they identify their needs of qualified human capital, it becomes important to detailly specify the skills they need for the labor force they hire. If the signals about the demand for skills become clearer over time, the training markets and the educational systems will be more able to adapt and react to such demand.

For the information flows to happen it would also be good to count on a platform. In successful experiences across the globe, this has happened with the establishment of a national qualifications framework. Such framework provides a common ground for the dialogue among agents and facilitates coordination and information flows.

Last but certainly not least, if there is a key concept for the success of vulnerable youth’s employability, it is “coordination”. It is necessary to keep an active coordination among all relevant agents (training centers, job intermediators, firms, and the public sector), to early detect markets requirements, new trends, effective interventions and successful experiences. Knowledge diffusion strongly depends on the network connectedness. Here is the main challenge for youth employability.

## RESEARCH PARAMETERS

This policy brief is based on a discussion presented at the NOPOOR conference in Santiago, Chile, April 21st, 2017. There we document a detailed panorama of the situation of vulnerable youth in Peru, with two objectives: characterizing the population and highlighting their main challenges. For this we largely use different rounds of the Peruvian the National Household Survey (ENAH).

## FURTHER READINGS

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## PROJECT IDENTITY

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<b>CONSORTIUM</b>	CDD The Ghana Center for Democratic Development – Accra, Ghana CDE Centre for Development Economics – Delhi, India CNRS (India Unit) Centre de Sciences Humaines – New Delhi, India CRES Consortium pour la Recherche Économique et Sociale – Dakar, Senegal GIGA German Institute of Global and Area Studies – Hamburg, Germany GRADE Grupo de Análisis para el Desarrollo – Lima, Peru IfW Kiel Institute for the World Economy – Kiel, Germany IRD Institut de Recherche pour le Développement – Paris, France ITESM Instituto Tecnológico y de Estudios Superiores de Monterrey – Monterrey, Mexico LISER Luxemburg Institute of Socio-Economic Research – Esch-sur-Alzette, Luxemburg OIKODROM - The Vienna Institute for Urban Sustainability – Vienna, Austria UA-CEE Université d'Antananarivo – Antananarivo, Madagascar UAM Universidad Autónoma de Madrid – Madrid, Spain UCHILE Universidad de Chile – Santiago de Chile, Chile UCT–SALDRU University of Cape Town – Cape Town, South Africa UFRJ Universidade Federal do Rio de Janeiro – Rio de Janeiro, Brazil UNAMUR Université de Namur – Namur, Belgium UOXF-CSAE University of Oxford, Centre for the Study of African Economies – Oxford, United Kingdom VASS Vietnamese Academy of Social Sciences – Hanoi, Vietnam
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<b>WEBSITE</b>	<a href="http://www.nopoor.eu/">http://www.nopoor.eu/</a>
<b>FOR MORE INFORMATION</b>	Xavier Oudin, Scientific coordinator, IRD-DIAL, Paris, France, <a href="mailto:oudin@dial.prd.fr">oudin@dial.prd.fr</a> Delia Visan, Manager, IRD-DIAL, Paris, France <a href="mailto:delia.visan@ird.fr">delia.visan@ird.fr</a> Tel: +33 1 53 24 14 66 Contact email address: <a href="mailto:info@nopoor.eu">info@nopoor.eu</a>
<b>EDITORIAL TEAM</b>	Anne-Sophie Robilliard (IRD), Xavier Oudin (IRD),

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