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

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

By supporting improvement in productivity and growth.

By supporting high levels of employment in good quality jobs.

By strengthening skills systems.

Designing and implementing an evidence-based national skills strategy.

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

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

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Economic prosperity

In what way?

How is this achieved?

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

DEVELOPING SKILLS

Activating skills supply

Developing relevant skills

Strengthening skills systems

Contributes to economic prosperity

Contributes to social cohesion

Putting skills to effective use
OECD SKILLS STRATEGY DIAGNOSTIC REPORT PERU 2016

EXECUTIVE SUMMARY

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

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

The OECD Skills Strategy provides countries with a framework to analyse their strengths and weaknesses as a basis for taking concrete actions according to the three pillars that comprise a national skills system: 1) developing relevant skills from childhood to adulthood; 2) activating these skills in the labour market, and 3) using these skills effectively in the economy and society. Also, as a fourth and final systemic dimension, an effective Skills Strategy strengthens a country’s skills system by facilitating policy collaboration and coherence across these three pillars.

Building an effective skills strategy for Peru

Peru is one of the strongest economic performers in the Latin American region, and steady GDP per capita growth over the past decade has been accompanied by a sharp decline in poverty rates. Peru’s economic development to date has been in large part driven by abundant natural resources and high commodity prices in the global market. The goal for the future is to ensure productive diversification, expand export capacity and take part in global value chains with more complex goods and services. Boosting skills development, activation and use will be key to achieving these ambitions. As demonstrated by the Survey of Adult Skills (PIAAC), which Peru is currently deploying, higher skills levels are not only associated with higher productivity and earnings but also with other important outcomes such as better health, higher levels of trust and greater propensity to contribute to society through volunteering.

In 2014, the share of Peruvian adults having completed upper secondary education as their highest educational level (34%) was close to the OECD average (40%), and enrolments in tertiary education have grown significantly. Despite recent progress, Peru still has a comparatively low-skilled workforce and relatively high concentration in low value-added activities, which contribute to the prevalence of informal employment arrangements.

On average, workers in the informal economy are less likely to receive training; are less likely to participate in high-involvement human resource practices to use their skills more effectively; and are more likely to be in precarious and low quality jobs. Additionally, firms operating in the informal sector tend to invest less in the training of their workers and in modernising production, which translates into low productivity and growth. For society, having a large share of the workforce employed informally implies higher social costs and foregone tax revenues which could have been invested in expanding the provision of education and training.
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By providing opportunities for all Peruvians to develop high quality and relevant skills, and employers with support and incentives to improve their human resources methods, Peru can raise productivity levels and, by extension, the incentives for employers to hire individuals in the formal sector. Skills are central to Peru's future prosperity and the well-being of its people. Skills improvements are an important driver of employment, productivity, economic growth, and higher living standards. Fostering better and more equitable skills outcomes also provides the foundation for building a healthier, more equitable, and more cohesive society.

Peru’s skills challenges

Peru is the first non-member country to have undertaken a National Skills Strategy project together with the OECD. The National Project Team established by the Peruvian government is coordinated by the Ministry of Labour and Employment Promotion and includes representatives from the Ministry of Education and the Ministry of Economy and Finance.

This diagnostic report sets out 9 skills challenges for Peru. These challenges were identified based on inputs from two interactive workshops with stakeholders such as employers, trade unions, education providers and experts as well as through analysis of OECD, UNESCO, ILO, World Bank, IADB, and national data. The challenges are described under each of the main four pillars/components of the OECD Skills Strategy and are framed as outcome statements. The first six challenges refer to specific outcomes across the three pillars of developing, activating and using skills. The next three challenges refer to the “enabling” conditions that strengthen the overall skills system. Success in tackling these skills challenges will boost performance across the whole skills system.

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

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

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


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

7. Improving learning and labour market information to support better education and career choices and evidence-based policy-making.

8. Improving coordination across different actors and levels of government to achieve better skills outcomes.

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

Activating the supply of skills

3. Improving the labour market institutional setting to boost formal employment.

4. Extending the reach of active labour market policies to improve workers employability.

Using skills effectively

5. Improving the alignment between skills supply and demand while fostering a better use of skills in the workplace.

6. Putting skills to better use to foster a more diversified and productive economy.

Developing relevant skills

1. Improving school completion and foundation skills in compulsory education.

2. Improving access to quality higher education and transitions to work.
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**Pillar 1: Developing relevant skills**

1. **Improving school completion and foundation skills in compulsory education.** Many Peruvian youth are not developing the skills needed for success in work and life. While both access to education and skills performance have been improving over time, a large share of Peruvian youth still have comparatively very low levels of achievement in reading, mathematics and science. As an illustration, only about one quarter of Peruvian students perform at level 2 or above in the results for PISA in mathematics, while the remaining three quarters of Peruvian students achieve very basic or insufficient levels of proficiency, meaning that many of them are unable to perform even very direct and straightforward mathematical tasks (level 1 or less). Furthermore, certain groups are performing far worse than others. Those from lower socioeconomic backgrounds, rural areas and households where Spanish is not the mother tongue all perform much worse than the average on a number of indicators of success in education. Recently implemented policies to ensure that quality education reaches all people in Peru should be sustained. Still, more needs to be done to make greater progress faster.

2. **Improving access to quality higher education and transitions to work.** Many Peruvians face difficulties in making a smooth transition from compulsory education to further studies or work. Despite comparatively low levels of youth unemployment, around 18% young adults in Peru were neither in employment nor in education in 2013. Despite a large expansion in access, Peruvian universities and VET institutes fall below international standards in terms of quality. The rapid and unregulated expansion of higher education and VET has negatively impacted on the quality and relevance of skills acquired by students. Faced with an increased demand for higher level of education, Peru liberalised the higher education and VET sector without first putting into place the necessary quality assurance mechanisms. This has generated great heterogeneity with respect to programme quality and job relevance, with many institutions lacking both. Low institutional quality translated into course offerings that are not sufficiently responsive to the country's skills needs.

**Pillar 2: Activating skills supply**

3. **Improving the labour market institutional setting to boost formal employment.** A high level of informal employment is a defining characteristic of Peru’s labour market. Despite recent increases in participation rates and decrease in unemployment and inactivity rates, still around 70% of workers were employed informally in 2014. As mentioned, informal employment arrangements raise the risks associated with investment in skills for both the worker and employer, with the result being lower investment overall. Lower investment in skills also mean that firms in the informal sector continue to suffer from low productivity and, by extension, continue to be unable to afford the costs associated with the transition into the formal sector. Encouraging greater investment in skills can increase productivity and reduce informality. By improving the skills of its workforce and, by extension, their productivity, Peru can raise incentives to employ workers formally. Peru can also reduce informality by decreasing the costs associated with hiring workers formally. This could involve developing mechanisms to better ensure that minimum wage levels are linked to worker productivity. It could also mean subsidising social security contributions for lower income workers, typically those having lower levels of skills. Finally, efforts to increase formalisation should be very much linked to the productive diversification strategy of the country. By encouraging growth in high productivity sectors that demand higher use of skills, Peru can help create the conditions whereby formal employment arrangements are better able to flourish.
4. **Extending the reach of active labour market policies to improve workers’ employability.**

Active labour market programmes (ALMPs) are an important means of activating people who are inactive or unemployed and promoting employment. In Peru among adults 30-64 years of age, 12% are inactive or unemployed, while another 51% are employed informally. Only 35% of 30-64-year-olds are employed formally. Transitions out of employment informality and towards employment formality are rather low in Peru, with only 20% of young men and 18% of young women transitioning from an informal job to a formal job. ALMPs and Public Employment Services (PES) can facilitate a better transition from school to work, assist the unemployed to find work commensurate with their skills, as well as support those employed in the informal sector to transition to higher quality jobs in the formal sector. However, ALMPs and the PES remain underdeveloped in Peru. Expenditures on ALMPs are below those found in many other large LAC countries, including Brazil, Chile or Argentina, and are well below the OECD average. Existing spending is highly concentrated on training programmes and the PES. The reach of the PES remains limited, but there have been some recent improvements, including the introduction of a “one-stop” employment service. Peru could improve its training programmes by increasing their duration, integrating work-based learning opportunities, and tailoring them more to the needs of specific target groups. The PES could additionally be improved through the introduction of better performance management and accountability frameworks, more tailored job search assistance, and the expanded use of digital technologies to extend its reach, effectiveness, and efficiency.

**Pillar 3: Using skills effectively**

5. **Improving the alignment between skills supply and demand and fostering a better use of skills in the workplace.** The use of skills at work in Peru is inefficient as many workers are over-qualified or under-qualified for their jobs. In 2013, the share of workers who were under- and over-qualified was 50.5%, which represents a modest improvement since 2008, when it was 53%. These sorts of mismatches are a drag on Peru’s productivity. However, despite high apparent rates of skills underutilisation, firms in Peru report having problems finding employees with the cognitive, socio-emotional and technical skills they need. At the same time, the prevalence of over-qualification may suggest an inefficient allocation of skilled workers across the economy and/or a lost opportunity on the part of firms to re-organise their workplaces to make better use of the talent they have available to them in a way that might boost their productivity and competitiveness. Collaboration between firms and educational institution could reduce mismatches, while effective firm-sponsored training could improve skills gaps and skills use in the workplace. Moreover, greater efforts are needed to raise awareness among firms of the importance of making the effective and intensive use of skills in the workplace a central component of their business strategies. Better human resources practices can put workers in the conditions to make optimal use of their skills and set incentives for continuous learning and skills development. In this respect, increased adoption of high performance workplace practices might be very important for improving skills uses.

6. **Putting skills to better use to foster a more diversified and productive economy.** The complexity of Peru’s production structure is lower than most benchmark countries. In 2012, Peru ranked 80th out of 144 countries for economic complexity and, in contrast to most of the Latin American economies, its positioning has worsened over the past two decades. To maintain the current levels of economic growth the Peruvian economy must undergo a process of structural change that will see the expansion of high demand sectors and shifting of workers into more productive areas of the economy. Higher level of skills enable the introduction of new products, market and business ideas, while, at the same time, ensure that workers can adapt more quickly to the organisational and productive transformation generated by the transition towards a more diversified economy. However, productive diversification may come at the expense of low skilled workers employed in less productive firms who may, therefore, face higher economic and employment insecurity.
Upward labour mobility towards higher productive occupations should therefore rely on mechanisms of broader skills upgrading rather than cream skimming of existing workers from low productive occupations. Moreover, increasing the stock of highly skilled individuals who can perform innovation activities and design innovative products, can address Peru’s weak innovation performance in terms of R&D and patenting activities. Finally, education and skills can play an important role in building an entrepreneurial culture and developing the skills needed to support developing new products for high demand sectors.

**Strengthening Peru’s skills system**

7. **Improving learning and labour market information to support better education and career choices and evidence-based policy-making.** Peru has the institutional capacity to produce the various indicators that are necessary to implement evidence-based skills policies. However, as in many OECD countries, challenges persist for ministries to make full use of these to inform policy making. 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 and other instruments such as the “Ponte en Carrera” observatory should be strengthened to provide students with information about available study options and professional career paths after graduation. Workers and job seekers could make better use of labour market information if it was provided in a more accessible format. 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.

8. **Improving coordination across different actors and levels of government 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 Peru. To foster collaboration across ministries that have a stake in skills, the Ministry of Labour has recently launched 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 Peru. Coordination among different levels of governments is crucial given Peru’s ambition to become a highly decentralised form of government. In many cases, more than one level of government has responsibility for the same policy area with unclear division between national, regional and local level. This issue is particularly remarkable in the case of education. To achieve a more efficient decentralisation, regions’ and local authorities’ capacity 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.

9. **Building partnerships to ensure that policies are responsive to changing skills needs.** To improve countries’ performance in the development, activation and effective use of skills, governments must foster collaboration and coordination among the various actors with a stake in, and an influence on, skills outcomes. Stronger partnerships can increase the relevance of skills developed in 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 on the one hand and a weaker public and private system for the rest of the economy on the other. Engaging firms in co-design and running of training programmes in non-sectorial schools would ensure a better alignment between the skills developed and labour market demands. In addition, 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. Finally, partnerships between higher education institutions and the private sector can ensure that local demand for highly skilled workers is met by a relevant tertiary education offering. Moreover partnerships between academia and the private sector can help knowledge dissemination and foster a more productive use of academic researchers’ skills.

**From diagnosis to action**

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

Now is the time to focus on improving skills outcomes to boost productivity and innovation while strengthening the bedrock for Peru’s future economic growth. This diagnostic report represents one input to future action in Peru to improve skills outcomes. Of equal importance to future success are the ‘intangible’ assets generated by the National Skills Strategy project through sustained inter-ministerial dialogue and stakeholder engagement over the course of 2015-16.

This diagnostic report can be put to use in many ways, including as a basis for raising public awareness, fostering broader public debate about the skills challenges currently facing Peru and encouraging social partners and national and regional governments to work together to tackle these challenges in the future. The OECD stands ready to support Peru in its ongoing efforts in designing and implementing better skills policies for better jobs and better lives.

**Contact us**

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OECD Skills Strategy
Diagnostic Report
Executive Summary
Peru

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

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

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

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