

Case Study Brief

ELLA Area: Economic Development

ELLA Theme: Active Labour Market Policies



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Evidence and lessons
from Latin America

Peru's *ProJoven* programme has successfully supported younger and more economically disadvantaged generations to gain the necessary qualifications to secure better quality jobs.

PERU'S *PROJOVEN* TRAINING PROGRAMME

SUMMARY

Peru's *ProJoven* is an archetypical 1990s Latin American training programme in that it effectively reached its target beneficiaries, was demand-driven and engaged the private sector.¹ A social programme of the Ministry of Labour, *ProJoven* provided short-term training for young people from households living below the poverty line. Empirical evidence shows that the programme has had positive impacts on several key indicators, including employment rates and average wages, and in particular among young women. This Case Study Brief provides an analysis of the design, operating mechanisms and impacts of the *ProJoven* programme in order to draw out key success factors that will be useful for other regions.



MOTIVATION: WHY A YOUTH TRAINING PROGRAMME?

In 1990, Peru was experiencing hyperinflation, economic stagnation and a serious internal armed conflict. The newly elected government - led by Alberto Fujimori - implemented a stabilisation and structural reform package aimed at controlling hyperinflation and steering the country back onto a steady growth path. Reforms included opening up the economy through significant cuts in import tariffs and eliminating restrictions to capital flows, removing price controls, and reducing the size of the state through public employment cuts and privatisation of public enterprises. After an initial recession, Peru started growing again. By 1995 the reforms had significantly improved the economic situation and the country had regained access to international credit markets. This situation allowed more resources to be allocated to social spending. It was in this context that the idea of a training programme focused on socially disadvantaged youth was first introduced to the government by the International Labour Organization (ILO).²

Although growth had resumed, unemployment and underemployment were still high, and were unequally distributed across socio-economic groups. One particularly disadvantaged group was young people. In 1995, unemployment among young people was more than double that for adults and underemployment rates showed a similar pattern. What is more, young people between 15 and 24 years old made up 30% of the total population and more than 25% of the national labour force.³

¹ The [ELLA Brief: From Supply- to Demand-Led: Labour Training in Latin America](#) provides an overview of the transition from supply-driven to demand-driven training programme models in Latin America during the 1990s, including some of the more innovative features of the new approach. This Case Study Brief offers an in-depth analysis of one example of the new demand-driven programmes.

² Galdo, J., Jaramillo, M., Montalva, V. 2009. [Pobreza e Impactos Heterogéneos de las Políticas Activas de Empleo: El Caso de ProJoven en el Perú \(Poverty and Heterogeneous Impacts of Active Employment Policies: The Case of ProJoven in Peru\)](#). GRADE, Lima.

³ Rosas, D. 2006. [Impact Evaluation of PROJoven Youth Labour Training Program in Peru](#). Office of Evaluation and Oversight (OVE), IDB, Washington, DC.



These statistics pointed to significant challenges in terms of labour market insertion; consequently young people became a priority target group in the labour policy agenda.

During this period, there were also serious doubts about both how well the educational system prepared young people to face an increasingly dynamic and demanding labour market, and whether the public training system was doing enough to keep up with the changing needs of the productive sector. This diagnosis suggested that there was a large variability in the quality of institutions that provided training and very few connections with the productive sector (Box 1). Private companies complained that it was difficult to find personnel with the necessary skills and that little information was available about the quality of training institutions and the demand for qualifications.⁴ This pointed to significant structural barriers, one of which was a mismatch between demand for and supply of skills.

ABOUT PROJOVEN

ProJoven emerged in 1996 as the Peruvian government's response to the labour market diagnosis. The idea behind it was not that more training was needed. This, of course, was true, but would only partially address the challenges the country faced. It was also true that a different type of training system was needed.

ProJoven provided funding for training in basic or semi-skilled positions in particular occupations. The vocational training had two main components: (1) a learning phase with training courses directly provided by training institutions (*Entidades de Capacitación* - ECAPs); and (2) an internship phase where trainees acquired on-the-job experience in a private firm. Beneficiaries attended the training courses for three months with costs covered by *ProJoven*. Later on, they worked for three months and received a market wage paid by the firm, corresponding to their skill level. After the three months, the firm had the option to hire the trainee. Courses offered included clothes manufacturing, cooking and gastronomy, hotel and tourism services, IT support, gas installations, logistics and warehouse management, industrial welding, mechanics and automotive electrical systems, food industry, electric installations, sanitary facilities installation, construction and sales, among others.

Table 1 summarises the objectives and goals of the

Box 1: Peruvian Training Institutions in the 1990s: A Mixed Bag

A study carried out by the Ministry of Labour in 1996, based on a nationwide survey of 1,112 graduates from 123 urban Technical Institutes (*Institutos Superiores Tecnológicos* - IST), showed that the Peruvian post-secondary educational system was characterised by substantial differences in terms of quality. Moreover, the study found that this heterogeneity had significant impacts on IST graduate earnings, with variances between graduates from ISTs in Lima (the capital city) and those from other Peruvian cities. For example, in Lima, graduates from a high quality IST were earning on average 46% more than graduates from low quality ISTs; in other cities this difference was about 17%. Studies conducted by Valdivia (1994 and 1997) found a positive correlation between the socioeconomic status of IST students and the quality of the institutions. That is, poorer young people tended to acquire post-secondary education and training in lower quality institutions than young people with higher socioeconomic status. In addition, several other studies using data from the 1990s have shown that there was a mismatch between education and training and current skill requirements in terms of labour demand (Arregui 1993, Verdera 1995, Rodriguez 1996, Díaz 1996, Burga and Moreno 1999, Saavedra and Chacaltana 2001, Chacaltana and Sulmont 2004, Herrera 2005).⁵

Within this context, *ProJoven* was intended to contribute to building a more dynamic training market by promoting closer connections between training entities and the productive sector. Notwithstanding, it is important to note that both the Labour Ministry and the Education Ministry share responsibilities for post-secondary technical education in Peru. Collaboration between the two is therefore essential if structural barriers are to be removed over the long-term.

Source: Díaz, J., Jaramillo, M. 2006. *An Evaluation of the Peruvian "Youth Labour Training Program" - PROJOVEN*. Inter-American Development Bank, Washington, DC.

programme as it was initially designed. The programme targeted young people between 16-24 years old from economically disadvantaged backgrounds. Participation in the programme was voluntary and registration took place on a first-come first-served basis at *ProJoven* headquarters or any of its decentralised offices. Among the programme's main goals was increasing employment rates and wages among

⁴ Ibid.

⁵ To access these studies, see: Díaz, J., Jaramillo, M. 2006. *An Evaluation of the Peruvian "Youth Labour Training Program" - PROJOVEN*. Inter-American Development Bank, Washington, DC.



Table 1: ProJoven Objectives and Operational Goals

Objectives	Operational Goals
Help economically disadvantaged youths (meaning 16-24 year-olds from households below the poverty line) to enter into the formal labour market	Increase employment rates Increase job quality Increase hours worked per week
Enhance employability by providing training based on the needs of the private sector and opportunities to acquire work experience	Increase hourly and monthly incomes
Stimulate the training market by encouraging competition among training institutions	160,000 beneficiaries (in the first implementation, and then expand coverage)

Source: Rosas, D. 2006. [Impact Evaluation of PROJoven Youth Labour Training Program in Peru](#). Office of Evaluation and Oversight (OVE), IDB, Washington, DC.

beneficiaries, improving job quality, and enhancing labour market engagement, defined as increasing hours worked per week. As for the size of the programme, at the design stage the goal was set to reach some 160,000 young people over a period of five years. However, this was not achieved because the Peruvian government decided not to accept the loan offer made by the IDB to finance the programme, so the goals had to be reduced. In addition, implementation of the first rounds of the programme suggested that the capacity of the training market to provide quality training was too limited to reach that goal. So far, over a fourteen-year period, *ProJoven* has benefitted on average 4,895 people per year.

PROGRAMME IMPLEMENTATION SUCCESSES

The implementation of *ProJoven* involved three key mechanisms to help ensure the programme delivered demand-driven, high quality training opportunities for young people.

Quality Control

Given that one of the goals was to promote the development of the training market, the initiative created a Training Entities Register (*Registro de Entidades de Capacitación* - RECAP). The RECAP was the product of a pre-selection process which assessed the training experience, administrative capacity, adequacy and quality of courses offered by each institution that wanted to participate in the

programme. Once requirements were fulfilled, these training institutions were included in the RECAP, and only entities in the RECAP were allowed to participate in *ProJoven*.

Partnerships

Another key aspect of the programme was to ensure the relevance of training to the current labour market, meaning it should be driven by demand for skills from the private sector. Several mechanisms were put in place in order to make this goal feasible. One such mechanism was that the programme did not finance practical experience in private companies. This is an aspect in which *ProJoven* innovated *vis-à-vis* its predecessors. Instead, *ProJoven* required training entities to obtain letters of intent from private sector firms to provide internships or practical training to programme participants. In addition, a significant proportion of the payments made to training entities by *ProJoven* were contingent upon students completing their practical internship phase.

Targeting Strategies

Another way in which *ProJoven* was able to innovate based on earlier experiences, and in particular the *Chile Joven* programme, was in relation to self-targeting.⁶ The programme launched information campaigns in poor neighbourhoods, inviting young people to participate. Once potential beneficiaries showed an interest, an individual assessment was carried out to collect socioeconomic data and determine eligibility. For people close to the eligibility threshold, an additional evaluation was carried out to determine whether they could be accepted. This system improved targeting compared with *Chile Joven*.⁷

Figure 2 illustrates the process potential beneficiaries went through to join the programme. As shown, eligibility did not necessarily ensure participation in the programme. The Programme Operator (Ministry of Labour) invites individuals to an orientation process where they pick courses that they want to take. This process is closed when the number of eligible individuals exceeds the number of available spaces in each course by 75%. The reason for this is to ensure a full course register, given the fact that participants may elect a course and then decide to choose a different one or end up not registering at all. Finally, the Operator sends this group to be assessed by the training institutions themselves. This

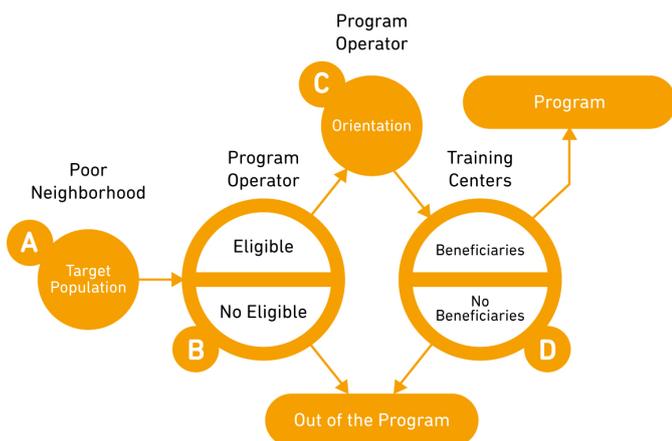
⁶ For more information about the earlier programme in Chile, see: Aedo, C., Pizarro, M. 2004 [Rentabilidad Económica del Programa de Capacitación Laboral de Jóvenes 'Chile Joven'](#) (Economic Performance of the Labour Training Programme 'Chile Youth'). INACAP, Mideplan, Santiago de Chile.

⁷ Marin, J.C. 2003. [Chile Joven: Trayectoria y Resultados del Programa de Capacitación Laboral de Jóvenes \(Chile Joven: History and Results of a Labour Training Program for Young People\)](#). Prejal-ILO, Lima.



is the only step where training institutions intervene in the selection of participants and which does not have standard procedures, since each institution operates by its own rules.

Figure 2: Beneficiary Selection Process



Source: Galdo, J., Jaramillo, M., Montalva, V. 2009. *Pobreza e Impactos Heterogéneos de las Políticas Activas de Empleo: El caso de ProJoven en el Perú (Poverty and Heterogenous Impacts of Active Employment Policies: The Case of ProJoven in Peru)*. GRADE, Lima.

IMPACT EVALUATIONS

Between 1996 and 2012, *ProJoven* provided training to approximately 78,318 individuals. It is possible to assess whether this training translated into employment and higher wages because a number of impact evaluations have been conducted. *ProJoven* works by launching consecutive calls ('rounds') for participants and training institutions (ECAPs), and the programme has expanded coverage gradually over the years to different regions of the country. This staged development has meant that periodic impact evaluations have been carried out, generating data on a range of indicators at different stages. This information has been crucial for redefining strategies and making improvements.

To estimate impacts, diverse non-experimental techniques have been used, from the propensity score matching technique (PSM) that aims to match beneficiaries and non-

beneficiary individuals on the basis of observable relevant characteristics, such as sex, age, schooling, poverty level and place of residence, to the traditional difference-in-difference impact estimator, which compares differences before and after the training amongst the beneficiary and non-beneficiary groups. Table 2 summarises the impacts on income of *ProJoven* taken from a number of studies using different impact evaluation techniques.

The studies show that returns were higher in the first rounds (between 100% and 39%) as compared with the 4th and 6th rounds (13% - 54%). Also, higher impacts on income are mostly observed in the first 6 months after the training. This first point is explored by Díaz and Jaramillo (2006).⁸ They found that the impacts of *ProJoven* on monthly earnings decreased between the first and fourth round (1996-1998) and then rebounded and grew from the sixth to eighth round (1999-2000), thus presenting a U-shape.⁹ Based on these results, they conclude that the programme has been relevant for young people, in particular by providing quality training to individuals that otherwise would have not acquired labour training or would have acquired lower quality training.

Besides this, the Díaz and Jaramillo paper - as well as others - evaluates impacts on other relevant indicators such as employment, probability of getting a paid job and hours worked. In general, the studies find significant and positive impacts on all indicators, especially for women, whose impact results were systematically higher. The reason for this may be the fact that women in Peru face greater barriers for adequate labour market insertion.¹⁰ In this context, effective training programmes may represent an appropriate policy for reducing gender gaps in the labour market.

Effects on the employment rate were on average 13%, and they were higher for women (20%) than for men. Training also increased the likelihood of workers finding jobs in the formal labour market by 11% on average and, likewise, this effect was larger for women than for men by 9 percentage points. Finally, the probability of getting paid employment after training increased by between 17% and 20%, although results were not always significant.

⁸ Díaz, J., Jaramillo, M. 2006. *An Evaluation of the Peruvian "Youth Labour Training Program" - PROJOVEN*. Inter-American Development Bank, Washington, DC.

⁹ Although the authors do not provide an explanation of these round-to-round variations, they may be related to self-selection of beneficiaries in the first round and may also be a result of cyclical effects (such as course design responding to current labour market demand or labour moving with the business cycle for specific sectors).

¹⁰ Galdo, J., Jaramillo, M., Montalva, V. 2009. *Pobreza e Impactos Heterogéneos de las Políticas Activas de Empleo Juvenil: El Caso de PROJoven en Perú (Poverty and Active Employment Policies Heterogeneous Impacts: The Case of ProJoven in Peru)*. Working Paper 54. GRADE, Lima.



Table 2: Impacts on Monthly Income (% increase)¹¹

Study	Round	Monthly Income Increase		
		By month 6	By month 12	By month 18
Ñopo, Robles and Saavedra (2002) ¹²	6th	13%		
Burga (2003) ¹³	2nd		100%	
Chacaltana and Sulmont (2003) ¹⁴	2nd	45%	n.s	40%
	4th	38%	54%	51%
Díaz and Jaramillo (2006) ¹⁵	1st	60%	44%	39%

Note: n.s. = non-significant.
Own elaboration.

Other interesting findings include the impacts of training by gender and poverty levels. Galdo *et al*¹⁶ found a high heterogeneity in the distribution of impacts among socioeconomic quintiles and large differences between men and women, with women tending to experience greater impacts. They also found that training institutions, and not poverty levels of beneficiaries, seemed to be the cause of this variation. No evidence suggested that poorer people among the poor benefited less from the programme, that is, participants benefited from the programme independently of their socioeconomic status.¹⁷

Finally, Ñopo, Robles and Saavedra (2002) examined the impacts of the programme on labour market gender segregation. Gender segregation¹⁸ refers to certain occupations being predominantly reserved for a particular gender, either male or female. The results indicated that *ProJoven* led to a significant reduction of 20% in the occupational segregation index of the beneficiary group.

COSTS AND BENEFITS OF THE PROJECT

The Ñopo, Robles and Saavedra report (2002) also provided a detailed analysis of the overall costs and benefits of *ProJoven*. Direct costs included training, bursaries, subsidies and administrative costs. Bursaries covered lunch and transportation expenses and subsidies were provided for young women with children. Administrative costs included

the wages of temporary and permanent staff, and goods and services. Total direct costs for the sixth round (1999) were around US\$ 1.865 million and the number of beneficiaries was 3,585, giving an average cost per beneficiary of US\$ 520.

Opportunity costs represent the income that participants stop receiving under the assumption that they leave their jobs to participate in the programme. This is not necessarily the case, however, since it was possible for participants to continue with some paid work outside of the training programme. With this in mind, the opportunity costs for the sixth round of participants were calculated assuming that any previously employed participants would stop receiving wages equivalent to 270 hours of work (the average duration of theoretical courses in the learning phase). On this basis, the opportunity costs represented 3.34% of direct costs (US\$ 55,885).

Benefits received by participants included bursaries and subsidies as well as wages during their 3 month internship in the practical phase. Furthermore, the programme has been shown to have positive effects on employability, hours worked and income. Additional benefits that should be taken into consideration include structural changes in the training market and improvements in quality standards, non-observable benefits for young people such as self-esteem, and social benefits such as a reduction in crime. Finally, study results indicated that the internal rate of return (IRR, or average annual return of investment) was between 13% and 36%.

¹¹ Hourly wage was used by Ñopo, Robles and Saavedra (2009).

¹² Ñopo, H., Robles, H., Saavedra, J. 2002. *Una Medición del Impacto del Programa de Capacitación Laboral Juvenil ProJoven (An Impact Assessment of the Youth Labour Training Programme PROJoven)*. Working Paper 36. GRADE, Lima.

¹³ Burga, C. 2003. *Re-evaluando PROJoven: Propensity Score Matching y una Evaluación Paramétrica*. CEDEP, Lima.

¹⁴ Chacaltana, J., Sulmont, D. 2003. *Políticas Activas en el Mercado Laboral Peruano: el Potencial de la Capacitación y los Servicios de Empleo (Active Policies in the Peruvian Labour Market: The Potential for Training and Employment Services)*. CIES, Lima.

¹⁵ Díaz and Jaramillo provide income impacts for up to the 8th round, though for simplicity, we only include results for the first. Please see the full paper for more detail on income impacts: Díaz, J., Jaramillo, M. 2006. *An Evaluation of the Peruvian "Youth Labour Training Program" - PROJOVEN*. Inter-American Development Bank, Washington, DC.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ñopo, Robles and Saavedra 2002, above n9.



CONTEXTUAL FACTORS

ENABLING PERU'S SUCCESSFUL RESPONSE



By 1995 Peru was resuming growth after inflation had been brought under control and reforms had significantly improved the fiscal outlook. This situation allowed more resources to be allocated to social spending. It was in this context that the idea of a training programme focused on socially disadvantaged youth was first considered. Although growth had resumed, unemployment and underemployment were still high, as well as being unequally distributed across socioeconomic groups. One particularly disadvantaged group was youth, with unemployment rates more than double that for adults, which explains why this became a priority target group for Peruvian public officials.

The role of international agencies was important in supporting the development of *ProJoven*. The ILO and the United Nations

Development Programme (UNDP) funded the first studies towards the design of the programme, while the IDB soon came on board and provided technical and financial assistance to the whole design phase. This technical support was key because it enabled experiences from other Latin American youth training programmes (most notably in Argentina, Chile and Uruguay), which the IDB had helped fund, to be incorporated into *ProJoven* programme design. The IDB also funded a pilot experience that was vital for generating evidence on the potential impacts of the programme. Finally, IDB funding was critical in the design phase of the programme because it facilitated the contracting of technical expertise required to ensure the programme design was sound.

LESSONS LEARNED

- 1 The Peru experience demonstrates that training programmes are not easy sells politically. Though rigorous evaluation of the pilot programme provided evidence of positive social returns, it was not enough to push public officials to approve full-scale implementation. Possible reasons include competing use of resources for other social interventions, the fact that training has less visibility than, for instance, infrastructure investment, and the returns to training are less immediate than, for instance, an employment programme. This underscores the importance of having a strategy to 'sell' the idea to politicians and public officials.
- 2 Overall, *ProJoven* provides a successful model for tackling structural unemployment which may especially affect middle- and low-skilled youth. Targeting this disadvantaged group while promoting development of the training market helped to improve connections between labour supply and demand, producing benefits for society more broadly. Demand-driven mechanisms - such as public calls for participants and training institutions - can promote competitiveness and higher standards in the training market. They can also motivate training institutions to form partnerships with private firms and tailor their courses accordingly.
- 3 *ProJoven's* lessons on design and implementation suggest that effective targeting requires both self-selection (short courses, for instance, will not attract the well-off) and socio-economic assessment. Furthermore, targeting poor female youth can help to reduce gender segregation in the labour market.
- 4 Large impacts on income may disguise the fact that initial incomes of beneficiaries are very low. Higher investment per beneficiary should be considered to support young people to move out of poverty.
- 5 Adapting lessons from existing programmes enriched the design process, with *ProJoven* built on experiences from similar programmes in Chile, Argentina and Uruguay. Access to adequate technical staff was also crucial and was facilitated by the IDB.

CONTACT [GRADE](#)

To learn more about this case, contact the author, Miguel Jaramillo, PhD, Principal Researcher – GRADE, who has written extensively about labour issues in Latin America, at mjaramillo@grade.org.pe.

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