



► Research Brief

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Digital wages for decent work in Peru A rapid assessment

Key points

- Peru is a country with significant promise for digital wages, with a legal framework that promotes digital wage payments, a supportive public policy environment, growing access to finance, and a recent explosion in digital wallet use.
- Digital wage payments are playing an important role in driving account ownership, but workers—particularly the most vulnerable—are not always reaping the benefits.
- There is a need to support small and medium enterprises to digitalize their operations and wage payments, and there are opportunities for financial service providers to better meet the needs of both small enterprises and workers.
- There is a need to ensure a responsible transition to digital wages which benefits a full range of enterprises and workers, particularly those outside of urban areas.

Introduction

When implemented responsibly,¹ digital wage payments – through bank accounts, mobile money wallets or prepaid cards – can benefit workers and enterprises and contribute to public policy aims. Digital wages can promote efficiency, growth, transparency, improved working conditions, and access to services and markets. The transition also has the potential to allow workers, particularly the most vulnerable, to have greater control over their wages and access formal financial services. However, the transition from cash to responsible digital wages brings challenges for enterprises, workers, regulators and the financial sector, including limitations in

financial infrastructure and the need for enterprises and workers to adopt new systems and tools.

The ILO's Global Centre on Digital Wages for Decent Work carried out a rapid assessment in Peru to analyse the potential for responsible digital wages. The analysis was carried out from January to April 2022 and focused on two key sectors and geographical areas: the agricultural sector in the North of Peru and the gastronomy sector in Cusco.²

The assessment consisted of an analysis of secondary information; interviews with key stakeholders from government, trade unions, employers' organizations, and financial service providers; interviews with employers; and focus groups and interviews with workers.³ The ILO

¹ Responsible digital payment payments adhere to UN Responsible digital payment principles and respect workers' rights in accordance with national laws and regulations and internationally recognized human rights, including fundamental principles and rights at work and relevant international labour standards.

² The sectors were chosen based on several factors, including the level of existing ILO connection with the sector and the viability of conducting

the assessment, the current level of digitalization of wages, access to financial and digital services, the potential for an intervention in the sector to reach large numbers of workers, the level of participation of women, and the nature and stability of labour relationships.

³ Nine employers and 30 workers participated in the research from the agricultural sector, and seven employers and 21 workers from the gastronomy sector.

also organized a workshop with key stakeholders to gain feedback on the assessment and recommendations. The results of the assessment are summarized in this brief.

Key Findings

Legal frameworks and public policy in Peru are supportive of digital wages, but there are opportunities for further action.

Regulation introduced in 1998 provided the option for wages to be paid either in cash or through a financial institution.⁴ In 2020, however, legal measures were introduced to encourage digital wage payments. The Peruvian government brought in temporary legislation to protect the rights of workers during the sanitary emergency declared as a result of COVID-19.⁵ The legislation required that wages and social benefits for all workers were paid through the financial system. This legislation remains in place to date.

However, greater legal clarity is needed on wage payments through mobile money. Although digital wallets offered by banks and connected to personal bank accounts are included within the legal definition of the financial system, as referenced in the law, mobile money providers are not regulated as part of the financial system in Peru.

Moreover, policy aims closely linked to digital wages, including decent work, digitalization and financial inclusion, are promoted across various public policy initiatives. In particular, the National Financial Inclusion Policy 2021-2030 aims to accelerate financial inclusion in Peru, including the adoption of digital financial services. There is an opportunity to explicitly include targets for digital wage payments within this framework.

Government support for digital payments accelerated during the COVID-19 pandemic, with both regulatory changes and a transition to digital social payments. The *Banco Central de Reserva del Perú* - BCRP (the Peruvian

Central Bank) implemented regulatory and policy changes to facilitate digital payments, including making payment QR codes interoperable between digital wallets and banks, and making immediate transfers between banks available at all times rather than within set hours. In October 2022, BCRP announced that digital wallets were to be made interoperable, with the aim of improving the market for digital payments.⁶

The *Ministerio de Desarrollo e Inclusión Social* - MIDIS (Ministry of Development and Social Inclusion) provided debit cards to mothers who are beneficiaries of the national programme “Juntos”.⁷ In addition, to avoid crowds accumulating to receive pay-outs for emergency government benefits distributed during the crisis, the government implemented new digital payment mechanisms, including payments to digital wallets as well as the mobile banking platform of the national bank, which allows recipients to withdraw money at agents or ATMs using a code sent to their mobile phone. Such mechanisms led to a huge increase in the uptake of digital financial services. One emergency benefit programme, known “Bono 600”, prompted more than 407,000 households to sign up for a digital wallet, and a total of 87,000 people opened personal bank accounts during the first phase of emergency COVID-19 government support payments.⁸

The government also introduced the “cuenta DNI” during the pandemic – a basic bank account which can be opened with the national bank with just a national identification card. The government aims for all Peruvian adults to have one of these accounts by the year 2023. Currently, these basic accounts are not enabled for salary payments, given their relatively low transaction and balance limits. However, changes could be implemented to make this possible in the future. This could provide an alternative salary account for workers with greater accessibility, given the extensive geographical reach of the national bank, and low costs associated with the “cuenta DNI”.

⁴ Supreme Decree No. 001-98-TR

⁵ Legislative Decree No. 1499

⁶ Circular N° 0024-2022-BCRP.

⁷ The “Juntos” programme pays a monetary incentive of S/. 200 every two months to pregnant women, children and adolescents from households classified as poor or extremely poor. For more information, visit: <https://www.gob.pe/juntos>.

⁸ Ministerio de Desarrollo e Inclusión Social de Perú (2021). Pago del Bono 600 impulsó la inclusión financiera de casi medio millón de hogares en pobreza [Nota de prensa web]. Obtenido de: <https://www.gob.pe/institucion/midis/noticias/350048-pago-del-bono-600-impulso-la-inclusion-financiera-de-casi-medio-millon-de-hogares-en-pobreza>

Digital wage payments are driving financial inclusion, but it is often superficial and precarious.

In 2021, 62% of those who received wages in Peru did so in an account with a financial institution, through a pre-paid card, or through mobile money (up from 51% in 2017).⁹ This compares to 67% in Latin America and the Caribbean, 78% in other upper-middle income countries, and 90% in OECD countries. Wage payments drive account ownership in Peru but play a less important role than in other countries. In 2021, 27% of those surveyed by Findex reporting opening their first account in order to receive wage payments in Peru, compared to 36% in Latin America and the Caribbean and 41% in upper-middle income countries.¹⁰

Our research showed differences in wage payments between types of employers. In the agriculture sector, large and export-oriented enterprises pay wages overwhelmingly through bank transfers, whereas cash payments dominated among smaller-scale, informal and cooperative agricultural enterprises. In the gastronomy sector, larger and urban restaurants, as well as those that were part of chains and those oriented towards the tourist market, were more likely to make monthly wage payments by bank transfer, whereas others made all wage payments in cash. Nonetheless, tips were paid in cash in almost all types of restaurants, resulting in hybrid payments for many restaurant workers, who received monthly bank transfer wage payments as well as more frequent payments in cash of their share of tips.

Our findings also suggest that differences between type of employer interact with the gender and migration status of workers. In both sectors, women and migrants are more likely to be in short-term, informal and lower-paid jobs, which are more often paid in cash. Although a high number of women are employed in agriculture, which is the second most important sector in the country in terms of number of women employed,¹¹ women with care

responsibilities reported finding it more difficult to access long-term, formal employment. Women's participation in the gastronomy sector in Cusco is also high, but they are more likely to work in customer service positions, with relatively few women employed in higher paid roles like head chefs, managers and administrators.¹² In both sectors, it was reported that migrants, especially where they do not have formal resident status in Peru, found it more difficult to access long-term, formal employment.

Where workers do receive a digital wage, they may not be reaping the full benefits. Although digital wage payments provide an initial push to account ownership, the impacts on workers vary, with the availability of infrastructure and inclusivity of services being a key factor. Financial infrastructure and access have increased significantly in recent years, with a particularly marked increase in the availability of ATMs and banking correspondents. Between December 2016 and December 2021, the number of service points of financial entities increased from 648 to 1,495 per 100,000 adults.¹³

Nonetheless, access to finance remains highly unequal. These inequalities are partly geographical: the department with the highest number of financial service access points in the country (Arequipa, at 2,930 per 100,000 adult inhabitants) has more than four times that of the province with the lowest number (Loreto, at 736).¹⁴ There are also important income and gender inequalities, with those in the lowest income category more than five times as likely to have no financial account (at 79.5% of adults) than those in the highest income category (at 14.0%), and with 47% of all women not reporting having a financial account, at nine percentage points higher than men (38%).¹⁵

Where financial infrastructure is not readily available, digital wage payments can create costs for workers. Workers outside of urban centres who receive digital wage payments have to travel to the nearest access point of the financial institution, sometimes in the nearest city, in order to access their wages. Since workers are often

⁹ Demirgüç-Kunt, A; Klapper, L; Singer, D; Ansar, S (2022). Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. Washington, DC: World Bank.

¹⁰ Demirgüç-Kunt, A; Klapper, L; Singer, D; Ansar, S (2022). Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. Washington, DC: World Bank. (The figure for this variable is not provided for OECD countries.)

¹¹ Encuesta Nacional de Hogares, 2020

¹² Grupo Propuesta Ciudadana (2020). Covid-19 y Turismo en el Cusco. 2020. Grupo propuesta ciudadana. pp. 9

¹³ SBS (2021). Perú: Reporte de indicadores de inclusión financiera de los sistemas financiero, de seguros y de pensiones Diciembre 2021.

¹⁴ SBS (2021). Perú: Reporte de indicadores de inclusión financiera de los sistemas financiero, de seguros y de pensiones.

¹⁵ Demirgüç-Kunt, A; Klapper, L; Singer, D; Ansar, S (2022). Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. Washington, DC: World Bank.

paid at the same times, agriculture workers in particular reported spending significant time and money traveling and then waiting in long queues to access bank branches, correspondents or ATMs in order to access their wages.

► If we promote the payment of wages through the financial system without taking responsibility for the availability of financial infrastructure, there is a risk of simply shifting the costs from the employer to the employee.

► Interviewee from the public sector

In addition, the positive impacts of digital wages are limited in some cases by the nature of employment. It is very common that employers who pay salaries through bank transfers open accounts for all their workers in the same institution which they use. These frequently close or become dormant when the workers leave, and a new account is opened when they begin a new job. Workers in many sectors, and particularly in agriculture, tend to have short-term contracts and to switch between several companies during a year. As a result, many agricultural workers reported having multiple bank accounts with multiple institutions within the last year. This is particularly common among women and migrants from other countries or internally within Peru, who reported finding it difficult to access longer-term employment.

In the gastronomy sector in urban areas, where access to financial services and financial literacy is generally higher, many workers did report maintaining their own personal account, primarily intended for savings, in addition to accounts opened by employers. However, in the agricultural sector this is not generally the case, and the combination of employee-led mass account opening and short-term employment results in superficial and precarious financial inclusion. This limits workers' ability to benefit from ownership of a long-term personal account and access to additional financial services.

There is an opportunity to empower workers through digital and financial education to make informed choices on digital wage payments and associated financial services. In addition, it is important to promote workers' choice regarding the account to which they will be paid and for employers to make use of workers' existing personal bank accounts.

Most of those interviewed in both the agriculture and gastronomy sector did not belong to trade unions. However, where workers' organizations are present, they can advocate for employers to respect workers' choice of bank accounts.

Workers' and employers' organizations also have a role in advocating for improved access to financial services for workers and collaborating with providers to achieve this goal. The *Asociación de Propietarios de Tierras Nuevas de Olmos* – ProOlmos (the Owners Association of New Lands of Olmos) is an association that brings together agriculture export companies in Olmos, representing 25,000 hectares of cultivation of crops like sugarcane, avocado and blueberries. In 2008, when the association was established, there were no ATMs in Olmos. The companies therefore began to insist that the banks they worked with install access points in the towns surrounding the companies. Pressure from the association contributed to the banks installing additional banking correspondents in the area, although there are still limitations in infrastructure, partly due to connectivity issues given the bandwidth required for ATMs and agents to function.

There is a need to support small and medium enterprises to digitalize their operations and wage payments.

Cash remains king in many value chains, and smaller enterprises reported that cash wage payments were easiest to manage, given that they handled other payments with suppliers and buyers largely in cash. Some enterprises interviewed also saw cash payments as a way to maintain informal employment relationships.

Nonetheless, the majority of enterprises who had adopted digital wage payments in both sectors saw it as an important step in the success of their enterprise, supporting productivity, efficiency, formalization, competitiveness and access to markets.

Among enterprises participating in the research in the gastronomy sector in Cusco, the need to receive digital payments on the part of customers proved an important

factor in the adoption of digital financial tools. In particular, the COVID-19 pandemic had forced restaurants to rapidly adopt point of sale (POS) devices and payments through mobile wallets in order to remain competitive. However, this had not necessarily led to increased use of digital financial tools for payments to suppliers or workers.

Among agricultural enterprises, digital wage payments were seen as a vital step to compete in international markets. Large international companies generally demand that suppliers meet certain labour and social standards, or that they obtain quality certifications which include labour and social requirements. Digital wage payments make it much easier for companies to demonstrate that they meet these requirements and most companies viewed digital wage payments as indispensable in practice for achieving them. As a result, export requirements are a strong driver of digital wage payments in the agriculture sector (Box 1).

These quality and social certifications, as well as the demands of international clients, can be leveraged to further promote responsible digital wages. Companies aspiring to export can be offered training and support to help digitize their wages as part of the process.

► **Box 1. A case of formalization and digitization in mango farming**

The research team spoke with the owner of a medium-sized agricultural company with 50 permanent workers and 300 seasonal workers that produces mangoes for export. The business owner had started out informally as a mango buyer, and later established his own mango exportation business with 50 hectares of mango trees. The digitalization of the company's wage payments happened as the company grew, in order to make it easier to fulfil legal requirements and those of the company's international export clients. Initially, when the business owner formally established the business, he began to digitize his systems and payments to permanent workers in an effort to meet the requirements of the tax authorities for a digital payroll. Gradually, wage payments to seasonal workers were also digitized as part of efforts to gain the quality certifications necessary for exportation.

In addition, there are opportunities to leverage existing initiatives promoting enterprise success, formalization and digitization at a regional level, in order to provide training and support on digital wages to small and medium

enterprise owners. Relevant initiatives include those led by the regional agencies of the Ministry of Work and Employment Promotion, municipal authorities, regional development agencies, and business associations.

► If we want to export, we have to compete against international companies. That is why we need social certifications, and these have forced us to implement an entire transformation in our business.

► An entrepreneur in the agricultural sector in Lambayeque

There are opportunities for financial service providers to better meet the needs of workers, including rural workers, women and migrants.

Participants in the study recognised benefits of digital wages. Some agricultural workers cited that digital wages allowed them to avoid the "commissions" previously deducted from their pay by informal recruiters in the sector. In addition, some workers, especially those with better financial literacy and greater access to financial institutions, recognised that digital payments were more secure and believed that they helped them save.

► Digital payments are better because they can't be stolen. Also, it is easier to save, because when you see cash you're more likely to start spending it.

► A restaurant worker in Cusco

Nonetheless, in both sectors, most workers expressed preferences for cash wages. This was the case even among those workers, particularly in the gastronomy sector, who did maintain personal bank accounts and make use of digital payment tools such as digital wallets. This was partly because cash was commonly used for daily payments such as rent and food purchases, as well as because of concerns around fees.

Salary accounts in financial institutions generally offer favourable conditions, such as free debit cards and no maintenance fees. Nonetheless, the participants perceived some costs charged by financial institutions as excessive, including those associated with certain types of transfers or withdrawals. The cost of transfers between banks in Peru, for example, have been on the increase, and can cost between PEN 2 and 15 (approximately USD 0.51-3.83).^{16,17} In addition, many workers have concerns about a lack of transparency and unexpected additional charges. Some participants mentioned, for example, finding that they had been charged for insurance covers they did not believe they had signed up for. Participants estimated these charges at PEN 10-15 per month (approximately USD 2.56-3.83).

Workers' organizations interviewed for this study were aware of members' complaints about such charges. These organizations could play a larger role in advocating with the financial sector, the regulator and the government for services and fee structures that are better suited to their members' needs.

There is a need for financial institutions to expand services outside of urban areas, address negative customer experiences, and offer additional financial education and information. In addition, there are opportunities to offer financial products and services designed to meet the needs of groups of workers who are largely excluded from the financial system, particularly marginalized groups including rural workers, women and migrants.

Currently, accounts opened for wage payments for seasonal and short-term workers, and then rapidly left dormant as workers change roles, are costly for financial institutions. Efforts to encourage workers to maintain personal accounts, alongside offering products designed specifically for their needs, could allow financial institutions to convert these workers into long-term customers, opening up business opportunities.

Payroll services can be expanded for small businesses.

In addition to financial services for workers, there are also opportunities to expand payroll services for small enterprises. Although widely available from major banks, there are limitations in payroll offerings for enterprises with a smaller number of workers among some financial institutions, particularly regional and rural credit and savings institutions. These institutions often have a greater presence and trust outside of major urban centres. Automation and digitization of their payroll services could allow them the required efficiency to reach small enterprises in areas where the presence of major banks is limited. Employers' organizations can work with financial institutions to help them design suitable services and promote them among members.

Digital wallets, most of which are offered by the country's largest banks, have experienced an enormous expansion during the pandemic, though concentrated in urban areas. The country's most prevalent digital wallet, Yape, reached almost 9 million users in March 2022.¹⁸ Digital wallets are not generally used for wage payments, in large part because of limits on daily transactions and balances. However, this may change in the near future as digital wallet providers continue to develop their capacities for mass payments and increase limits for business users. Digital wallets and mobile money¹⁹ could then be harnessed to provide small enterprises with convenient payroll services. Such services could also be more accessible for workers, as seen in a pilot project conducted by Bim in Virú (Box 2).

¹⁶ <https://www.transferenciasinterbancarias.pe/#tarifas>, accessed 26th September 2022

¹⁷ As a point of comparison, the minimum monthly wage in Peru as of May 2022 is PEN 1,025 (approximately USD 256), as of September 2022.

¹⁸ Yape (2022). Number of users. Obtained from: <https://www.yape.com.pe/#/> (accessed 17th March 2022).

¹⁹ In Peru, electronic money is defined by BCRP in 2013 in Ley N° 29985: Ley del Dinero Electrónico (Law N° 29985: Law on Electronic Money) as

money stored in an electronic medium that is accepted as a means of payment by entities other than the issuer and convertible to cash. It does not constitute a deposit and does not generate interest. Digital wallets, on the other hand, are tools that facilitate digital payments and can be linked to electronic money accounts, prepaid cards or bank accounts (<https://www.gob.pe/14930-conocer-mas-sobre-las-billeteras-digitales-disponibles-en-el-peru>, accessed 26th September 2022)

► **Box 2. Bim wage payment pilot in Virú, 2019-2020**

The city of Virú, in the north of Peru, has a population of around 100,000 inhabitants. The main economic activity in the area is agricultural production for export. In 2019, only the national bank, Banco de la Nación, and two microfinance institutions were present. The city had few banking correspondents and a limited number of ATMs.

It is usual for the salaries of workers in agriculture export companies to be paid on Fridays at the end of the day, shortly before bank branches close. This resulted in long queues of workers withdrawing their salary in cash and others unable to do so in time. To address this issue, Pagos Digitales Peruanos S.A. (PDP), the provider of the BIM digital wallet sought, decided to collaborate with an agriculture export company to promote the adoption of digital wages.

For the pilot, PDP coordinated with several financial and microfinance institutions to adopt the BIM digital wallet and set up banking correspondents and ATMs in the city. As a result, an initial ecosystem of channels was developed to promote the use of BIM.

When the pilot began, workers joined BIM and began to receive their salaries through BIM on the same days and hours as they had previously. As a result, the following behaviours quickly emerged among workers:

- Withdrawing salaries in cash from ATMs and banking correspondents.
- Transferring money to a family member affiliated with BIM so that they could use it in the city.

As the weeks went by, workers' behaviour changed. As a result of initiatives carried out with BIM, various commercial establishments such as local shops and pharmacies were affiliated to BIM (such affiliated establishments are known as Bimers) so they could accept payments through BIM. This led to a range of behaviour among workers:

- Transferring money to a family member affiliated with BIM.
- Buying groceries and other daily items with BIM at local affiliated shops.
- Payment of some services and the purchase of prepaid airtime.
- Saving part of the balance in the mobile wallet.
- Cash withdrawals through ATMs.

In mid-2020, the initiative was stopped due to the COVID-19 pandemic. Nonetheless, the pilot generated important lessons for building a digital payroll and wage service and demonstrated the potential of mobile wallets in providing better access to financial services for workers where traditional banking infrastructure is limited.

Conclusion: A promising landscape for promoting responsible digital wages

Peru is a country with significant promise for digital wages. The legal framework promotes digital wage payments, the public policy environment is positive, and access to finance is growing as a result of improvements

in physical infrastructure and the recent explosion in use of digital wallets. However, the onus must be on ensuring a responsible transition which benefits a full range of enterprises and workers. There is a particular need to ensure that the financial infrastructure and services are in place to allow workers, particularly marginalized workers, including rural workers, women and migrants, as well as small enterprises outside of urban areas, to benefit from digital wages.

This brief is based on the rapid assessment on digital wages for decent work in Peru, conducted by Alice Merry, Luz Martínez Santamaría, Gustavo Felipe Flórez Salcedo, José Manuel Angulo Jugo, Adriana Morales and Johan Sebastian Roza Calderon, with technical inputs from Valerie Breda, Mansour Omeira, Julio Perez, Vladimir Miranda and Mauricio Dierckxsens.



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The ILO's Global Centre on Digital Wages for Decent Work promotes the transition to responsible digital wage payments through multi-country interventions, research, knowledge management and advocacy. The Global Centre is an initiative of the [ILO's Social Finance Programme](#).

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