

Retirement Savings Laboratory



Letters to Improve Compliance with Social Security Obligations and the Employment Quota for People with Disabilities

COUNTRY



PERU

WHAT IS IT?

In Latin America, less than half of workers are registered for social security by the firms that employ them. There is empirical evidence that reminders, deterrent messages, and social and moral norms, influence the behavior of individuals in fulfilling their tributary obligations. This study analyzes the role of the perception of an increase in oversight of compliance with labor regulations in Peru through two randomized experiments in which two types of letters were sent: one with a punitive message and another focused on social commitment.

In the first experiment, the National Superintendence of Labor Inspection (SUNAFIL, for its Spanish abbreviation) sent 697 letters to formal Peruvian companies with more than 50 workers, stipulating their obligation to register their workers in social insurance systems (health and pensions). In the second experiment, a letter was sent to a different subset of a thousand formal companies stipulating their obligation to meet the employment quota for workers with disabilities.

IMPACT

1. The letters increased the number of formalized workers by 9.8% (an average of almost 12 formal workers).
2. Although sending letters did not increase the probability of a company meeting the employment quota of persons with disabilities, it increased the probability of a firm having at least one hour worked by a person with a disability by 1.5 percentage points (almost 15 additional firms).
3. Punitive letters, which highlighted fines for non-compliance with labor regulations, had a greater impact on increasing the average number of formalized workers (almost 20 workers) and the number of firms with at least one hour worked by people with disabilities (1.8 percentage points).

TITLE

Letters to Improve Compliance with Social Security Obligations and the Employment Quota for People with Disabilities.

MESSAGE

Increasing perception of oversight by sending letters improves compliance with payment of contributions to social security and increases hiring of people with disabilities. The type of letter is important: the letter that placed emphasis on fines for noncompliance had a greater impact, compared to the letter that emphasized benefits for the firm by complying with the law.

TOPIC OF STUDY

Compliance with labor regulations.

SUB-TOPIC

Social security, formalization, disability quotas.

YEAR

2019

AUTHORS

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AUTHOR OF THE SUMMARY

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OBJECTIVE

To analyze the perception of an increase in oversight in compliance with labor regulations in Peru, through two randomized experiments.

TOOL

Letters as reminders.

EXECUTING AGENCY

Inter-American Development Bank (IDB) and the Peruvian National Superintendence of Labor Inspection (SUNAFIL, for its Spanish abbreviation).

TARGET POPULATION

Formal private firms with more than 50 workers.

MECHANISM

Sending two types of letters: one showing the benefits of compliance with regulations, and another characterized by its punitive tone in the case of non-compliance.

SAMPLE SIZE

1,045 firms in the labor formalization experiment and 2,000 firms in the quota for people with disabilities experiment.

EVALUATION DESIGN

Randomized Controlled Trial (RCT).

FUNDING SOURCE

IDB.

COST

- Cost of printing and sending letters:
1. Letters for the labor formalization experiment: US \$ 6,565
 2. Letters for the employment quotas for people with disabilities experiment: US \$ 4,349



CHALLENGE

In low- and middle-income countries, generalized lack of compliance with tax obligations, social insurance and labor regulations (health and job security measures, minimum wage, employment quotas, among others) is a reality. This lack of compliance is called informality. Latin America and the Caribbean is the region with the highest levels of informality in the world based on income level. On average, 55% of workers do not contribute to social insurance systems. In the case of Peru, the informality rate is 78%, and compliance with the employment quota for people with disabilities is practically non-existent.

A possible explanation for the lack of compliance (from a tributary perspective) with labor regulations, even among relatively large and formal firms, in Peru, is the country's limited capacity to conduct labor inspections. According to data from the International Labour Organization, Peru

has 0.2 inspectors per 10,000 workers compared to 1.7 in Chile or 0.8 in Uruguay. The lack of monitoring and capacity to inspect allows, to a great extent, workers and firms to operate informally. Increasing the perception of oversight by increasing the number of inspectors or budget allocation are necessary tasks, but complex as well. Therefore, identifying instruments that can be scaled cost-effectively, and may therefore complement oversight efforts is relevant.

In the last decade, applied research in the fields of behavior and tax compliance has grown. There is empirical evidence that reminders (letters), deterrent messages and social and moral norms influence the behavior of individuals in fulfilling their tributary obligations. This evaluation seeks to measure the impact of these types of tools on compliance with labor regulations in Peru.

INTERVENTION DESIGN

The objective of the intervention is to understand whether, after receiving a letter from the inspectorate, firms perceive that the possibility of being inspected is greater and, consequently, adjust their behavior to comply with regulations. This study analyzes the impact of two types of letters. The deterrent approach is tested using a 'punitive' letter that emphasizes how failing to enroll workers in social security, or not complying with the employment quota for people with disabilities, is a serious offense, further highlighting the corresponding punishment cost (fine). To test if firms are willing to cooperate voluntarily, another letter called 'benefit or social commitment' was designed. In the labor formalization experiment, this letter, in addition to providing information on the government's formalization efforts, suggests companies review their workers' status and provides information about the process. Furthermore, it emphasizes the importance of protecting workers against health risks and accidents, as well as the potential positive impact on the firm's productivity. In the employment quota experiment, the letter emphasizes that hiring workers with disabilities contributes to reversing labor exclusion (Table 1).

Based on the list provided by SUNAFIL (which included private firms with more than 50 workers which were not going to be inspected in 2017), 1,045 firms were selected for the formalization experiment. In the case of the employment quota for people with disabilities pilot, 2,000 firms were selected from a total of 5,824 firms that were subject to the employment quota for people with disabilities in 2016 and failed to comply. Firms' participation in one experiment or the other was mutually exclusive.

The same intervention design was used in both experiments (Table 2). The sample of firms was randomly divided into three groups: control, punitive letter and benefit or social commitment letter. The letters were sent through a certified courier company. In the case of the labor formalization experiment, the letters were delivered between October 20 and December 7, 2017 (98% of them were delivered in the last 10 days of October), while the letters for the disabilities quota experiment were delivered between December 20, 2017 and January 10, 2018.



TABLE 1. LETTERS' CENTRAL MESSAGE FOR EACH EXPERIMENT

	A. Labor Formalization	B. Employment Quota for People with Disabilities
Punitive Letter	Current regulations specify that failing to register workers in payroll forms and/or not enrolling them in health and pension systems is considered a serious infringement. In order to sanction non-compliance behaviors, very severe fines are imposed as detailed below: - Microenterprise: up to 1,823 soles - Small companies: up to 18,225 soles. - Other companies: up to 91,125 soles	Current regulations specify that failing to register workers in payroll forms and/or not enrolling them in health and pension systems is considered a serious infringement. Notwithstanding this, for a private sector employer, severe implications of breaching the Employment Quota for people with disabilities would be included, all of which would lead to the imposition of significantly large fines which depend directly, among other things, on the number of affected workers.
Benefit Letter	Formalizing the employment of dependent workers by registering them on the company's payroll, in EsSalud and the corresponding pension system, in addition to protecting workers against health risks and work accidents, has the advantage of making the company more productive: The formal sector represents 80% of the aggregate Gross National Product.	The Employment Quota is intended to combat labor discrimination. There are more than 69,000 people in the Working Age Population in Peru with a disability who are either seeking a job or are discouraged by not having found one. By complying with the Employment Quota, your company contributes to reversing this situation of labor exclusion.

Source: Authors' preparation.

TABLE 2. EXPERIMENTAL DESIGN

A. Labor Formalization		B. Employment Quota for People with Disabilities	
Letters sent from October 20 until December 7, 2017		Letters sent from December 20, 2017 until January 10, 2018	
Random sample of 1,045 private firms in Peru with at least 50 workers		Random sample of 2,000 private firms in Peru with at least 50 workers	
Treatment group	Punitive letter: 348 firms Benefit letter: 349 firms	Treatment group	Punitive letter: 500 firms Benefit letter: 500 firms
Control group	Did not receive letter: 348 firms	Control group	Did not receive letter: 1,000 firms
Impact: Average difference in the number of formal workers in each treatment group and the control group		Impact: Average difference in the number of workers with disabilities in each treatment group and the control group	

Source: Authors' preparation.

IMPACT

The results show that sending letters increases firms' perception of a higher probability of inspection, which translates to an increase in workers registered for social security (through electronic forms) and the probability that a firm hires at least one person with a disability. In both cases, the letter containing the punitive message has a greater impact in incentivizing compliance with the firms' labor regulations. Furthermore, these results are robust to different specifications and assumptions about the sample studied.

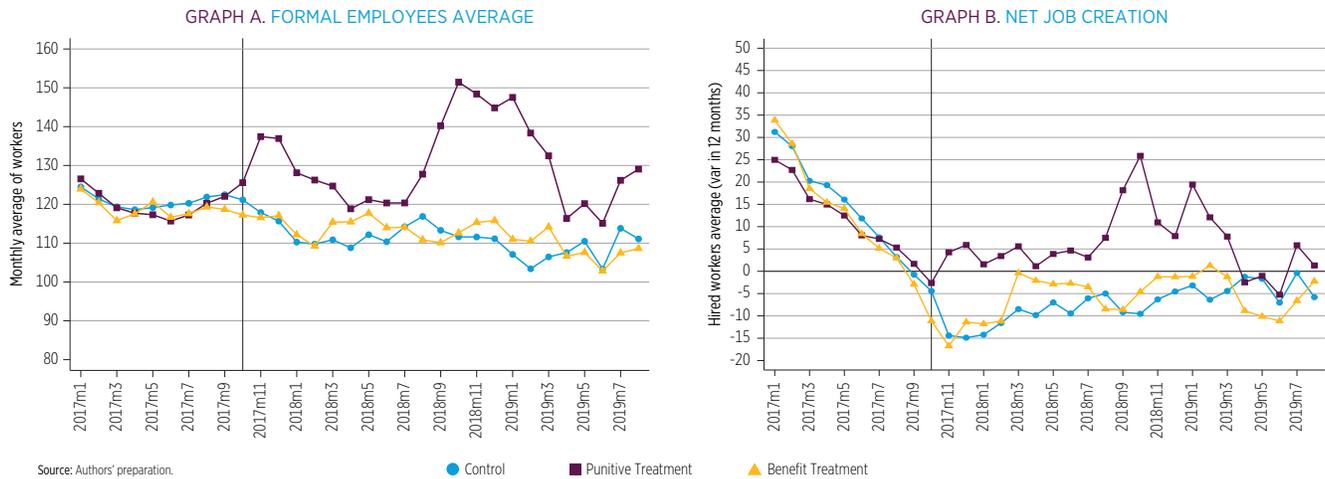
In the case of the labor formalization experiment, sending the letter had a positive average effect and was statistically significant, with almost 12 formal workers registered, which is equal to 9.8% of the average number of workers at baseline. This effect is greater when the letter is punitive: The

average number of formal workers increases by almost 20, equal to 16.7% from baseline (Graph 1.A). However, this effect is concentrated in a very small group of firms that show great variability in the number of reported workers.

The increase in the stock of formal workers occurs because the firms that received the punitive letter begin to hire (or at least report) more workers, affecting net job creation. In terms of hiring (or formalizing) workers during a 12-month span, the punitive letter led to a significant average increase of almost 17 workers (Graph 1.B). In other words, compared to the same month during the previous year, these firms had an average of 17 more formal workers than the control group. There are no differences in worker separations (outflows) between firms that received the letter and those that did not.

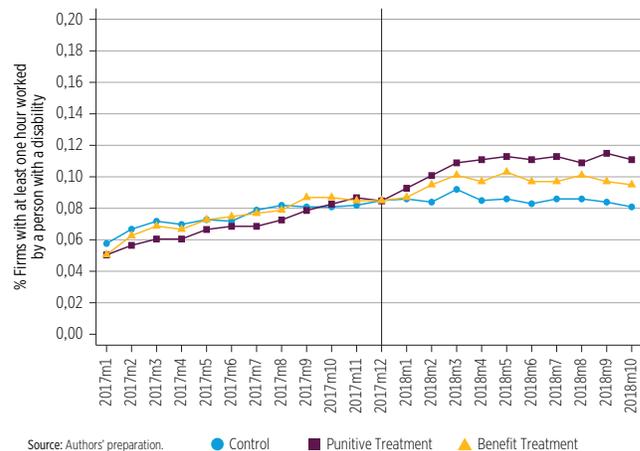


GRAPH 1. NET JOB CREATION IN FIRMS IN FORMALIZATION EXPERIMENT



In the case of the employment quota for people with disabilities experiment, sending the letter increases the probability that a firm hires a person with a disability by 1.5 percentage points, or an increase of 15 additional firms with at least one worker with a disability. In the group of firms that received the punitive letter, the probability of hiring a person with disabilities increases 1.8 percentage points, which is the equivalent of almost 4 additional firms when compared to the control group. This impact is greater in medium-sized firms, where the probability of having a worker with a disability increased by 3.6 percentage points.

GRAPH 2. FIRMS WITH WORKERS WITH DISABILITIES



LESSONS FOR PUBLIC POLICY

These results highlight the importance of continuing to strengthen the relationship between the supervisory authority and firms, seeking new approaches that go beyond traditional labor inspection. Sending letters has the potential to inform firms about their labor obligations and the consequences of non-compliance. A challenge to overcome is reaching a greater number of firms at a low cost. Information technologies can

help systematize notifications to firms, opening permanent and effective communication channels. Likewise, to ensure that the effectiveness of using alternative channels, such as letters and notifications, is sustainable, the perception of a greater probability of being inspected should be accompanied by greater oversight actions by the authorities, thus preventing the threat from losing credibility over time.