

CASE STUDY: FOSTERING FORMAL WORK WITH DIGITAL TOOLS



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ABSTRACT

The COVID-19 pandemic has been a harrowing reminder of the precarity of the vast informal labour market, with even more informal jobs being created in the economic recovery in developing countries. Helping workers transition to more formal working arrangements is not only good for them, but also good for development. While there is debate over whether digitally facilitated ways of working lead to greater informality in developing countries, digitalisation of government services, greater access to digital technology and co-ordinated policies can foster formal work. In particular, the use of digital tools to increase productivity, improve norms and regulations, provide incentives, and strengthen enforcement systems can contribute to the transition.

Key messages

- Digital transformation of the labour market is challenging the notion of decent work with new forms of informality.
- There is an increasing trend to apply digital tools in policy design and implementation for accelerating the transition to formality.
- For national policy makers, designing and implementing a policy framework for e-formalisation can ensure that digital transformation leads to inclusive outcomes for informal workers.
- Development co-operation partners can disseminate good practice of e-formalisation, facilitate the exchange of knowledge and provide technical advice through South-South and triangular co-operation.

Digitalisation is redefining work in the informal labour market. Digitalisation is remaking the world of work, not least in the vast informal economy that provides livelihoods for more than 2 billion people worldwide. Whether digital technology can improve working conditions and help workers transition to formal working arrangements is the subject of much current debate in the field of labour policy, and statistics standards are evolving to better track the impact on informal employment (Figure 18.1). The changes are far reaching. The digital transformation of the labour market is undermining formal work and creating new forms of informal employment in the gig economy (ILO, 2021^[1]). At the same time, technology may well accelerate the transition of workers and enterprises to formality. The International Labour Organization (ILO) and others call this process e-formalisation (Chacaltana, Leung and Lee, 2018^[2]; Divald, 2021^[3]). From a policy perspective, e-formalisation refers to the application of digital technologies to support the design and implementation of policies that increase productivity, improve norms and regulations, create incentives, and strengthen enforcement systems as pathways towards formality (Kring and Leung, 2021^[4]; Williams, 2021^[5]). The right kind of e-formalisation strategy – designed in consultation with workers and businesses – should be focused on improving conditions for informal workers. For national policy makers, designing and implementing a policy framework for e-formalisation can ensure that digital transformation will be managed and guided

towards pro-poor and inclusive outcomes for informal workers. Development co-operation partners can identify and disseminate good practice of e-formalisation, facilitate the exchange of knowledge, and provide technical advice through South-South and triangular co-operation.

The pandemic shows how digitalisation can affect the precarity of informal work

Globally, over 2 billion workers earn their living in the informal economy. The latest ILO (2018^[10]) statistical overview found that 92.1% of employed women and 87.5% of men in low-income countries are in informal employment. In emerging and developing economies, only 15.6% of people aged 15-24 are employed formally, compared to 80% of their counterparts in developed countries (ILO, 2018^[10]). According to the same ILO report, countries with lower informality rates also have higher Human Development Index values (Figure 18.1) and, in general, as gross domestic product (GDP) per capita rises, the share of informal employment in total employment falls¹ (ILO, 2018^[10]). From this perspective, transition to formality is an important development objective.

Informal employment – characterised by low wages, low productivity and the absence of social protection – also is precarious from workers' perspective. The COVID-19 pandemic drove this home: In the first month of the crisis, 80% of informal workers saw their incomes drop by 60% (ILO, 2020^[11]). Some workers received income support thanks to the use of digital tools. For example, in Nigeria, the government used satellite-based

BOX 18.1. DIGITALISATION AND INFORMALITY: ADAPTING OFFICIAL STATISTICS TO AN EVOLVING LABOUR MARKET

The standards for determining who is classified as informally employed in official statistics are changing to capture the impact of digitalisation on the labour market. Traditionally, informal employment referred to three basic forms of work and workers (ILO, 1993^[6]; ILO, 2003^[7]; ILO, 2013^[8]):

1. Self-employed: people in business activities that are not registered with any national authority and maintain only partial or no accounting records
2. Employee: people whose employer does not make social insurance contributions for them or provide them access to paid annual leave and paid sick leave
3. Contributing family workers: people who work without pay in a business or farm owned by a family member or have informal jobs by default due to the nature of their employment.

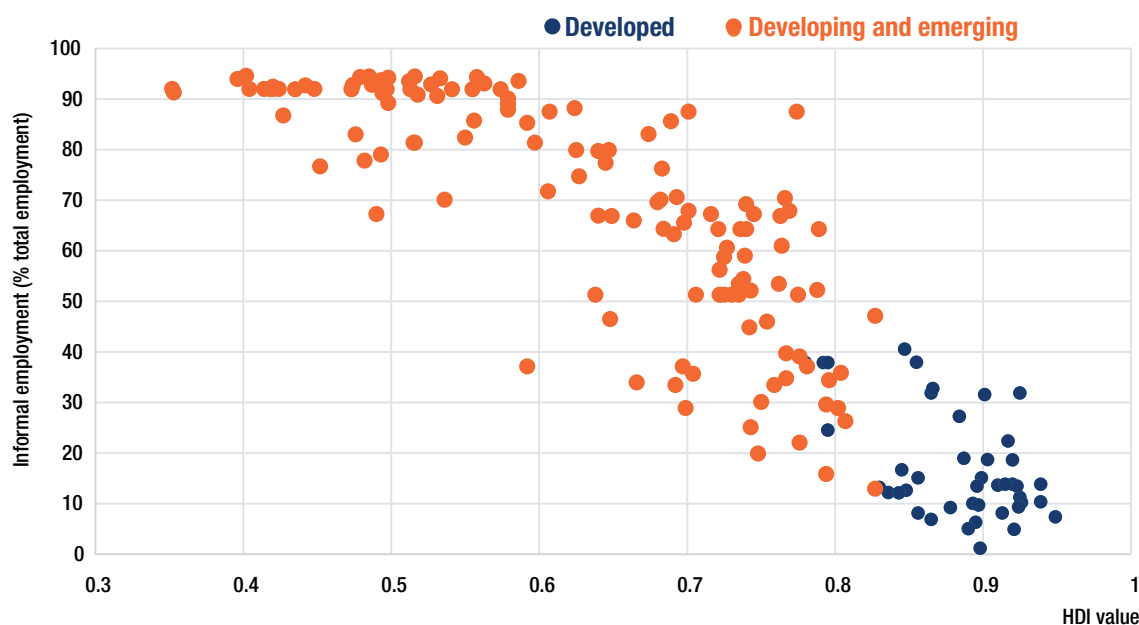
With digitalisation, the statistical standards evolved. Beginning in 2018, statistical classifications included a new status of dependent contractors, who straddle the border between being an employee and being self-employed. The change helps make visible in the data the growing number of workers who are dependent on digital platforms, such as those providing rideshare or delivery services, but who are not employees and may or may not have formal arrangements in place (ILO, 2018^[6]).

Another proposed revision to the statistical standards will be discussed in 2023 that aims to capture how unpaid work is associated with informality and the ways informal workers transition to formality. The revised standards should also make available better data on informality, including for sectors impacted by digitalisation and e-formalisation. Definitions and approaches to measure the phenomenon of digitalisation itself is the subject of separate discussions.

Growing digitalisation also creates the potential for data to be drawn from digital sources. These data could complement data generated by traditional collection methods, for instance household surveys.

Note: Michael Thye Frosch, Jessica Gardner and Kieran Walsh from the International Labour Organization's Department of Statistics contributed this box.

Figure 18.1. Mapping informal employment against Human Development Index values



Source: ILO (2018^[10]), Women and Men in the Informal Economy: A Statistical Picture – Third Edition, International Labour Organization, Geneva, http://www.ilo.org/global/publications/books/WCMS_626831/lang-en/index.htm.

poverty maps, big data mining and machine learning to identify and register informal sector households so that they could receive social protection support (Kring and Leung, 2021^[4]). In urban areas, the government collaborated with mobile network operators to identify informal workers through airtime purchase patterns (Davidovic et al., 2021^[12]).

Where there are signs of an economic recovery from the pandemic's impacts in developing countries, it is the informal sector that seems to be driving it: From mid-2020 to the first quarter of 2021, 70% of the new jobs generated in Latin American countries were informal jobs (Maurizio, 2021^[13]). This expansion of the informal labour market underscores the importance of promoting and accelerating transitions to formal work. Helping workers make the switch to more formal work arrangements can give them greater access not only to productive employment, but also to rights at work, social protection and social dialogue. A number of governments, including in developing countries, are using digital technology in innovative ways to reach informal workers and spur this transition.

E-formalisation can promote and accelerate transitions to formal work

E-formalisation is the aggregate effect of three interlinked approaches and actions: 1) co-ordination across a range of government policy areas that are relevant for formality transitions; 2) support to the digital economy;² and 3) development of e-government services³ (Kring and Leung, 2021^[4]). The right balance of increasing productivity, improving norms and regulations, creating incentives, and strengthening enforcement systems has been shown to contribute to these transitions from informal to more formal employment arrangements⁴ (Chacaltana and Leung, 2020^[14]; Ohnsorge and Yu, 2021^[15]). E-formalisation can facilitate these actions.

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Increasing productivity

Efforts to increase productivity can include macro policies to improve the enabling environment, meso policies aimed at the sectoral and value chains level, and micro policies aimed at firm-level interventions (Chacaltana, Leung and Lee, 2018^[21]). A good example of applying digital tools in business operations is the tablet project of the Confederation of Chambers of Commerce, Services and Tourism of Mexico. Specifically designed to increase the productivity and competitiveness of small and medium-sized enterprises (SMEs), the tablet project offers a year of free Internet connection, helps businesses record and provide sales reports, enables electronic sales and electronic billing, and includes a sales point terminal with a slot for credit and debit cards. It also facilitates employment formalisation by helping the SMEs register their employees. In its first year, the project successfully reached 15 086 beneficiaries of a special tax regime for SMEs (*régimen de incorporación fiscal*), Mexico's main public formalisation programme. It also has verified that 89% of the beneficiaries made tax declarations, and it was estimated that 25 646 workers benefited from it (Chacaltana, Leung and Lee, 2018^[21]).

Improving norms and regulations

Simplifying procedures has improved norms and regulations (Chacaltana, Leung and Lee, 2018_[2]). Examples include the eSocial electronic employment registration system in Brazil and e-work permits for refugees and host communities in Jordan, where employees and employers can submit all required documents only once on the online portal instead of posting the same set of documents or visiting different government offices in person (ILO, 2019_[16]); and the digital payment of wages in the construction sector in the People's Republic of China, which helps curb wage arrears and improve the norms to protect migrant workers (Huang, 2021_[17]). These digital-driven programmes have proved popular: The number of workers registered in the Electronic Payroll system in Peru increased from 2.17 million in 2008 to 3.13 million in 2013 (Chacaltana, Leung and Lee, 2018_[2]). Mobile payment services for social security contributions with M-PESA in Kenya and Vodafone Cash for informal workers in Ghana reduce the cost and time to make payments compared to in-person cash payments and facilitate compliance (Chacaltana, Leung and Lee, 2018_[2]).

National tax systems also are being digitalised to varying degrees in countries including Ghana, Indonesia, Mexico, Nepal and Rwanda, generally in areas such as taxpayer registration and filing, compliance and audit, payments, and dispute management (Rosengard, 2020_[18]). Tax digitalisation in Rwanda between 2010 and 2016 increased the tax-to-GDP ratio from 13.1% to 16.6% and led to a 14% average annual increase in revenue collected from 2010 to 2018 (Rosengard, 2020_[18]).

Providing incentives

Incentives can take various forms, such as linking tax incentives to social security contributions or simply guaranteeing access to public services or public space for informal workers (Chacaltana, Leung and Lee, 2018_[2]). For example, online business registration in

Cambodia reduces registration fees by about 40% compared to the registration process done on paper; almost 6 000 companies registered during the first year of its launch in 2020 (Kring and Leung, 2021_[4]).

Improving enforcement systems

Enforcement systems are predicated on the state's capacity to deliver services and ensure standards are met. When implemented, these systems build a compliance culture and can be enhanced through automation or upgrading and special regimes (Chacaltana, Leung and Lee, 2018_[2]). The Digital Labour Inspector Programme in Argentina, the Labour Inspection Management Application in Bangladesh and the Labour Inspection System Application in Sri Lanka are examples of digital applications that help inspecting authorities work more efficiently, allowing them to document working conditions and record other information that can provide insights for policy makers into levels of informality in particular sectors. Before the Labour Inspection System Application, for instance, labour inspections in Sri Lanka were a laborious, paper-based process; now inspectors finish the whole inspection process on site with easy access to information (ILO, 2015_[19]). E-formalisation has also been found to help in the enforcement of minimum wage policies with digitally generated records (UNDP, 2019_[20]). Since the introduction of the electronic worker registration system (*planilla electronica*) in Peru, minimum wage compliance is greater by businesses that have made online declarations than by those that do not use the system (ILO, 2017_[21]).

How e-formalisation can contribute to sustainable, inclusive development

The *ILO Centenary Declaration for the Future of Work* (ILO, 2019_[22]) and the United Nations Development Programme's *Human Development Report 2019* (UNDP, 2019_[20]) highlighted that by opening a path from informal to formal work, e-formalisation can raise productivity and foster greater equity

in labour markets, thus contributing to the achievement of the Sustainable Development Goals.

Much depends, though, on the extent to which government policies underpinning e-formalisation, including the delivery of services through digital technologies, focus on bettering conditions and expanding opportunities for informal workers. Some guiding principles have emerged from practice to date that can help e-formalisation realise this potential:

- The outcomes of digital transformations are not predetermined, and the result depends on how they are managed and the extent to which they are guided towards pro-poor, inclusive outcomes. Governments and development co-operation partners need to ensure that the objective of e-formalisation considers transition to formality as the

means to provide decent work for workers in the informal economy. This should be an integral goal of COVID-19 crisis recovery efforts.

- Governments should maximise the potential of e-formalisation and develop co-ordinated strategies with the right mix of economic and institutional policies that are appropriate to each national context. Local authorities can play a leading role in implementing policies so that they benefit communities.
- At country level, the best way to design an e-formalisation policy and ensure that it is implemented and monitored is to engage government representatives, employers and workers in a tripartite social dialogue. Informal economy workers know their own problems and concerns best, and social dialogue provides them with a channel for their voices to be heard.

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NOTES

1. The level of GDP per capita and its growth are potentially important for reducing informality, as they influence employment generation and the economic capacity of economic units and workers. However, higher levels of GDP are not sufficient. Significant levels of dispersion in each level of GDP are also seen in the data presented in the 2018 ILO report, *Women and Men in the Informal Economy: A Statistical Picture* (ILO, 2018_[10]). In other words, the sectoral distribution of level of GDP and the pattern of growth matter. As noted by Chacaltana and Leung in 2020, an integrated approach combining economic and institutional policies brings more robust results and impact. See: https://www.ilo.org/employment/Whatwedo/Publications/WCMS_734489/lang--en/index.htm.
2. The digital economy includes public policies, but also encompasses wider private sector developments at national and global level, including the growth of e-commerce, platforms, Fintech and so forth.
3. E-government strategies refer to the suite of government policies around the use of information and communications technologies and digital innovations to improve governance, enhance service delivery, digitise aspects of operations and administration, and enable greater citizen participation. E-government strategies are often linked to wider national development frameworks that implicitly, but rarely explicitly, support formalisation.
4. The ILO has identified the pathways towards formality as the following: generating formal and productive employment through inclusive structural transformation; facilitating the transition from the informal to the formal economy for workers in their current positions, called in situ formalisation, via institutional policies including the extension of social protection; and preventing informalisation of the formal economy. See also the ILO 2015 Transition from the Informal to the Formal Economy Recommendation at: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R204.



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