

Global challenges – Global solutions: COVID-19 and the Employment Policy Response

Q&A for:

Breaking out of the informal economy: Does new technology hold the key?

**Interview with Juan Chacaltana, ILO Employment Policy
Specialist and Technical Officer, Vicky Leung**

Introduction by host:

Two billion people – more than six out of ten workers in the world – make their living in the informal economy. The ILO estimates that some 1.6 billion of these workers have been significantly impacted by the COVID pandemic. Among them, women and young workers have been particularly hard hit.

Many informal workers live in overcrowded urban areas, or in rural areas where basic infrastructure and health services are often scarce. Many lack adequate information about the risks of COVID-19 and are more prone to occupational health and safety risks.

In the first month of the crisis, the global income of informal workers fell by an estimated 60 per cent. The social and economic breakdown quickly became a humanitarian drama – a choice has been between life and livelihood, because staying away from work could mean that they and their families go hungry.

What is to be done? One emerging solution is technology. The ILO Centenary Declaration for the Future of Work recognizes the role of technological innovation in driving change in the world of work and its human-centred approach. It also promotes harnessing the potential of technological progress to achieve decent work and sustainable development.

Here to discuss this are ILO Employment Policy Specialist Juan Chacaltana and Technical Officer, Vicky Leung. Vicky, Juan, welcome to the programme.

My first question may be obvious to some, but how do you define the informal economy, or “informality”? And can you give us some more background on the impact of the COVID pandemic on workers in this sector? Juan?

Juan: Thanks, Tom. Informality is a concept that was coined by the ILO back in 1972. For many years, there has been intense academic and political discussions on what it means and what are its causes.

After years of debates, in 2015 tripartite representatives from all over the world agreed on an international instrument, what we call ILO Recommendation 204, that states that the term “informal economy “refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”. These formal arrangements refer for example to having social security or being registered as a business for example.

Recommendation 204 also explicitly states that “the informal economy does not cover illicit activities”, in particular, the provision of services or the production, sale, possession or use of goods forbidden by law, such as “the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering”.

COVID-19 has affected the informal economy disproportionately. On the one hand, in some cases, due to the fact that informality is more prevalent in sectors that require contact, such as commerce, restaurants, personal services, for example, workers and businesses in the informal economy have been more exposed to the virus that causes COVID-19, facing particular risk due to the fact that by definition they lack social protection mechanisms for example.

On the other hand, in cases where restrictions to mobility were imposed, due to the fact that the pandemic was affecting severely a particular country,

workers and economic units in the informal economy were also more affected as during confinement they could not operate as usual. For this reason, in some cases, we have even seen reductions in informality during the period of lockdown, accompanied by an increase in inactivity rates. When they do not work, informal workers typically do not declare themselves as unemployed, as for example, there are no unemployment insurance or similar benefits for them. However, there is a risk that jobs might recover, but predominately through growth and informal jobs.

The crisis is leaving important scars in groups typically overrepresented in the informal economy, such as the youth, women and the less educated. And, at the same time, the crisis is leaving significant scars in the capacities of the labour market to generate formal jobs, which will probably take more time to recover.

Thanks, Juan. From the policy perspective, you are talking about a new trend towards e-formality. What exactly does this mean? How can what you call “e-formalisation policies” help support the transition to the formal economy? Could you share with us some examples of these technologies that are working and what we can learn from them. Vicky?

Vicky: When we talk about e-formality we mean applying digital technologies to support the design and implementation of what we call “e-formalization policies”. This relates to E-government initiatives or rather the digitalization of public services that facilitate the transition to formality, directly or indirectly.

At its core, E-government aims at improving the connection between citizens and their governments and making public service delivery more effective, accessible and responsive to their needs.

It also increases participation in decision-making and makes public institutions more transparent and accountable.

We’ve identified three pathways towards formality. First, creating productive employment, second, formalizing informal workers and enterprises in their current positions, or we call it in-situ formalization, and third, preventing the

informalization of the labour market. In practice, these can be achieved through increasing productivity, improving norms or regulations, providing incentives and improving enforcement systems.

E-government helps to facilitate access to social protection, simplify regulations and procedures, increase the productivity of Micro, Small and Medium Enterprises and support labour inspection.

By way of examples, we have mobile payment services for social security contributions with “M-PESA” in Kenya; e-business, and e-tax in Estonia; digital wage payment systems in the construction sector in China. Then, there is the application of digital tools in business operations such as the “Concanaco” tablet project in Mexico. And, finally, digital labour inspector programmes in Sri Lanka.

What have been some of the lessons learned? I would summarize these as follows: that technology can have both a positive and negative impact in the world of work. For example, it can create new forms of informal employment in the gig economy. On the positive side, such as E-formality, technology can help to overcome physical barriers and be used to deliver public services from a distance. This is especially helpful in supporting those living in rural areas and who are mainly informal workers for their transition to formality and inclusion.

Thanks very much, Vicky. Sounds like we are in the early stages in the evolution to new policies. How has the pandemic impacted this process? Juan?

Juan: The pandemic has introduced a disruption – a discontinuity - in the use of new technologies and has generated innovations in many areas of policy-making including e-formality.

The digital transformations of labour markets is a process that was evolving rapidly before COVID-19 and has gained even more speed due to the pandemic. This digital transformation was happening at a very uneven pace across countries but the crisis has encouraged many countries to invest in digital

infrastructure, human capital or even in online applications in a process that seems irreversible.

In this context the digital transformation of policy-making was not happening at the same speed as the digital transformation of the labour market. But those investments that I mentioned before due to the crisis have the potential to accelerate this process. There has been progress in the use of digital payments, for example, which is a form of formalization of transactions. For example, during the lockdown processes, many governments faced with the challenge of reaching out to individuals to help them with cash transfers of some kind, made use of technologies not only for those in the formal economy, but also for those in the informal economy. In some countries, for the first time they had to use electronic records of populations typically away or even sometimes excluded from the states and technologies helped to facilitate this process more rapidly. Not in all cases were these processes used with the explicit purpose of e-formalization but in some cases, the use of the money transfers, for example, implied an acceptance of including the populations in the national registries, an important step towards formality. Of course, the response in the informal economy is far from being optimal or complete and more discussion and innovations are needed.

A feature that we have observed with some e-formality tools or applications in the past is that, it is sometimes difficult to sustain over time due to diverse challenges, for example, budget, or even changes in administration. Therefore, for transformations of this sort and magnitude in policy-making, in particular in the topic of formalization in the labour market, it is extremely important to strengthen the role of social partners and social dialogue

Juan, thank you. So, what is needed to establish effective policies for e-formality that actually lead to decent work? Vicky?

Vicky: We need to ensure that transition to formality is an integral component of the human-centred recovery from the COVID-19 crisis. Inclusion of workers

in the informal economy has to be the objective of e-formality, leading to decent work.

We also need to apply integrated strategies with the right mix of different economic and institutional policies according to national circumstances so that the potential of e-formality can be fully explored.

Lastly, no matter what kind of transformations technology may bring in the post-COVID-19 world of work, tripartite social dialogue, that is, the participation of representatives of governments, employers and workers, remains the vehicle for ensuring that the transition to formality leads to better and decent jobs. Informal economy actors know their own problems and concerns best and social dialogue provides them with a channel for their voices to be heard in policy-making for the transition to formality.

Moderator out:

Thank you, Vicky, for that interested response. The pandemic has brought many of these issues to light so they can no longer be ignored.

Given the magnitude and decent work deficits associated with the informal economy, there is an urgency to tackle these issues with an integrated approach that can bring more robust results.

I want to thank Vicky and Juan again for joining us today to highlight these issues. I'm Tom Netter, and you've been listening to the ILO podcast series Global challenges – Global solutions: COVID-19 and the Employment Policy Response. Thank you for your time.