

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

**LABOR MARKET AND SOCIAL SECURITY IMPLICATIONS OF THE PLATFORM
ECONOMY – THE CASE OF A MAJOR RIDE-HAILING APPLICATION**

(ME-T1386)

TC DOCUMENT

This document was prepared by the Project team consisting of: Oliver Azuara (SCL/LMK) Team Leader; Mariano Bosch (SCL/LMK) Alternate Team Leader; David Kaplan (SCL/LMK); Ethel Muhlstein (SCL/LMK); Lukas Keller (SCL/LMK); Tania Gaona (SCL/LMK); and Juan Carlos Perez-Segnini (LEG/SGO).

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A MAJOR RIDE-HAILING APPLICATION**

ME-T1386

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Ordinary Capital Strategic Development Program for Social Development (SOC)** through a communication dated August 10, 2018 and signed by Mariana Mendoza. Also, I certify that resources from said fund are available for up to **US\$250,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, representing a risk that will not be absorbed by the Fund.

Certified by:

Sonia M. Rivera
Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

Approved by:

Carmen Pages-Serra
Jefe de División
División de Mercados Laborales
SCL/LMK

Date

TC Document

I. Basic project data

| | |
|---|--|
| ▪ Country/Region: | ME/CID |
| ▪ TC Name: | Labor Market and Social Security Implications of the Platform Economy – The case of a major ride-hailing application |
| ▪ TC Number: | ME-T1386 |
| ▪ Team Leader/Members: | Oliver Azuara, Team Leader (SCL/LMK); Mariano Bosch (SCL/LMK), Alternate Team Leader; David Kaplan (SCL/LMK); Ethel Muhlstein (SCL/LMK); Lukas Keller (SCL/LMK); Tania Gaona (SCL/LMK); and Juan Carlos Perez-Segnini (LEG/SGO). |
| ▪ Taxonomy | Research and Dissemination (R&D) |
| ▪ Date of TC Abstract authorization: | August 10, 2018 |
| ▪ Beneficiary (countries or entities which are the recipient of the technical assistance): | Government of Mexico and other countries of Latin America and the Caribbean |
| ▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program) | Inter-American Development Bank (IDB), Social Sector, Labor Markets Division (SCL/LMK). Oliver Azuara, oliveraz@iadb.org. |
| ▪ Donors providing funding: | OC Strategic Development Program for Social Development (SOC) |
| ▪ IDB Funding Requested: | US\$250,000 |
| ▪ Local counterpart funding, if any: | 0 |
| ▪ Disbursement and execution periods | 36 months |
| ▪ Required start date: | October 2018 |
| ▪ Types of consultants (firm or individual consultants): | Individual Consultants and Consulting Firms |
| ▪ Prepared by Unit: | Labor Markets Division (SCL/LMK) |
| ▪ Unit of Disbursement Responsibility: | Labor Markets Division (SCL/LMK) |
| ▪ Included in Country Strategy (y/n); | No |
| ▪ TC included in CPD (y/n): | No |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Social inclusion and equality & strengthen institutional capacity |

II. Objective and Justification

- 2.1 The growth of the so-called online platform economy has impacted many areas of commerce and society over the past decade. Online platforms generally fall in two categories: *Labor Platforms*, which connect customers with freelancer or contingent workers who perform discrete projects or assignments, and, *Capital Platforms*, which connect customers with individuals who rent assets or sell goods peer-to-peer.¹
- 2.2 By providing relatively easy and flexible access to job markets, labor platforms have gained considerable popularity among workers in many parts of the world in recent years, including in Latin America and the Caribbean (LAC). For example, according to Farrell and Greig (2016), the percentage of U.S. adults participating in Online Labor Platforms has grown more than 10-fold between 2012 and 2015.² Although data on the magnitude of platform-mediated labor in LAC is scarce, usage statistics from individual platforms show that demand is also high and growing in the region. Two of the four biggest markets of the ride sharing platform provider Uber Technologies Inc. are Latin American countries, namely Brazil (2nd worldwide) and Mexico (4th).³
- 2.3 Epitomized by the growth of Uber and similar companies, transportation is one of the sectors that has been most heavily impacted by online labor platforms in recent years.⁴ At the same time, transportation is a key industry in many countries in Latin America and the Caribbean. In Mexico, 5% of the population work in transportation related services, 80% of them as drivers.⁵
- 2.4 Digital labor platforms, including those in the transportation sector, present challenges for labor markets and traditional social security regimes. Specifically, as they rely on a workforce of independent contractors working on their own account and without employer-facilitated insurance, observers have warned of a potential growth of informality in sectors impacted by online labor platforms. This problem is likely more acute in the context of advanced industrialized countries however, where the sectors impacted by labor platforms tend to be already highly formalized. In the context of developing economies, the effect of these platforms on informality is less clear.
- 2.5 Studies suggest that digital labor platforms can promote economic inclusion by helping workers avoid discrimination and occupational segregation. Consequently, they may serve as points of access to the labor market, especially for vulnerable population

¹ The Online Platform Economy: What is the Growth Trajectory?" (JPMorgan Chase Institute 2016).

² Farrell, Diana and Greig, Fiona, Paychecks, Paydays, and the Online Platform Economy: Big Data on Income Volatility (February 18, 2016). JPMorgan Chase & Co. Institute, February 2016.

³ Reuters: "Uber says it has invested \$500 million in Mexico since 2013". (Reuters Business News, July 18, 2018). Available at <https://www.reuters.com/article/us-mexico-uber/uber-says-it-has-invested-500-million-in-mexico-since-2013-idUSKBN1K80AJ>

⁴ For an analysis of the impact of online platforms on the personal transportation sector in the U.S. see <https://www.brookings.edu/research/tracking-the-gig-economy-new-numbers/>.

⁵ IDB. Labor Markets and Social Security Information System (SIMS). Available at <https://www.iadb.org/en/sector/social-investment/sims/home>

segments such as youth, women, and other groups at risk of exclusion from the labor force. Graham et al (2017) find that in countries in Sub-Saharan Africa and South-East Asia digital labor platforms offer economic opportunities for individuals who do not hold the educational qualifications necessary to secure traditional employment in local labor markets. A study by Hall and Krueger (2016) shows that in the U.S., women make up 14% of a large ride-hailing platform's drivers, which exceeds the percentage of taxi drivers and chauffeurs who are women in those markets by 8%.⁶

- 2.6 Especially in contexts marked by high informality, digital labor platforms may moreover provide opportunities for strengthening social protection systems. In particular, as these platforms allow for the creation of ongoing digital communication and transaction channels between platforms, workers, and, potentially, governments, they may increase the ease at which social security contributions are collected and corresponding obligations are enforced.
- 2.7 Barriers to the labor market and low social insurance coverage are persistent problems in Mexico. Although according to estimates by the IDB, the female labor participation rate in the country rose from 33% to 54% between 1992 and 2016, it remains below the overall labor market participation rate of 69.2%. Meanwhile, only 58% of young people aged 15 to 29 were employed or seeking employment in Mexico last year.⁷ With regards to social security coverage, only 30.5% of Mexican workers contributed to a pension scheme in 2016, meaning that around 16 million workers were informal.⁸ Indeed, Mexico ranks 13th out of 17 countries on the IDB's Better Jobs Index with 50.3 out of 100 points, putting it below the Latin American average of 57.1 points.⁹
- 2.8 Eliminating the barriers encountered to enter the labor market and expanding social protection coverage are pressing needs for the countries of the LAC region generally, and for Mexico specifically. Against this background, the objective of the proposed TC is to increase the knowledge of the Mexican government and policy-makers about strategies to leverage digital, on-demand labor intermediation platforms to expand access to the labor market and promote social security contributions in LAC, a region where neither of these potentials are well understood. The activities proposed under this TC will be carried out in collaboration with a ride-sharing platform provider (henceforth "the partner platform") with significant market share in LAC generally and in Mexico specifically.
- 2.9 This TC is part of an agenda that the IDB and the partner platform agreed to carry out in the context of Latin America and the Caribbean. The objective of this agenda is to

⁶ Jonathan V. Hall and Alan B. Krueger (2016): An Analysis of the Labor Market for Uber Driver-Partners in the United States. National Bureau of Economic Research Working Paper 22843.

⁷ IDB. (2018). "BIDeconomics México: Políticas para el crecimiento inclusivo y desarrollo de la economía nacional - See more at: <https://publications.iadb.org/handle/11319/9024#sthash.Yi7b0C9W.dpuf>

⁸ IDB. Labor Markets and Social Security Information System (SIMS) 2018.

⁹ See <https://mejorestrabajos.iadb.org/en/indice>

better understand the potential and current effects of digital labor platforms on labor markets and social insurance systems. The components of this TC fit within the three topics of this agenda: (i) understanding the potential of ride-hailing platform services to facilitate access to labor markets; (ii) estimating the impact of ride-hailing platforms on individual and aggregate productivity; and (iii) analyzing the consumption and savings decisions of ride-hailing platform drivers. In line with the IDB's Technical Cooperation Policy, this TC is classified as Research and Dissemination (R&D) product that serves to develop a better understanding of the aforementioned topics, with the purpose of enabling the Bank to provide better services in the region.

- 2.10 The proposed TC is aligned with the Bank's Updated Institutional Strategy (UIS) 2010-2020 (AB-3008) and its accompanying Second Revised Version of the Corporate Results Framework (CRF, GN-2727-6) as it contributes to the strategic policy objectives of (i) social inclusion and equality; and (ii) productivity and innovation; as well as to the cross-cutting objective of strengthening institutional capacity. Additionally, the TC is in line with the sectoral priorities of access to formal employment (section V, dimension 1, page 41) and access to adequate and sustainable social security systems (section V, dimension 3, page 44) of the Labor Sector Framework Document (GN-2741-7). The TC is also consistent with the objectives of the Ordinary Capital Strategic Development Programs for Social Development (GN-2819-1), in particular with its objectives iii (support IDB and clients to foster social inclusion, gender equality, and diversity through projects and programs), and iv (promote social inclusion, gender equality, and diversity in member countries). The TC is also consistent with the priority areas for Bank action in the IDB Mexico Country Strategy 2013-2018 document, specifically aligned with its priority area of productivity within section (c) related to the strategic objective of improving productive workforce integration in quality jobs.

III. **Description of activities and outputs**

- 3.1 **Component 1 – Survey of Ride-Hailing Platform Drivers in Mexico (US\$100,000):** To study the potential of ride-hailing platforms in facilitating access to the labor market in the transportation industry in Latin America, especially among vulnerable populations such as youth, women, and people with disabilities, a survey will be implemented among ride-hailing platform drivers in Mexico. The survey will be fielded in three cities that reflect broader regional socio-economic differences in Mexico. More precisely, these cities will differ in size (small, medium, and large or metropolis) and location (North, Center, and South), and will offer different outside options to potential ride-hailing platform drivers. These cities will be already captured in Mexico's national household surveys, so that the data to carefully characterize their labor markets is readily available. The results will be compared to similar studies implemented in other

countries.¹⁰ The sample will be representative of the population of active drivers of the partner platform in the three cities. The drivers of the partner platform will be interviewed in-person to maximize response rates.

- 3.2 The objective of this survey is to study the motivations and socio-economic circumstances of individuals drawn to work with ride-hailing platform providers. The survey will contain questions on the demographic characteristics of the drivers, their current employment situation, their work history, their expenses associated with driving on the platform, their motivations and future aspirations, and their financial health and inclusion. The information collected through the survey will be supplemented with administrative data provided by the platform partner.
- 3.3 This information will in turn serve to better understand the potential of digital, on-demand labor platforms to expand access to the labor market and promote social security contributions in LAC.
- 3.4 **Component 2 – Pilot to promote take up and use of protection and insurance mechanisms among ride-hailing platform drivers (US\$120,000):** Building on the experience of the partner platform with extending savings options to its drivers in select non-LAC markets, an intervention will be developed with partner platform and a relevant financial sector institution (i.e. Bank, fintech firm) in Mexico to pilot and test mechanisms to increase saving rates of self-employed workers who use digital ride-hailing platforms.
- 3.5 The component consists of two specific activities: (i) Diagnosis: To gain a better understanding of ride-hailing platform drivers' strategies for ensuring a financially secure life now and during old-age, as well as to determine their degree of financial inclusion and access, the survey implemented under component 1 will also include questions on financial inclusion and retirement savings behaviors. The diagnosis will help identify the most important barriers that ride-hailing platform drivers face in their selection of insurance and pension products. The diagnosis will expand on the lessons learnt on promoting commitment and long-term savings among independent workers generated through the IDB's Retirement Savings Laboratory; and (ii) Intervention: Once the diagnosis is performed, the team will design a pilot to promote the take up and use of insurance mechanisms among drivers of the partner platform.¹¹ This intervention will be carried out with the partner platform and a financial institution in Mexico, jointly defining new products and adapting channels for promoting savings for retirement to the needs of ride-hailing platform drivers. SCL/LMK will approach

¹⁰ Landier, Augustin, Szomoru, D. and David Thesmar (2016): Working in the On-demand Economy; An Analysis of Uber Driver-Partners in France; Rizk, Negla (2017): A Glimpse into the Sharing Economy: An Analysis of Uber Driver-Partners in Egypt; Jonathan V. Hall and Alan B. Krueger (2016): An Analysis of the Labor Market for Uber Driver-Partners in the United States. National Bureau of Economic Research Working Paper 22843.

¹¹ There are three factors commonly highlighted in the literature that may provide opportunities to facilitate take up and use of insurance products among platform workers: (1) High bank account ownership levels among platform workers; (2) Ease of communication between platform operators and drivers (and, potentially, social security authorities); and (3) Opportunities for automatizing contributions through opt-ins and recurring transactions based on platform-based income streams.

financial institutions that have shown an interest in promoting voluntary retirement savings among independent workers in Latin America and the Caribbean through collaborations with the division's "Retirement Savings Lab" as potential partners for this intervention. The final selection of the institution will be made based on an assessment of SCL/LMK of the institutions technical capacity and interest in carrying out the pilot in coordination with the IDB and the partner platform.

- 3.6 **Component 3 – Knowledge and Dissemination (US\$20,000).** The objective of this component is to disseminate the knowledge generated under Component 1 and 2 and to raise awareness and promote consensus among key stakeholders about how to leverage digital on-demand labor intermediation platforms for enhanced labor market accessibility and social protection coverage in Mexico. Such key stakeholders are policy makers in the Ministry of Labor and the Ministry of Finance in Mexico. An effort will be made to share the lessons learned from this TC across the region, especially with Ministries of Labor and Social Security Administrations. Activities to be financed under this component include allowing for knowledge exchange between experts and policy makers; travel of experts and attendees; and printing of knowledge materials.

Indicative Budget (US\$)

| Activity/Component | Description | IDB/Fund Funding (SOC) | Counterpart Funding | Total Funding |
|--|---|------------------------|---------------------|----------------|
| Component 1 – Survey of ride-hailing platform drivers in Mexico | Consulting firms | 100,000 | - | 100,000 |
| Consultancy 1: Codesign and Implement a survey of drivers of a major ride-hailing platform in Mexico and analyze and disseminate its results | Consulting Firms | 100,000 | - | 100,000 |
| Component 2 – Pilot to promote take up and use of protection and insurance mechanisms among ride-hailing platform drivers | Individual consultants or consulting firms | 120,000 | - | 120,000 |
| Consultancy 1: Support to the implementation of a long-term savings mechanism for drivers of a major ride-hailing platform in Mexico | Individual consultants or consulting firms | 120,000 | - | 120,000 |

| Activity/Component | Description | IDB/Fund Funding (SOC) | Counterpart Funding | Total Funding |
|---|-------------------------------|------------------------|---------------------|----------------|
| Component 3 – Knowledge and Dissemination | Individual consultants | 20,000 | - | 20,000 |
| Cosultancy 1: Labor Markets and Social Security knowledge and dissemination support contractual | Individual consultant | 20,000 | - | 20,000 |
| Incidentals | - | 10,000 | - | 10,000 |
| Total | | 250,000 | | 250,000 |

- 3.7 SCL/LMK will be responsible for monitoring and facilitating the activities required to reach the expected results. The TC will be monitored and evaluated according to the requirements of the Bank and through the Results Matrix. Annual reports and a final report will be prepared in Convergence, in accordance with the Technical Cooperation Monitoring and Reporting systems guidelines (OP-1385-2) of the Operations Policy Committee.

IV. Executing agency and execution structure

- 4.1 The Bank, through SCL/LMK, will execute this TC. This is justified given the regional relevance of planned activities, outputs and outcomes and the Bank's experience in generating knowledge in the area of Labor Markets and Social Security for the benefit of LAC countries. The implementation of this TC by the Bank will facilitate the exchange and application of knowledge generated by Bank specialists. SCL/LMK will be responsible for the procurement and supervision of the products included in this TC.
- 4.2 A letter from the beneficiary country for this TC is not required, given its nature as a R&D project. However, the team will inform the participant country and request its non-objection regarding this operation before TC execution starts.
- 4.3 **Procurement.** The Bank, through SCL/LMK, will contract individual consultants, consulting firms and different consulting services in accordance with current Bank procurement policies and procedures. Specifically, Section AM-650 of the Administrative Manual “Complementary Workforce” will be applied in the case of individual consultants, the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1) and its Operational Guidelines (OP-1155-4) for hiring consulting services of intellectual nature and the Corporate Procurement Policy (GN-2303-20) for logistics and other related services. The initial procurement plan provides information on the contracts foreseen and their applicable monitoring and contracting methods.

V. Project Risks and Issues

- 5.1 The main risks associated with this TC are: (i) low response rates of ride-hailing platform drivers to the survey proposed under component 1; and (ii) a lack of demand for long-term savings solutions among ride-hailing platform drivers, which would lead to a partial implementation of the activities envisioned under component 2 (diagnosis only).
- 5.2 These risks will be mitigated by the experience that SCL/LMK has acquired through the implementation of similar operations aimed at generating information about labor market dynamics in different LAC countries and in promoting long-term savings in the region. With regards to the risk of low response rates, the team will work with the partner platform to select the appropriate communication channels and potential incentives necessary to ensure sufficiently high survey response rates. As for the risk of too little demand for retirement savings options, while it is beyond the scope of this project to remedy this potential issue, the team, drawing on experiences generated in the context of SCL/LMK's "Retirement Savings Lab" will establish the necessary safeguards to adequately measure such demand. This will help to avoid that a pilot to promote voluntary retirement savings among ride-hailing platform drivers will be launched without a considerable potential for success.

VI. Environmental and Social Classification

Based on the nature of this operation, there are no expected significant negative environmental or social impacts. Based on the Environment and Safeguard Compliance Policy (OP-703), the proposed technical assistance has been classified as category C. See [Safeguard Policy Filter](#) and [Safeguard Screening Form](#).

Required Annexes:

- Letter of request (see paragraph 4.2)
- [Results Matrix](#)
- [Terms of Reference for activities/components to be procured](#)
- [Procurement Plan](#)