

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Laboratory of Digital Social Security
▪ TC Number:	RG-T4026
▪ Team Leader/Members:	Azuara Herrera, Oliver (SCL/LMK) Team Leader; Vivanco, Fermin (MIF/MSM) Alternate Team Leader; Cecilia Siccha (SCL/LMK); Gonzalez Herrera, Beatriz Maria (SCL/LMK); Mondragon Delgado, Mauricio (SCL/LMK); Natalia Almeida (LEG/SGO); Rodriguez Tapia, Catalina (SCL/LMK)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A.
▪ Date of TC Abstract authorization:	November 8, 2021.
▪ Beneficiary:	Chile, Colombia, México, Perú y Brasil
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Countries(CTY)
▪ IDB Funding Requested:	US\$360,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	12 months
▪ Required start date:	December 15, 2021
▪ Types of consultants:	Firms & Individual Consultant
▪ Prepared by Unit:	SCL/LMK-Labor Markets
▪ Unit of Disbursement Responsibility:	SCL/LMK-Labor Markets
▪ TC 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; Productivity and innovation

II. Description of the TC

- 2.1 Despite being designed to protect workers, current social security systems in LAC leave many workers disconnected and vulnerable to external shocks.** In Latin America and the Caribbean, [only half of workers save for retirement](#). Particularly disconnected are independent workers, as they are generally not required to pay contributions to social security. For instance, in Central America and the Andean region, only 30% of workers are formal. Furthermore, the institutional capacity to monitor them to comply with the payments is low. These low contributions to social security systems make these independent workers vulnerable to any shock generally covered by social insurance. They will likely face access to insufficient funds during the payout of their pensions or lack of insurance in case of a health emergency, unemployment, or crisis. Furthermore, these low contributions affect the sustainability of the social security systems, particularly pension systems which already face issues of financial sustainability.
- 2.2 COVID-19 has challenged the economic growth of the region, especially among women.** As a result of COVID-19, [31 million formal jobs were lost](#) in the region, affecting the region's economic growth. Particularly impacted were women, with surveys showing that women were [44 percent more likely than men to lose their jobs](#)

at the onset of COVID-19. This impact has forced people to search for alternatives to find additional income, sometimes in non-traditional forms, often serving as a form of unemployment insurance.

- 2.3 **Platform work has been on the rise, as it is a channel to generate income through flexible hours and without a formal employer.** Platform work, such as use of online marketplaces, ride-hailing, delivery and service apps have become a new way to generate income. In 2012, only 3 percent of full-time independent workers reported having used an online marketplace to find work or customers in the prior 12 months. [In 2021, 40% said they had](#). Furthermore, in 2019, ride-hailing and delivery app downloads in Latin America and the Caribbean reached [29 per one hundred inhabitants](#), almost four times those registered in Europe and close to twice those reported in the United States. However, these platform workers continue to be unprotected from a variety of risks ranging from economic and health emergencies, to lack of pensions savings.
- 2.4 **Social security design neglects new work modalities.** The design of social security systems is rooted in a traditional view that [links social security to formal employment status](#). This framework assumes that workers have only one employer. However, through the rise of the gig economy, this assumption is no longer valid. A post-pandemic survey conducted in 2021 of Beat drivers in Chile, Colombia, Mexico, and Peru shows that 59% of drivers use other digital platforms to generate additional income. The high levels of churn indicate that individuals use platforms as a mechanism similar to an unemployment scheme. Data also shows that a key motivation for drivers to use these platforms is generating income through flexible work: [A 2019 IDB survey](#) of Uber drivers in Brazil, Chile, Colombia, and Mexico found that the main reason they used the app was to generate income (76%) and have more flexible hours (66%). Furthermore, an IDB survey of DiDi Mexico (2021) drivers shows that 64% of drivers would not stop using DiDi if they had a full-time salaried job. In other words, these workers value this work modality.
- 2.5 **COVID-19 has further highlighted the importance of new insurance schemes that adapt to flexible work modalities.** [Our 2021 survey with Beat drivers in Chile, Colombia, Mexico, and Peru](#) shows that 48% of drivers reported that the pandemic influenced their decision to use Beat. This percentage is even higher among workers who do not have an additional job (63%). In addition, the survey results suggest that platform drivers are often disconnected from social security insurance mechanisms. Although most drivers have a pension account (68%), of those who do have a pension account, 74% have not contributed to it in the last month. In addition, 47% of drivers are affiliated with a health insurance scheme, with this number being less than half in the case of Mexico.
- 2.6 **Rethinking social security systems in LAC in the digital age.** The rise of new work modalities that are transforming the nature of work begs the question of how to adapt social security schemes to fit workers' needs. Many of these workers are [disconnected from social protection benefits like paid time off, sick leave, health insurance, and pensions](#), which could potentially help them respond to shocks, protect income, and build savings. The rise of the gig economy, paired with COVID-19 and its big push for technology adoption, forces us to rethink social security mechanisms and adapt them to the digital age.
- 2.7 **An example of a public policy debate on social security in the digital age: Chile.** Chile is an example of a country attempting to test out new social security schemes

that adapt to the digital age. A new bill is discussed in the Chilean congress. It establishes basic guarantees to gig workers without labeling them under the traditional employment category has been proposed and is under revision. The basic guarantees proposed include: (i) insurance against work accidents and occupational diseases; (ii) the payment of disability and survival insurance; (iii) the payment of civil liability insurance for damages that may be suffered and/or caused to third parties; and (iv) the payment of contributions from the unemployment insurance. This legislation represents the first step to test flexible schemes to protect independent workers. However, there is still little to no evidence on the effectiveness of these flexible insurance schemes, their take-up rate, and their usefulness in specific local contexts.

III. Objectives and Justification of the TC

- 3.1 **The objective of this TC is to test and rigorously evaluate innovative pilot programs using digital insurance mechanisms to digital platform workers in different contexts.** The rise of the gig-economy that facilitates income generation through digital platforms such as online marketplaces, ride-hailing and delivery apps, and service apps, begs the question: How to design new insurance products -linked or not to social security- that can be adapted to gig-economy workers' flexible work status, without sacrificing basic protections? Basic insurance mechanisms can include emergency savings schemes, voluntary pension savings, basic health insurance, among other options. In the long-term we hope that lessons learned will help scale up new solutions that adapt to the new work modalities that the gig economy offers and contribute to the region's policy discussion on gig work and the labor market implications.
- 3.2 **Why is the Digital Social Security Laboratory important in the current policy debate?** Regulation regarding gig platforms operations is at the center of the public discussion in the region, as seen in the case of Chile. However, a lack of data, especially in a post-pandemic context, hinders the basic understanding of regulating these digital labor modalities compared to traditional social security. Furthermore, innovative solutions that break from the conventional social security framework are needed, so we understand how to adapt these solutions to workers' realities.
- 3.3 **By providing access to new channels to increase social security protection, we help improve how current social security systems function.** For instance, by incentivizing digital platform workers who previously were not saving for retirement to voluntarily contribute to their retirement savings accounts, we are not only ensuring their future, but also addressing the issue of pension systems' sustainability. Furthermore, through surveys and analyses, we can also determine whether the existing social security systems offer plans or schemes that can adapt to their needs, and if not, how they can be redesigned and adapted to meet this populations' demands.
- 3.4 **Since 2016, the IDB's Labor Markets Division and IDB Lab have partnered to increase voluntary savings -as part of social security- for independent and low-income workers through the [Retirement Savings Laboratory \(the Lab\)](#).** IDB and IDB Lab have coordinated pilot projects based on behavioral economics and technology through close collaboration and dialogue with pension regulators in Chile, Colombia, Mexico, Peru. We can use the lessons learned of the Lab to pilot new forms of insurance, particularly among digital platform workers, particularly in a post-pandemic world. Our experience with the different countries' government authorities and regulations is an asset that can be useful for this purpose. We can generate

evidence to support recommendations for tailoring specific solutions to each country under the proposed Laboratory of Digital Social Security.

- 3.5 The intervention model will be based on transferring lessons generated by the Retirement Savings Laboratory in incentivizing take-up rate of savings mechanisms schemes, including the behavioral economics factors that lead to the adoption and use of different products. To do this, a cycle of three types of actions will be implemented in each of the five countries: (i) surveys with digital platform workers to assess need for flexible social security mechanisms; (ii) solutions to increase the use of protection mechanisms among platform workers; and (iii) dissemination of main project results.
- 3.6 This TC is consistent with the Second Bank's Institutional Strategy Update (UIS) 2020-2023 (AB-3190-2) and its accompanying Second Revised Version of the Corporate Results Framework (CRF, GN-2727-12). Thus, this TC contributes to the development challenges of: (i) social Inclusion and equality, supporting policy measures to help promote access to social security options among digital platform workers; and (ii) productivity and innovation, designing and implementing innovative social security solutions for digital platform workers that adapt to their flexible work modalities. The TC is aligned with the objectives of the Ordinary Capital Strategic Development Program for Countries (GN-2819-1) and, in particular, with its objective: (iii) expand access to intraregional experiences and advance the exchange of cooperative know-how among all borrowing member countries.
- 3.7 This TC aligns with the objectives and priority areas of the Country Strategies of the beneficiary countries. After the pandemic, many countries strategies will focus on job recovery and digitalization of social security. In the case of, Chile (GN-2946), it aligns with priority areas of stronger investment and enhanced productivity through access to finance solutions of individual and/or SMSEs and improved quality of life by adapting new work modalities in the labor markets to the new realities. In the case of Colombia (GN-2972), it aligns with economic productivity by innovating and positioning itself in the new digital economy. In Mexico (GN-2982), it aligns with supporting sustainable, equitable access to social services by offering basic social security mechanisms that adapt to new work modalities. In Peru (GN-2889), it aligns with productivity by addressing informality and new ways to approach it with the rise of the gig economy. In Brazil (GN-2973), it aligns with the crosscutting theme of linking competitiveness to the country's capacity to generate and adapt to new technologies.
- 3.8 This TC aligns with Vision 2025 - Reinvest in the Americas, our route guide to achieve a post-pandemic economic and sustainable recovery in our region. The project prioritizes the digital economy and digital transformation, one of Vision 2025's fundamental pillars, to deliver more inclusive social services and to generate actionable and cost-effective solutions.

IV. Description of activities/components and budget

- 4.1 **Component I: Identification and promotion of social security solutions among digital platform workers. US\$90,000.** This component will focus on the origination and identification of social security solutions among digital platform workers, including people who generate income in marketplaces, ride-hailing and delivery apps, and service apps in Chile, Colombia, Mexico, Peru and Brazil. This will consist of the following main activities: (i) identification and formal collaboration through NDAs with digital platform policy teams to launch pilot social security schemes; and (ii) conducting

baseline surveys to identify areas of opportunity to implement social security mechanisms for digital platform.¹

4.2 Component II: Implementation of social security initiatives among digital platform workers. US\$210,000. In the project countries, initiatives will be implemented to expand social security options, including retirement savings, emergency savings and health insurance schemes, among digital platform workers. The series of initiatives or pilots will be in response to the barriers identified through surveys and/or focus groups (Component I). The pilot solutions will be executed by consultants hired to coordinate and implement these solutions, in coordination with the digital platforms' policy teams, financial partners and, depending on the country, with social security and/or pensions authorities. As indicated in Component I, NDAs, and in some cases, MoUs will be established with digital platforms, social security government entities, or financial entities with whom the project team plans to conduct these pilots. For instance, the team plans to continue working with the Mexican National Commission on Retirement Savings (CONSAR), with whom the Bank has an MoU and is in the process of establishing an NDA. Behavioral economics and the lessons learned from the Retirement Savings Laboratory will be used as part of this component.

The main component activities are: (i) designing social security mechanisms; and (ii) implementing social security mechanisms to increase basic protection of platform workers, tailored to each country and/or platform type; and (iii) conducting impact evaluations of the pilot interventions.

4.3 Component III: Knowledge and dissemination. US\$60,000. The objective of this component is to articulate, document, and disseminate the experience and knowledge generated by the project, including lessons learned. These initiatives include innovations in products, services, and channels to offer social security mechanisms, and will take the form of: (i) a thematic study compiling the results of the studies done in Component I; (ii) blogs to disseminate case studies; and (iii) event to disseminate the project's purpose and engage a larger audience in the topic of digital social security.

Indicative Budget

Component	Description	IDB/Fund Funding	Total Funding
Component I: Identification and promotion of social security solutions among digital platform workers.	Baseline surveys conducted to identify digital platforms' social security coverage and needs	US\$90,000	US\$90,000

¹ As part of the Retirement Savings Laboratory project (RG-M1277, RG-X1247), the team has already made progress with activities planned for Component 1 through collaboration with digital platforms including Beat Latam, DiDi and DiDi Food Mexico, and Mercado Libre Mexico (with whom the IDB has NDAs), and new platforms that have reached out in recent months, including Rappi Mexico, and the main Brazilian ride-hailing and delivery platforms that reached out to the IDB through the Brazilian Association of Mobility and Technology (AMOBITEC), with whom the team plans to establish NDAs. The team also has an MoU with the Mexican National Commission of Retirement Savings (CONSAR), with whom the IDB has an MoU, and is in the process of establishing an NDA with Banca.me in Chile, as well as Billetera Móvil BIM and Compartamos Financiera in Peru. Although there is still work to be done in Component 1, this prior work has helped build the foundation for the following components and will help the team implement and launch the planned components within the project's 12-month life cycle.

Component	Description	IDB/Fund Funding	Total Funding
Component II: Implementation of social security initiatives among digital platform workers.	Pilot intervention implemented	US\$210,000	US\$210,000
Component III: Knowledge and dissemination	Preparation of thematic study, blogs to disseminate case studies, and project event.	US\$60,000	US\$60,000
TOTAL		US\$360,000	US\$360,000

- 4.4 The supervision of this TC will be carried out by Oliver Azuara, Senior Economist for the Labor Markets Division (SCL/LMK) and team leader, with technical support from the alternate team leader, Fermin Vivanco, Lead Specialist for IDB Lab. The team leader will coordinate periodic meetings with country offices in Chile, Colombia, Mexico, Peru and/or Brazil throughout the project execution, and request technical advice when appropriate. Adequate planning of transactional budgetary resources to guarantee the monitoring and fulfillment of activities and products included in this TC, will also be the team leader's responsibility.

V. Executing agency and execution structure

- 5.1 This TC will be executed by the Bank, by the Labor Markets Division, in collaboration with IDB Lab. The project team will coordinate efforts with the country offices in Chile, Colombia, Mexico, Peru and Brazil through periodic communications throughout the project execution. In certain cases, but not all, the team may involve government entities related to social security in Chile, Mexico, Colombia, Peru and Brazil.
- 5.2 The team has experience implementing pilot interventions to increase retirement savings among independent and low-income workers in Chile, Colombia, Mexico and Peru in the context of the Retirement Savings Laboratory, a project implemented by the IDB's Labor Markets Division and IDB Lab. Under that project, the team and government authorities in Chile, Colombia, Mexico and Peru have worked closely with the team for 5 years. These government entities continue to show interest in continuing these efforts through social security initiatives coordinated by the Bank. Furthermore, under that project, the IDB has worked with labor market specialists in the country offices for technical and regional inputs. This TC will attempt to keep a similar execution structure, while applying lessons learned from the previous experience to achieve project goals.
- 5.3 Execution by the IDB will include: (i) coordinating project implementation; (ii) carrying out the contracting processes for consulting services; (iii) supervise the activities to be carried out by the consulting firms and individual consultants and the implementation of the events and (iv) monitoring and evaluation of the TC's interventions and TC targets. IDB Lab and country office specialists will support with technical advice and support.
- 5.4 The activities to be executed under this operation have been included in the procurement plan (Annex IV) and will be executed according to procurement methods established by the Bank, including: (a) Hiring individual consultants, according to the norms established under AM-650; (b) Hiring consultancy firms for intellectual services according to GN-2765-4 and its associated operational guides (OP-1155-4), and (c)

Hiring logistical services and other services different to a consultancy, according to GN-2303-28.

- 5.5 As indicated in the Procurement Plan, the consulting firms under Component 1 and 3 will be hired through simplified competitive selection, justified because the cost of these consultancies is below US\$250,000.

VI. Major issues

- 6.1 The main issue related to this TC is that it must be implemented in conjunction with digital platforms in the region. Therefore, there must be willingness from these digital platforms to engage in this work, and to work quickly within the allotted timeframe. To mitigate this risk, the team has been working closely with digital platforms ahead of time to ensure their buy-in ahead of time. For instance, the team already has NDAs and action plans with Beat, DiDi, DiDi Food, and Mercado Libre. The team has also been approached by other platforms in recent months who are interested in working with the IDB to implement pilot programs, including Rappi Mexico and main ride-hailing apps in Brazil (organized through the Brazilian Association of Mobility and Transportation).
- 6.2 Another issue is working with the different countries and local regulations that may constitute a barrier to the implementation of the project. To mitigate this risk, the team will hire local consultants that understand the context and regulations of each country and are able to design and implement interventions tailored to each country.
- 6.3 In addition, a potential issue could be the current social and political situation in the region. To mitigate this risk, the team will coordinate any initiatives that involve regulators or government authorities through support from the respective IDB country offices. Furthermore, the team will keep the country offices of the five key countries (Chile, Colombia, Mexico, Peru and Brazil) in the loop regarding project execution through periodic meetings.
- 6.4 Lastly, upcoming elections in some countries could result in a change in political priorities. In cases where there is less political will, the team will either shift focus to other countries, or find creative ways to test out solutions offered by the private sector and generate evidence.

VII. Exceptions to Bank policy

- 7.1 There are no exceptions to Bank policy.

VIII. Environmental and Social Strategy

- 8.1 This TC is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with this TC; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (MPAS).
- 8.2 **Required Annexes:**

[Results Matrix - RG-T4026](#)

[Terms of Reference - RG-T4026](#)

[Procurement Plan - RG-T4026](#)