EXECUTIVE SUMMARY

This policy paper responds to global and localised calls for a new social compact. It acknowledges the central role of digital inclusion and equity in mitigating the health and economic risks associated with the COVID-19 pandemic lockdowns to limit the spread of the virus.

The pandemic highlighted the critical role of the digitalisation of public services and digital access to them for the effective participation of citizens in the economy and society, both during the pandemic and in postponed pandemic economic reconstruction.

This digitalisation and access is important if equitable outcomes are to be achieved. The research explores the interplay between the uneven but intensifying global processes of digitalisation and datafication, the State and the 'formalising' effect on the significant informal sector in developing economies. As more people and firms come online, their visibility to the State is increasing; at the same time, other firms are 'informalising' as they start up or reconstitute themselves online.

With firms being established or moving their operations online, the global landscape has been transformed into one characterised by diminished or new forms of labour, and firms operating without physical presence for taxation purposes and not subject to national law designed for the physical industrial era, nor to legal requirements to contribute to social protection for workers. Obligations for worker protection have therefore shifted to the State, which, in most Global South countries, already has a very limited resource base.

Under pandemic and lockdown conditions the paper examines the potential of these developments to enhance weak state formation; improve much needed revenue generation; extend social protection to unprotected platform workers; and provide business and social relief to firms and individuals usually not visible to the State. With this Global South pandemic lens and in the context of post-pandemic reconstruction, this policy paper also assesses the role of digitalisation in reviving and renewing democratic governance for new and more equitable social compacts that can build the resilience of developing countries to better survive the next inevitable pandemic.

Overall the research finds that in the countries covered by this study – Nigeria, South Africa, India and Sri Lanka and Peru and Columbia – governments missed the opportunity afforded by the crisis to deploy digital strategies effectively to mitigate the social and economic effects of the pandemic and lockdowns in support of more equitable social compacts.

Amongst multiple findings the research confirmed that mobile technology was the primary means to access the Internet for the majority of low-income earners in the surveyed countries. However in some countries a basic mobile phone is still the predominant type of device owned, with in some instances smartphone adoption

accounting for less than a third of the population. Given that heightened digitalisation increased the pressure to transact online, while also requiring at least partly dedicated and relatively advanced digital devices, in fact a widening of digital inequalities is observed. The invisibility of the unconnected, who are predominantly people who live in rural areas, are less educated, elderly and female, requires the most attention if digitalisation is to be leveraged in their interests. This highlights the importance from a policy perspective of addressing demand-side constraints to the access and use of the Internet, not only attending to supply-side issues such as mobile network coverage and affordable use, and creating an affordable market for smartphone devices.

While generally gender gaps have declined since 2018, the degree of decline varies significantly. An important driver for women coming online was the need to assist children with schoolwork, and it remains uncertain whether they remained online after schools re-opened. Data on gender also lack the nuances for more specific policy planning and evaluation. Even in contexts where the gender gap has been narrowed, segments of the female population may be unequally affected given that women are not a heterogeneous group.

The lack of digital skills amongst older adults and their absence from labour markets and educational institutions where these skills could be learned means that older adults often rely on their close social circles to enable them to transact online. Older adults generally have a low reliance on digital channels to obtain information and to interact with public and private services. A major barrier to them coming online is a lack of trust which is likely to increase their dependency on paper-based transactions for social safety programmes.

While governments in the Global South took steps to reduce the social and economic impact of the COVID-19 pandemic through different state support interventions, a low use of digitally enabled channels for accessing social protection schemes was observed. This was likely driven, at least in part, by Internet use being lower among groups that social protection programmes are aimed at, such as the poor, elderly, and persons with disability. When transactions were remote, low-end technology solutions such as SMS or USSD were preferred. High transaction costs, patron-client relationships, and ineffective and siloed administration poor data sources to identify beneficiaries and on levels of poverty generally were inhibitors to access programmes.

In two countries where microenterprise surveys were conducted the largely informal businesses did not benefit from state support interventions. Many were also unable to transact online, increasing their vulnerability to government isolation measures implemented at the height of the pandemic. The low levels of tax compliance and local municipality registration observed confirmed the invisibility of the informal sector to the state. While the Internet offers a plausible way both to strengthen the sector – for example through cash transfers – and to make informal businesses visible to the state for taxation planning, resources need to be allocated to equip the most vulnerable businesses in developing countries for digital substitution and financial inclusion. Efforts to reduce informality, including through digitalisation, can also have positive impacts on long-term development and poverty reduction.

While platform work has increased across most countries surveyed (the exception is South Africa), remote work was a possibility for only a few, such as those working in the ICT industries and financial and insurance services. Many who engaged in informal work activities remotely considered themselves to be unemployed because they had neither frequent customers nor contractual obligations.

Education was a key driver of Internet adoption in all countries. However, challenges included poor signal quality, high data costs, and an insufficient number of devices in households. Schools were also unprepared to deliver remote education and children struggled to maintain the necessary attention for learning. As a result an education deficit during the pandemic requires additional measures to redress.

With this Global South lens, the paper looks at reforms to the international taxation regime to tax multinational corporations (focusing particularly on the highly concentrated and super-profitable big tech corporations without presence in most developing countries). These reforms are necessary to contribute to the narrow tax bases in countries. They are particularly important to relieve the poor in many African countries from regressive social networking and mobile money use taxes that have undermined affordable universal access to broadband strategies and pushed those who had come online prior to the introduction of these taxes offline.

Based on the research findings this paper makes multiple policy recommendations to policy makers and regulators with respect to harnessing digitalisation and datafication for the new social compact :

- States must align national and global governance frameworks based on a practical articulation of the concept of digital public goods as a rationale for regulation;
- States must harmonise national and regional digital, social and economic policy through participatory, multi stakeholder processes;
- States must develop reliable and granular public data on digital inequalities, financed by a global digital solidarity fund from a 1% levy on domain name registrations;
- States should enable policy experimentation to develop alternative policies and regulatory strategies to promote access and greater use of digital services;
- States and the private sector should explore public-private mechanisms that can deliver national public digital infrastructure and that can also be coordinated on the continental level;
- States should digitalise government databases and services for more efficient delivery of public services and for better use of data for public planning and policy;
- States should leverage increased visibility of informal workers and firms for resource mobilisation, including enhance legitimate taxation, and engage in global taxation regimes to mobilise resources from big tech and other multinational corporations not contributing to local tax bases; and
- States together with private sector and civil society should improve the readiness of educational institutions for remote learning, harness digitalisation and datafication for social protection, and update labour policies for existing and emerging forms of labour.