



To cite this article: Madhuri Motewar (2026). ECONOMIC IMPLICATIONS OF THE GIG ECONOMY IN DEVELOPING COUNTRIES, International Journal of Research in Commerce and Management Studies (IJRCMS) 8 (1): 12-23 Article No. 02 Sub Id 02

ECONOMIC IMPLICATIONS OF THE GIG ECONOMY IN DEVELOPING COUNTRIES

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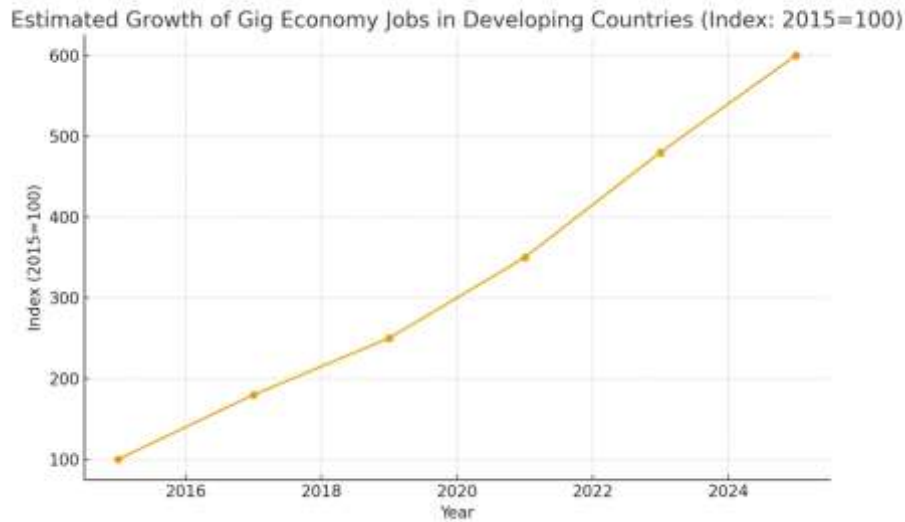
Mobile No.: 9028042409

<https://doi.org/10.38193/IJRCMS.2026.SP8102>

ABSTRACT

The rapid expansion of digital platforms and on-demand services has reshaped labour markets worldwide. In developing countries, the gig economy — encompassing platform-mediated ride-hailing, delivery, freelancing, micro tasks and other forms of independent work — is growing faster than in advanced economies, offering new income opportunities for youth, women, and remote communities, while also raising concerns about precariousness, social protection gaps, taxation, and regulatory challenges. This paper provides a comprehensive, literature-based analysis of the economic implications of the gig economy in developing countries. It synthesizes recent empirical findings and institutional reports, discusses channels through which gig work affects employment, income distribution, productivity, and public revenues, examines gender and regional dimensions, presents short case vignettes, and proposes policy recommendations to maximize gains while mitigating risks. Key recommendations include creating portable social protections, improving digital skills and platform data access, modernizing labour laws and taxation frameworks, and fostering local platform competition to retain value domestically. ([World Bank][1])

KEYWORDS: Gig Economy, Digital Labour Platforms, Employment in Developing Countries, Social Protection and Labour Regulation, Platform-Based Work and Income Distribution



INTRODUCTION

Over the last decade digital labour platforms have enabled millions of workers to connect to customers and tasks across cities and borders. In developing countries, access to mobile internet and payment systems has allowed platform-based work to expand rapidly into previously underserved labour pools — rural workers, informal sector participants, women balancing family responsibilities, and younger jobseekers. Recent global analyses estimate that online gig work represents a meaningful share of global labour, and demand for online gig workers has been rising particularly fast in developing countries. These trends promise inclusive income opportunities but also expose structural gaps in labour protections, benefits, and taxation systems that were designed for formal, salaried employment. ([World Bank][1])

This paper addresses the following research question: ****What are the principal economic implications of the gig economy for developing countries, and what policy responses can amplify benefits while containing risks?*** To answer this, I synthesize policy reports, empirical papers, and institutional analyses (World Bank, ILO, UNDP, McKinsey, recent peer-reviewed studies) to identify channels of impact, weigh evidence, and recommend actionable policies.

METHODOLOGY AND SCOPE

This is a desk-based research paper relying on secondary sources: institutional reports (World Bank, ILO, UNDP), major research institution studies (McKinsey Global Institute), peer-reviewed journal articles, government and think-tank analyses, and representative case studies from countries with large gig work participation (India, Kenya, Philippines, Nigeria, Latin American nations). The approach is qualitative and comparative: I extract recurring findings, contrast differing results where they exist, and construct policy recommendations grounded in best practice and emerging evidence. The paper



does not present original survey or administrative data analysis, but integrates recent empirical results from the literature up to 2025. ([World Bank][1])

Limitations: the heterogeneous nature of gig work (online freelancing vs. app-based local services) and data gaps across countries complicate generalization. Where possible, I distinguish online cross-border gig work (platform freelancing, micro tasking) from local app-based services (ride-hailing, delivery), because economic implications and policy responses often differ.

3. Defining the Gig Economy and Its Forms

“Gig economy” is an umbrella term for labour arrangements mediated by digital platforms where workers undertake discrete tasks or assignments, often with flexible hours and no long-term employer relationship. Key forms:

Local on-demand app work: ride-hailing, food & grocery delivery, parcel delivery, courier, local services (cleaning, handyman). These are geographically tied and rely on real-time matching.

Online freelancing and micro tasking: platform-based remote tasks such as web development, graphic design, writing, data labeling, translation, and microtasks (e.g., content moderation, transcription). These can be cross-border.

Offline gig and casual work mediated by platforms: ** marketplace-style matching for short-term local contracts (e.g., events staffing, day labour).

Hybrid arrangements: workers mixing platform gigs with traditional jobs or informal activities.

Different forms vary in capital intensity, skill requirements, barrier to entry, and regulatory treatment — which means their economic implications are not uniform. For example, online freelancing can generate foreign exchange earnings for developing countries, while local app work reduces urban transport inefficiencies and creates flexible job options. ([McKinsey & Company][2])

4. LITERATURE REVIEW — What Evidence Tells Us

4.1 Scale and Growth

Multiple institutional sources indicate rapid growth of online and platform-mediated gig work in developing countries. The World Bank (2023) estimated that online gig work accounts for a non-trivial and fast-growing portion of labour demand, with job postings and platform activity expanding faster in developing regions than in high-income countries. Platform penetration has been supported by rising smart phone adoption, mobile broadband, and digital payment solutions. ([World Bank][1])



4.2 Who Participates?

Gig work reaches groups underrepresented in formal labour markets: youth seeking entry jobs, women constrained by mobility and caregiving tasks, and residents of remote areas who can access online tasks. However, the composition varies by task: online freelancing tends to require higher digital skills and language competence, while ride-hailing and delivery attract lower-skilled entrants. Some studies report that many workers join platforms out of necessity rather than preference, which affects satisfaction and bargaining power. ([McKinsey & Company][2])

4.3 Income Effects and Precarity

The evidence on income gains is mixed. Platform work can provide new income streams and smoothing for households, but earnings are often variable and, for many, insufficient relative to full-time formal wages. Several reports find that a significant share of online gig workers report insufficient work or low task availability, while others manage to scale into substantial incomes. Precarity arises from low job security, lack of benefits (health, pensions), and opaque algorithmic governance of tasks and ratings. ([World Bank][1])

4.4 Productivity, Entrepreneurship, and Skills

Platforms can increase allocative efficiency by matching supply and demand more effectively and reducing transaction costs. For skilled freelance work, platforms can act as marketplaces that connect global demand to local supply, potentially increasing productivity and supporting entrepreneurship. However, concerns exist that platforms exacerbate a “race to the bottom” in pricing for certain tasks and limit skill accumulation when work is highly fragmented. ([McKinsey & Company][2])

4.5 Macroeconomic and Fiscal Implications

At the macro level, gig work can affect labor force participation, unemployment statistics, and GDP measurement (work outside formal payrolls may be missed or misclassified). For some developing countries, online gig platforms are a potential source of foreign exchange and export earnings (cross-border freelancing). Taxing platform income and enforcing compliance pose challenges; many workers report not paying income taxes due to informality or lack of clarity. Platforms themselves often operate cross-jurisdictionally, complicating tax collection. ([Open Knowledge Repository][3])

4.6 Gender and Inclusion

Evidence shows the gig economy can be pro-inclusion when digital access and relevant skills exist: women may use online freelance platforms to work from home, balancing care responsibilities. Yet platform work can also reproduce gender gaps (women receiving lower pay, being steered to lower-paid segments) and is constrained by limited access to digital infrastructure and payment systems in

some regions. ([World Bank Blogs][4])

4.7 Regulatory and Welfare Concerns

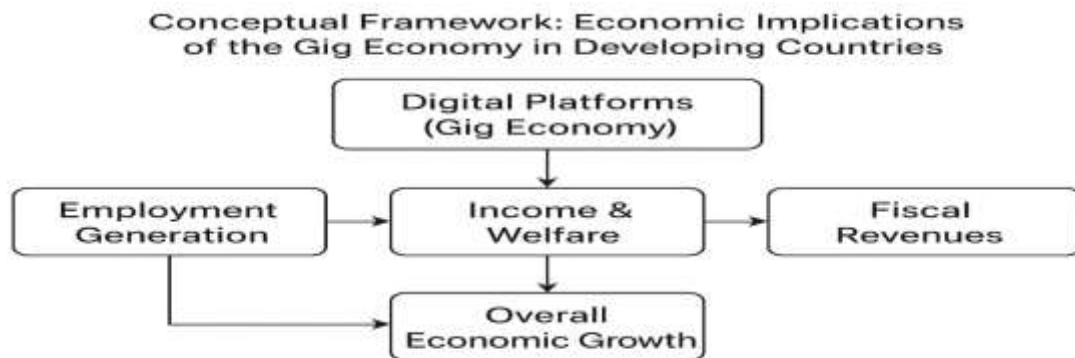
Research highlights gaps in labour protections: social insurance, minimum wages, occupational safety, and dispute resolution are often lacking. Algorithmic management raises concerns about fairness and surveillance. There is an active policy debate on whether gig workers should be classified as employees (with protections) or independent contractors (with flexibility but limited rights), and whether new hybrid or portable protection models are preferable. ([International Labour Organization][5])

5. Channels of Economic Impact — An Analytical Framework

To structure the analysis, consider five primary channels through which the gig economy affects developing economies:

1. Income generation and household welfare - Platform earnings supplement livelihoods, allow income smoothing, and can provide emergency earnings in shocks.
2. Labour market structure and employment composition - Gig work affects unemployment, underemployment, labour force participation, and shifts between formal and informal work.
3. Productivity and firm dynamics - Platforms can improve matching efficiency, reduce search costs, and enable micro-entrepreneurship.
4. Fiscal and institutional effects - Taxation, social contributions, and administrative classification change public revenues and the design of social protection.
5. Distributional and inclusion effects - Impacts on women, youth, low-income groups, and regions, including potential to reduce spatial disparities.

Each channel produces both positive and negative outcomes depending on local context, platform business models, and policy frameworks.





6. FINDINGS AND DISCUSSION

6.1 Income Generations, Poverty Alleviation and Household Resilience

Positive effects - For many households, gig work offers rapid, low-barrier income sources: food-delivery riders, ride-hailing drivers, and online freelancers report immediate earnings that help cover consumption or finance small businesses. The World Bank notes that gig work has provided important opportunities particularly for women and youth in developing countries, enabling participation that was previously constrained by geographic or social barriers. ([World Bank][1])

Limits and variability - However, earnings volatility and the absence of guaranteed hours mean that for many workers, gig income is unreliable and may not replace stable formal employment. Empirical surveys reveal that a sizable fraction of online gig workers in developing countries struggle to secure enough tasks or face downward pressure on prices from intense competition. This suggests that while gig work can reduce income shortfalls, it is not a panacea for structural unemployment or chronic poverty. ([UNDP][6])

Policy implication - Policies that improve access to multiple platforms, reduce transaction fees, and provide income-smoothing instruments (micro-insurance, savings mobilization) can increase the poverty-reducing potential of gig work.

6.2 Labour Markets, Formalization and Job Quality

Shifts in employment composition - Platform work can increase measured labour force participation but also complicate labour market statistics. In contexts with large informal sectors, gig work segments may either absorb informal workers or displace them from other informal income sources. Some studies even find negative associations between gig expansion and traditional employment in specific contexts, reflecting substitution effects. ([Nature][7])

Job quality concerns - The absence of employment benefits (healthcare, paid leave, pensions) and weak bargaining power are central concerns. Algorithmic management and rating systems can impose strict performance metrics without due process, raising risks of unfair deactivation and earnings loss. The policy debate therefore revolves around balancing flexibility and protection. ([International Labour Organization][5])

Policy implication - Hybrid regulatory approaches — e.g., portable benefits, social insurance credits for independent workers, sectoral minimum standards — can preserve flexibility while raising baseline job quality.



6.3 Productivity, Matching Efficiency and Entrepreneurship

Matching and efficiency gains - Platforms reduce search and matching frictions, enabling underemployed workers to find tasks more readily. For skilled tasks, platforms can connect global clients to local talent, raising productivity and export potential. McKinsey and others have documented significant welfare gains from improved matching in many markets. ([McKinsey & Company][2])

Risks to skill development - Where tasks are low-skill and highly fragmented, workers may remain in low-value activities, limiting skill accumulation. Platforms that offer upskilling, certification, or repeat client relationships can mitigate this risk and create ladders to higher-value work. ([ScienceDirect][8])

Policy implication - Public-private upskilling programs and recognition of platform-based experience in qualifications frameworks would strengthen productivity effects.

6.4 Fiscal Effects and Taxation

Tax base changes - Gig work changes the tax base by shifting earnings outside formal payroll channels. Many gig workers do not register for tax or lack clarity on compliance, and platforms may not be required to withhold or report in ways compatible with national tax systems. This results in challenges for revenue mobilization in countries where tax administration capacity is limited. ([Open Knowledge Repository][3])

Opportunities - Conversely, cross-border online freelancing creates exportable services that can be a source of foreign exchange if properly captured (through formal bank channels and transparent reporting). Ensuring appropriate reporting by large platforms, and creating simplified tax regimes for small gig incomes, can help raise revenues without overburdening micro-entrepreneurs.

Policy implication - Introduce simplified tax registration and compliance mechanisms (low-threshold presumptive taxes or progressive schedules), require platform reporting where feasible, and invest in digital tax administration.

6.5 Inclusion, Gender and Regional Development

Inclusion gains - Gig platforms have demonstrably improved labour opportunities for underemployed segments in some countries — enabling women and remote workers to participate. The World Bank highlighted the promise of online gig work to expand income opportunities for women in regions with constrained labour markets. ([World Bank][1])

Persistent gaps - Digital divides (access to broadband, device ownership, payment systems) and sociocultural barriers mean that inclusion is incomplete. Women may gravitate to lower-paid niches, and rural workers may lack the connectivity or skills for higher-value online freelancing. ([World



Bank Blogs][4])

Policy implication - Policies to expand digital infrastructure, affordable devices, and targeted training for women and rural youth are critical complements to platform growth.

6.6 Platforms, Competition and Local Value Capture

Concentration and value capture - Many dominant global platforms capture significant value (commissions, data rents), while local economies receive limited spillovers beyond driver wages and small business income. Encouraging local platform development and competition can improve value retention in the domestic economy. ([NITI Aayog][9])

Policy implication - Support local platform startups, ensure fair competition policies, and consider rules on revenue sharing or local partnerships that encourage domestic reinvestment.

7. Country Vignettes (selected examples)

7.1 India — large and heterogeneous gig ecosystem

India presents a broad ecosystem: ride-hailing and delivery services employing millions; a large pool of online freelancers providing software and creative services; and many localized gig marketplaces. Government and industry reports note rapid growth but flag regulatory issues around worker classification, social protection, and taxation. India's domestic platforms and digital payments ecosystem have enabled greater value capture compared to many countries, but gaps remain in portable benefits and long-term worker welfare. ([NITI Aayog][9])

7.2 Kenya — innovation, mobile money and regional hub potential

Kenya's M-Pesa and vibrant tech ecosystem have enabled both local platform services and online freelancing. Ride-hailing and delivery platforms have created jobs in urban centres; online freelancing offers export revenues for digitally skilled workers. However, earnings volatility and social protection gaps persist. Policy debates focus on taxation and how to harness mobile money for social contributions. ([World Bank][1])

7.3 Philippines — digital freelancing as export service

The Philippines has a strong presence in online freelancing (call centre work, creative and technical freelancing) and benefits from English proficiency. Cross-border freelancing contributes to foreign exchange. Policies that support skill upgrading, payment facilitation and tax compliance can improve outcomes. ([World Bank][1])

8. Policy Responses — Design Principles and Interventions

8.1 Overarching principles

1. Preserve flexibility while securing basic protections - Avoid binary choices (full employee vs. pure



- contractor). Use portable, rights-based protections that travel with workers.
2. Promote digital inclusion and skills - Technical training, language support, and certifications improve workers' upward mobility.
 3. Modernize fiscal instruments and enforcement - Simplified tax regimes, platform reporting obligations, and digital administration lower compliance costs and increase revenue.
 4. Encourage competition and local value capture - Support local platforms and ensure antitrust/competition frameworks apply in platform markets.
 5. Data openness and platform transparency - Platforms should provide anonymized data to researchers and regulators to inform policy, while protecting privacy.

8.2 Specific policy options

Portable benefits and social insurance credits - Design benefit systems where workers accrue social protection entitlements proportionally to hours or earnings across platforms (e.g., account credits for health or pensions). These can be financed by small levies on transactions shared between platforms and workers or subsidized initially by government. ([International Labour Organization][5])

Simplified taxation - Implement presumptive tax regimes or progressive micro-enterprise taxes for small-scale gig incomes, with mobile-first registration and automatic reporting where platforms can provide transaction summaries. This lowers compliance costs and broadens the tax base. ([Open Knowledge Repository][3])

Regulation of algorithmic management - Require platforms to publish clear rules for ratings, deactivation, and dispute resolution, with independent appeals processes. Consider minimum transparency standards for algorithmic decision-making that affects earnings and account status. ([International Labour Organization][5])

Skills and upskilling programs - Public-private partnerships to certify platform-relevant skills (digital literacy, customer service, and specialized tech skills) increase the share of workers who can earn higher incomes. Platforms can be incentivized to finance training (e.g., tax credits). ([McKinsey & Company][2])

Platform accountability and local partnerships - Encourage platforms to form partnerships with local firms (training providers, banks, insurers) and require local compliance with labour and tax laws through registration or representative entities. This increases local economic spillovers. ([NITI Aayog][9])

Data sharing for evidence-based policy - Mandate aggregated, anonymized data sharing with research



bodies to permit better measurement of platform impacts and policy design while protecting worker privacy. ([UNDP][6])

9. Evaluation of Trade-Offs and Implementation Challenges

Implementing reforms entails trade-offs. Portable benefits require establishing financing and governance mechanisms; taxing gig incomes risks discouraging work if poorly designed; classifying workers as employees may reduce flexibility and lead platforms to withdraw or reduce coverage. Administrative capacity constraints in many developing countries complicate enforcement. Hence policies should be phased, evaluated, and adapted — pilot programs, stakeholder consultations (platforms, workers, civil society), and independent monitoring are essential.

Moreover, heterogeneity across developing countries calls for context-specific solutions: countries with strong domestic platforms may focus on local value retention, while those with primarily cross-border online freelancers may prioritize payment infrastructure and foreign exchange facilitation.

10. RECOMMENDATIONS

Policymakers in developing countries should prioritize the following, in approximate order of urgency and feasibility:

1. Introduce portable social protection pilots - Start with limited programs (health vouchers, pension credits) financed by small transaction levies and scaled on evidence.
2. Create simplified tax registration and compliance systems for gig workers - Use mobile-based interfaces and allow platforms to provide periodic transaction summaries to assist workers.
3. Mandate transparency and fair processes for algorithmic deactivation and ratings - Implement regulatory guidelines requiring appeals and reasoned decisions.
4. Invest in digital infrastructure and targeted upskilling for women and rural workers - Focused grants and partnerships with platforms can accelerate inclusion.
5. Require anonymized data sharing for research and policymaking - Use data to monitor labour market shifts and evaluate policies.
6. Support local platform development and competition policies - Facilitate financing and incubation for domestic platforms to retain value locally.
7. Coordinate regionally where platforms are cross-border - Harmonize reporting and taxation rules to reduce arbitrage and improve enforcement.

These recommendations balance immediate worker protections with long-term economic development goals.



11. CONCLUSION

The gig economy is reshaping labour markets in developing countries, bringing real opportunities for income generation, inclusion, and productivity gains, but also exposing workers and public systems to new risks. Evidence through 2025 shows rapid growth, especially in online gig work, and clear benefits for youth and women where digital access exists. However, earnings volatility, lack of social protections, taxation challenges, and concentration among large global platforms present substantial policy challenges. Balanced, data-informed policy responses — portable protections, simplified taxation, digital inclusion, platform transparency, and support for local platforms — can help capture the upside while reducing harm. Policymakers must move deliberately, piloting interventions and adjusting them based on real-time evidence to ensure that gig work contributes to equitable and sustainable economic development. ([World Bank][1])

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