International Journal of Science, Strategic Management and Technology
Volume **02** Issue **05** May-**2026** | ISSN: **3108-1762 (Online)** | Impact Factor: 3.8
An International, Peer-Reviewed, Open Access Scholarly Journal Indexed in recognized academic databases

Challenges and Opportunities in Digitizing Informal Workforce

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https://doi.org/10.55041/ijsmt.v2i5.168

Cite this Article: Singh, A. (2026). Challenges and Opportunities in Digitizing Informal Workforce. International Journal of Science, Strategic Management and Technology, *02*(05). https://doi.org/10.55041/ijsmt.v2i5.168

Abstract- The informal workforce constitutes a significant portion of the global labor market, particularly in developing economies, where workers often lack access to formal contracts, social security, and digital infrastructure. In recent years, the push toward digitization has opened new avenues for improving transparency, accessibility, and service delivery for this segment. However, the transition is not without its challenges. This paper examines the key barriers to digitizing the informal workforce, including limited digital literacy, inadequate technological infrastructure, data privacy concerns, and resistance to adoption. At the same time, it highlights emerging opportunities such as mobile-based platforms, digital identity systems, financial inclusion through digital payments, and government-led initiatives. By synthesizing existing studies and identifying critical gaps, the paper proposes a conceptual perspective on how digital systems can be designed to better serve informal workers. The study aims to provide insights for researchers, policymakers, and system designers working toward inclusive and scalable digital solutions.

I. INTRODUCTION

The informal workforce represents a large and essential segment of the global economy, particularly in developing countries where formal employment opportunities remain limited. It includes daily wage earners, street vendors, construction workers, domestic helpers, and small-scale service providers who operate outside regulated labor systems. These workers often rely on irregular income sources and lack formal contracts, social security benefits, and legal protection.

In countries like India, the informal sector contributes significantly to employment generation, supporting livelihoods for a substantial portion of the population. Despite its scale and importance, this workforce remains largely unorganized and underserved, with limited access to institutional support and modern technological systems. The absence of structured records and standardized processes makes it difficult to track, support, and integrate these workers into broader economic frameworks.

As economies continue to evolve with rapid technological advancements, the informal workforce stands at a critical point where inclusion in digital systems can influence both individual livelihoods and overall economic growth.

The growing reliance on technology across economic sectors has highlighted the need to bring the informal workforce into the digital ecosystem. Unlike formal sectors that benefit from structured systems and digital tools, informal workers often remain disconnected from platforms that could improve their access to jobs, financial services, and social welfare schemes. This gap not only limits their earning potential but also reduces their visibility within the broader economy.

Digitization can address several of these limitations by enabling better record-keeping, streamlined communication, and direct access to opportunities. For instance, digital platforms can help workers connect with employers more efficiently, while digital payment systems can ensure timely and transparent transactions. Similarly, integration with government databases can make it easier for workers to access benefits and support programs without complex procedures.

In addition, digital inclusion can contribute to increased accountability and trust within the system. When workers are registered and their activities are documented, it becomes easier to design targeted policies and improve service delivery. Therefore, digitization is not only a technological shift but also a necessary step toward improving the overall stability and inclusiveness of the informal workforce.

Problem Statement

Despite the significant size and economic contribution of the informal workforce, it continues to operate with minimal technological support and institutional integration. Most workers in this sector lack access to reliable digital platforms, standardized identification systems, and secure financial channels. As a result, their employment remains irregular, untracked, and vulnerable to exploitation.

Existing efforts toward digitization are often fragmented and fail to address the diverse needs of informal workers. Issues such as low digital literacy, limited internet access, and lack of trust in digital systems further slow down adoption. In many cases, available solutions are not designed with the end user in mind, making them difficult to use and inaccessible to a large portion of the target population.

This situation creates a gap between the potential benefits of digitization and its actual impact on informal workers. Addressing this gap requires a clearer understanding of the challenges involved, along with a structured approach to designing inclusive and practical digital solutions.

Objectives of the Paper

This paper aims to examine the process of digitizing the informal workforce by identifying both the existing challenges and the potential opportunities associated with it. The study seeks to provide a structured understanding of the barriers that limit digital adoption among informal workers, including technological, social, and economic factors.

Another objective is to analyze how digital tools and platforms can improve access to employment, financial services, and government support systems. By reviewing current approaches and practices, the paper highlights areas where improvements are needed and where digital solutions can be more effectively applied.

In addition, the paper proposes a conceptual perspective to better integrate informal workers into the digital ecosystem. The goal is to offer insights that can support the development of simple, accessible, and scalable systems that address the real needs of this workforce.

II. RELATED WORK

The issue of informal workforce and its associated challenges has been widely discussed in existing literature, with a primary focus on employment conditions, social security, and regulatory gaps. Several studies have attempted to highlight the structural limitations of the unorganized sector and the need for systematic improvements.

In paper [1], the authors present a comparative study between organized and unorganized workers, emphasizing the disparities in working conditions and access to labor rights. The study highlights that a large proportion of the workforce operates in the unorganized sector, where workers are engaged in casual and scattered employment without formal contracts. It identifies key issues such as lack of social security, absence of compensation mechanisms, job insecurity, low wages, and limited bargaining power. The paper also discusses how existing labor laws and welfare schemes are largely inaccessible to informal workers due to structural and eligibility constraints. Furthermore, it draws attention to poor working conditions, extended working hours, and the absence of trade unions, which collectively contribute to

worker exploitation. The authors conclude by stressing the need for effective implementation of welfare policies and improved institutional support for unorganized labor.

In paper [2], the author examines the relationship between the digital divide and livelihood opportunities for informal workers in urban India. The study emphasizes that while digital technologies are expanding rapidly, their benefits are unevenly distributed, leaving a large section of informal workers excluded. It highlights that limited access to digital devices, poor internet connectivity, and lack of digital skills create barriers that prevent workers from participating in the digital economy. The paper also discusses how this exclusion is closely linked with broader social and economic inequalities.

Further, the study explores how digital participation can improve livelihood opportunities when access and skills are available. It points out that a small proportion of informal workers who are able to use digital tools—such as mobile platforms and online networks—can enhance their income and work opportunities. The role of digital literacy and skill development is identified as a key factor in enabling this transition. Additionally, the paper discusses the potential of Information and Communication Technologies (ICTs) in supporting micro-entrepreneurship and improving productivity.

In paper [3], the authors examine the structure, contribution, and challenges of the unorganised labour sector in India, with a focus on both its economic importance and the issues faced by workers. The study highlights that a large majority of the workforce is employed in the informal sector across agriculture, construction, manufacturing, and services, making it a key contributor to employment and national income. Despite its significance, the sector is characterized by weak regulation, informal employment relationships, and limited institutional support.

The paper identifies several major problems faced by unorganised workers, including job insecurity, low wages, long working hours, and lack of social security measures. It also discusses occupational hazards, poor working conditions, and the absence of proper health and safety mechanisms. Additionally, the study points out issues such as poverty, indebtedness, and low bargaining power, which further increase worker vulnerability. Special attention is given to vulnerable groups like migrant workers, women, and child labour, who face higher levels of exploitation.

In paper [4], the author presents a comprehensive analysis of the role of unorganised workers in India, emphasizing their importance as the backbone of the country's labour force. The study highlights that a large majority of workers are employed in the informal sector and contribute significantly to key industries such as agriculture, construction, and small-scale enterprises. It points out that this sector plays a crucial role not only in employment generation but also in supporting economic stability, especially during periods of crisis.

The paper further examines the major challenges faced by these workers, including low wages, lack of job security, poor working conditions, and limited access to social security benefits. It also discusses issues such as gender inequality, absence of worker representation, and vulnerability to economic shocks, particularly during events like the COVID-19 pandemic. The analysis, supported by data (as shown in the table on page 3), highlights gaps in areas such as social security coverage, literacy levels, and wage disparities.

In paper [5], the authors explore the process of introducing digital platforms in the informal sector through a case study of the Kormo application, which was designed as a job-matching platform for day labourers. The study focuses on how digital solutions can improve access to employment opportunities for workers who typically rely on informal and unstructured job markets. It explains that digital platforms can reduce inefficiencies by connecting workers and employers more directly, improving transparency in wages, and allowing workers to build digital profiles that reflect their skills and experience.

The paper also highlights several challenges faced during the implementation of such digital systems. One of the key issues identified is the low level of digital literacy among informal workers, which made it difficult for them to adopt mobile-based platforms. As illustrated in the workflow diagram on page 3 and 4, the platform initially aimed for an automated job-matching process, but due to practical difficulties, it had to rely on a call-based intermediary system instead. This increased operational

complexity and reduced scalability. The study further discusses issues related to trust, payment security, and resistance to change, all of which affected the effectiveness of the platform.

III. DIGITIZATION OF INFORMAL WORKFORCE

Digitization of the informal workforce refers to the use of digital technologies to organize, record, and manage work-related activities that are traditionally carried out without formal systems. It involves integrating tools such as mobile applications, digital identity systems, online job platforms, and digital payment methods to bring more structure and visibility to informal employment.

The scope of digitization in this context is broad and extends across multiple areas. It includes creating digital profiles for workers, enabling access to job opportunities through online platforms, facilitating secure and transparent payments, and linking workers to government welfare schemes. In addition, digitization can support skill development, improve communication between workers and employers, and provide data that can be used for better policy planning.

Overall, digitization is not limited to technology adoption alone but also includes improving accessibility, usability, and inclusion so that informal workers can effectively participate in the digital economy.

Key Components of Digitization

Digitization of the informal workforce is supported by a few essential components that help bring structure and accessibility to an otherwise unorganized system.

1. Digital Identity:

Digital identity plays a foundational role by providing workers with a verifiable record of their existence, skills, and work history. It allows informal workers to be recognized within formal systems without requiring traditional documentation. With a digital identity, workers can register on platforms, access government schemes, and build a trackable employment profile over time.

2. Job Platforms:

Digital job platforms act as intermediaries that connect workers with employers. These platforms simplify the process of finding work by listing available jobs and matching them with suitable candidates based on skills and location. They reduce dependency on middlemen and help improve transparency in hiring and wage determination.

3. Digital Payments:

Digital payment systems enable secure and direct financial transactions between employers and workers. Instead of cash-based payments, workers can receive wages through mobile wallets or banking systems, ensuring timely payments and reducing the risk of exploitation. It also helps in maintaining financial records, which can support access to credit and financial services.

Working of Current Systems

In current digital systems, these components often function in an integrated manner. A worker typically registers on a digital platform using a basic identity, after which a profile is created that includes personal details and skills. Employers can then post job requirements on the platform, and workers receive notifications or can apply directly based on their suitability.Once a job is completed, payments are processed digitally, ensuring transparency and accountability. In some systems, workers also receive ratings or feedback, which further strengthens their profile and improves future job prospects. While these systems are still evolving, they demonstrate how technology can gradually bring organization and efficiency to the informal workforce.

IV. CHALLENGES AND OPPORTUNITIES

Challenges

Despite the potential benefits of digitization, several challenges limit its effective adoption within the informal workforce.

1. Digital Literacy Issues:

A large portion of informal workers have limited exposure to digital technologies, making it difficult for them to use mobile applications, online platforms, or digital payment

systems. Lack of basic skills such as navigating apps or understanding digital interfaces often leads to hesitation and errors, reducing the overall effectiveness of digital solutions.

2. Infrastructure Gaps:

Access to reliable internet connectivity, smartphones, and electricity remains uneven, especially in rural and low-income areas. Many workers either do not own suitable devices or face frequent connectivity issues, which restricts their ability to consistently use digital platforms. These infrastructural limitations create a barrier to large-scale adoption.

3. Trust and Adoption Barriers:

Informal workers often rely on traditional methods of finding work, such as personal networks or local contractors. Shifting to digital systems requires a level of trust that is not easily built. Concerns about payment reliability, unfamiliar processes, and fear of exploitation through technology can discourage workers from adopting digital platforms.

4. Privacy and Security Concerns:

Digitization involves the collection and storage of personal and financial data, which raises concerns about data misuse and security breaches. Informal workers may be hesitant to share personal information due to fear of fraud or lack of awareness about data protection. Weak security practices in some systems can further increase these risks.

Opportunities

While there are clear challenges, digitization also creates several meaningful opportunities for improving the conditions of the informal workforce.

1. Financial Inclusion:

Digital systems make it easier for workers to access basic financial services such as bank accounts, savings tools, and credit facilities. With digital payment records,

workers can build a financial history, which can help them access loans or other forms of financial support. This reduces dependence on cash-based transactions and informal lending practices.

2. Better Job Accessibility:

Digital platforms expand the reach of job opportunities beyond local networks. Workers can find employment based on their skills rather than personal connections, which increases fairness in the hiring process. It also allows workers to explore multiple opportunities at once, improving their chances of consistent income.

3. Government Schemes:

Digitization helps bridge the gap between informal workers and government welfare programs. Through digital registration and identification systems, workers can be directly linked to schemes related to healthcare, insurance, and financial assistance. This reduces delays and makes the delivery of benefits more transparent and efficient.

4. Mobile and AI-Based Platforms:

The increasing use of smartphones has made mobile-based solutions more practical and accessible. Applications designed for simple use can help workers register, search for jobs, and receive payments with minimal effort. In addition, AI-based systems can assist in matching workers with suitable jobs, analyzing demand patterns, and improving overall efficiency. These technologies, when designed carefully, can make digital platforms more responsive to the needs of informal workers.

V. PROPOSED SYSTEM

This section presents a conceptual model designed to improve the process of digitizing the informal workforce by addressing the challenges discussed earlier. The proposed system focuses on simplicity, accessibility, and trust, ensuring that it can be adopted easily by workers with limited digital exposure.

System Overview

The proposed model is built around a centralized digital platform that connects four key stakeholders: workers, employers, service providers (such as banks or training agencies), and government bodies. The system acts as an integrated environment where workers can register, find jobs, receive payments, and access welfare schemes through a single interface.The core idea is to reduce fragmentation by bringing multiple services into one platform, making it easier for workers to interact with the system without needing advanced technical knowledge.

Architecture of the Proposed System

The system can be viewed as a layered structure:

1. User Layer:

Includes informal workers and employers who interact with the platform through mobile applications or simple interfaces.

2. Application Layer:

Handles job matching, profile management, payment processing, and communication between users.

3. Service Layer:

Integrates external services such as digital payment gateways, identity verification systems, and government databases.

4. Data Layer:

Stores worker profiles, job records, transaction history, and feedback data in a secure manner.

Working Mechanism

The functioning of the system follows a simple flow:

1. Registration:

Workers create a basic digital profile using minimal information such as name, skills, and location. Assistance can be provided through local centers or intermediaries for those who are not comfortable with technology.

2. Profile Creation and Verification:

The system generates a digital identity for each worker. Skills and experience can be gradually updated based on completed jobs and feedback.

3. Job Matching:

Employers post job requirements on the platform. The system matches workers with suitable opportunities based on their profile, location, and availability.

4. Communication and Confirmation:

Workers receive notifications through mobile apps or SMS. They can accept or reject job offers easily.

5. Work Completion and Payment:

After completing the work, payments are processed digitally through secure channels, ensuring transparency and timely transactions.

6. Feedback and Rating:

Both workers and employers provide feedback, which helps in building trust and improving future job matching.

Limitations of the Proposed System

While the proposed model offers a structured and practical approach to digitizing the informal workforce, it is not without limitations. These constraints need to be acknowledged to better understand the feasibility of implementation and areas that require further improvement.

1. Initial Adoption Challenges:

One of the primary limitations is the difficulty in encouraging workers to shift from traditional methods to digital platforms. Many informal workers are accustomed to relying on personal networks or local contractors for employment. Even if a digital system is introduced, resistance to change can slow down adoption, especially among older or less educated workers.

2. Dependence on Digital Literacy:

Although the system is designed to be user-friendly, it still requires a basic level of digital understanding. Workers who are unfamiliar with smartphones or digital interfaces may find it difficult to use the platform independently. This creates a dependency on external assistance, such as intermediaries or support centers, which can increase operational complexity.

3. Infrastructure Constraints:

The effectiveness of the system depends on access to reliable internet connectivity, mobile devices, and electricity. In areas where such infrastructure is weak or inconsistent, the system may not function as intended. This can limit its reach, particularly in rural or economically weaker regions.

4. Trust and Reliability Issues:

Building trust in digital systems takes time. Workers may be skeptical about receiving payments through digital channels or sharing personal information online. Similarly, employers may have concerns about the authenticity of worker profiles and the quality of work. Without strong trust mechanisms, user engagement may remain low.

5. Data Privacy and Security Risks:

The system involves collecting and storing sensitive personal and financial information. Ensuring data protection is a major challenge, especially in large-scale systems. Any breach or misuse of data can reduce user confidence and create legal or ethical concerns.

6. Operational and Maintenance Costs:

Developing and maintaining such a platform requires continuous investment in technology, support services, and system updates. Providing assistance through call centers or field agents adds to the cost. For large-scale deployment, sustaining these costs can be challenging without proper funding or partnerships.

7. Scalability Issues:

While the model is designed to be scalable, adapting it to different regions or sectors may require customization based on local conditions. Variations in language, infrastructure, and worker needs can make uniform implementation difficult.

VI. CONCLUSION

The informal workforce continues to play a vital role in sustaining economic activity, especially in developing countries where a large share of employment exists outside formal systems. However, the absence of structure, limited access to resources, and lack of institutional support have kept this segment vulnerable and largely excluded from the benefits of technological progress. This paper examined the growing importance of digitization as a means to address these gaps while also highlighting the practical challenges that hinder its adoption.

The study shows that digitization has the potential to bring significant improvements in areas such as job accessibility, financial inclusion, and service delivery. Digital identity systems, job platforms, and payment mechanisms can create a more transparent and organized environment for informal workers. At the same time, the analysis makes it clear that technology alone is not sufficient. Factors such as digital literacy, infrastructure limitations, and trust issues must be carefully addressed to ensure meaningful adoption.

The proposed conceptual model attempts to bridge this gap by focusing on simplicity, accessibility, and integration. By combining multiple services into a single platform and supporting both digital and assisted modes of access, the model offers a practical approach that aligns with the realities of informal workers. It emphasizes gradual adoption, user-friendly design, and trust-building mechanisms as key elements for success.

Looking ahead, there is considerable scope for further development in this area. Future work can explore the use of advanced technologies such as artificial intelligence for more accurate job matching and predictive analysis. There is also potential to strengthen data security through improved frameworks and to expand digital platforms to include skill development, insurance, and social protection services. In addition, more empirical studies based on real-world implementations would help in understanding the long-term impact of digitization on informal employment.

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