



Digital Platform

Economy in Bangladesh Opportunities and Challenges

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Abstract

One of the defining characteristics of the fourth industrial revolution has been the rise of the digital platform economy. Improvements in access to the internet, as well as increase in the availability of smartphones, have led to the growth of digital platforms in Bangladesh. Ride-sharing applications and food deliveries have become common in urban areas, especially in Dhaka. Nationally, Bangladesh has become the second largest source of online labour in the world. Thus, there are immense opportunities for exploring the scope generating employment among the large number of youth in Bangladesh through the digital platform economy. However, a number of challenges exist which are holding the country back from yielding the full benefit of the digital platform economy. These include, inter alia, lack of access to computers and internet, poor skills of workers, difficulties in obtaining payment from abroad and uncertainties regarding funding that threaten the sustainability of the sector. In order to overcome these challenges, a number of policy recommendations are made, such as empowering individuals with market-relevant skills, exploring new financial tools, formulating a 5-year national digital platform economy development plan, creating a national guideline for the use of the data generated in digital platforms, amending consumer rights protection laws so that they encompass digital platforms, attracting foreign investors to come to Bangladesh and invest in digital platforms, bringing companies and workers in the digital platform under the tax net, increasing digital awareness among the mass population, providing tax holidays for new companies entering the digital platform economy, and encouraging brick-and-mortar companies to go digital through fiscal incentives.

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1. Introduction

Digital platforms have become a quintessential part of the modern economy. They have revolutionised many sectors, including housing, retail and transportation. New types of transactions, such as ride-sharing and home-sharing, as well as new modes of working, such as freelancing, have become possible due to digital platforms. Although the first digital platforms appeared in the mid-1990s, the sector accelerated from the mid-2000s onwards, backed by fast internet speeds and the launch of smartphones (World Economic Forum, 2020). Particularly, after the financial crisis of 2008, companies with the digital platform business model rapidly came to dominate an increasing share of the global economic activity, often by affecting the traditional mode of business.

Globally, over 70 million workers are registered with these digital platforms that ease remote working (World Economic Forum, 2020). The digital platform economy has been growing rapidly and has facilitated spending of around USD 126 billion in 2018 (World Economic Forum, 2020). Around 0.5 per cent to 2 per cent of the workforce from the Organisation for Economic Co-operation and Development (OECD) member countries are involved with these digital platform companies (World Economic Forum, 2020).

In the last couple of years, Bangladesh has also seen rapid growth in internet connectivity as well as some supporting measures for digital entrepreneurs (Fintech BD, 2019). However, access to finance is one of the major constraints for digital start-ups. Besides, to promote digital platforms, ease of payment for online transactions is necessary (Fintech BD, 2019). Bangladesh is now the second largest supplier of online labour in the world, with a 16 per cent share of the global online workforce, following India which has a 24 per cent share of the global online workforce (Oxford Internet Institute, 2017). Recently, the number of online workers from Bangladesh has increased in creative and multimedia platforms at the end of 2019 (Oxford Internet Institute, 2020).

Unfortunately, a universally accepted definition of the digital platform economy does not exist.

Spagnoletti, et al. define digital platforms as “building blocks that provide an essential function to a technological system and serves as a foundation upon which complementary products, technologies or services can be developed” (Spagnoletti, Resca & Lee, 2015). On the other hand, Xu et al. define digital platforms as “a set of subsystems and interfaces that form a common structure from which derivative applications can be developed and distributed” (Xu, Venkatesh, Tam & Hong, 2010). Koh and Fichman take a different approach, and define digital platforms as “two-sided networks that facilitate interactions between distinct but interdependent groups of users, such as buyers and suppliers” (Koh & Fichman, 2014). Pagani advocated that multisided platforms exist wherever a company brings together two or more distinct groups of individuals that need each other in some way, and where the company builds an infrastructure that creates value by reducing distribution, transaction, and search costs incurred when these groups interact with one another (Pagani, 2013).

Nevertheless, all digital platforms share a number of common features, such as: i) digital matching of buyers and sellers through the internet, often through algorithms that track past online actions; ii) low entry costs that allow small sellers to easily come to the market and compete with larger sellers; iii) ex-post screening through reviews and ratings of products and services by previous buyers; iv) non-exclusive and short-run contracts allowing workers to work for multiple clients at the same time for relatively shorter durations than formal employment; and v) direct transactions of money between buyers and sellers (Fradkin, 2018). These common characteristics may be found in digital platforms that are part of the “sharing economy”, such as ride sharing or home sharing, as well as those that are part of the “on-demand economy”, such as e-commerce websites, food delivery applications and freelancing websites. However, it must be noted that many e-commerce websites represent the online outlets of businesses that also have brick-and-mortar stores. This makes it difficult to draw the line in terms of establishing how much of e-commerce is part of the digital platform economy and how much of it is actually an online version of the real economy. Therefore,

for the purpose of this study, we shall exclude e-commerce websites from the ambit of our discussion on the digital platform economy.

To put it specifically, the paper discusses and analyses the digital platform economy in Bangladesh in terms of the following objectives: i) to understand the status of the digital platform economy in terms of its size and contribution to employment and economic growth; ii) to assess the bottlenecks for further expansion of the digital platform economy in the country; iii) to explore how different sections of the population benefit from digital platformisation; and iv) to suggest policy recommendations to overcome the constraints to further expansion of digital platforms.

2. Methodology, Data Source and Analytical Approach

Data for this study was collected through three main ways: i) review of secondary information; ii) key informant interviews (KIIs); and iii) expert group meeting (EGM). Such a triangulation of data collection techniques was used in order to obtain information and insights from diverse sources and develop a clear idea about digital platforms in the context of Bangladesh.

For secondary data collection, policy documents, reports and datasets published by various national and international organisations were analysed and utilised for the study. Additionally, newspaper articles, opinion pieces and blogs were reviewed. The Online Labour Index (OLI) was used to provide a list of prominent online platforms and their monthly estimated unique visitor count from Alexa (Alexa, 2020). Based on Alexa's figure, the top online platforms were selected.

A virtual EGM was conducted on 26 September 2020 as part of the study. The stakeholders in EGM included various organisations including e-Commerce Association of Bangladesh (e-CAB), Bangladesh Association of Software and Information Services (BASIS), Shohoz, Evaly, Daraz Bangladesh, ASIX, Foodpanda Bangladesh, Sheba XYZ, Shikhbe Shobai, Pathao Limited, Othoba.com, Bproperty.com Ltd.,

Rokomari and Uber Bangladesh. Additionally, key stakeholders from e-CAB and BASIS were interviewed and consulted for the purpose of this study.

3. Digital Platform Economy Around the World

The digital platform economy makes a contribution to the economic growth and employment generation of a country. A growing body of literature indicates that adopting the digital platform business model will shape the future of work and lead to the emergence of new business and employment models (Evans, 2016a; Evans, 2016b; Tiwana et al., 2010).

In case of developing countries, it has been debated that the digital platform economy has been acting as the leading driver of the economic growth in terms of raising capital and labour productivity, and thus facilitating access to the global market (Dahlman, Mealy & Wermelinger, 2016). Labour markets are continually changing due to the broader application of new technologies such as artificial intelligence, cloud computing, 3D printing, internet of things (IoT), and robotics (de Groen et al., 2017a) which are the key components of the digital platform economy. While it was claimed that the traditional business model might replace the platform economy model, in the case of transportation platforms, the growth in the supply of drivers has come together with a 53 per cent fall in transport pay (Farrell, Greg & Hamoudi, 2018). Besides, the majority of the participants in the transportation platform remain active in only a few months of the year (Farrell, Greg & Hamoudi, 2018).

Due to the absence of official statistics and a uniform definition, realising the digital platform economy's actual size in terms of gross revenue and number of active workers has been hindered (de Groen et al., 2017b). Several attempts have been made in recent years to measure the contribution of digitisation to social and economic outcomes. Sabbagh, El-Darwiche, Friedrich & Singh, (2012), for instance, created a composite digitisation index comprising six

essential dimensions, using 23 information and communications technology (ICT) indicators. Based on a study of 150 countries and using a classical production function, they found that a 10 per cent rise in digitisation leads to the increase in gross domestic product (GDP) per capita by 0.50 to 0.62 per cent (Sabbagh et al., 2012). The effect of digitalisation on GDP per capita accelerates as countries progress to a more advanced level (Sabbagh et al., 2012).

Evidence from Europe shows that the platform economy had generated about EUR 3.6 billion in revenue (Vaughan & Daverio, 2016). Additionally, transaction values increased by 56 per cent in 2013 and 77 per cent in 2014 (Vaughan & Daverio, 2016). Currently, 62 major platform companies are operating throughout Asia, with a market capitalisation of at least USD 800 million (Evans, 2016a). The firms within Asia can be clustered under four regions, China, India, Northeast Asia and Southeast Asia. Among these regions, Beijing hosts the highest number of platforms (16), followed by Tokyo (11), Shanghai (6) and greater New Delhi (5) (Evans, 2016a).

However, building one's platform is taxing because, in most markets, global platforms are flourishing by now. Hence, investing in another company's platform may be the best way to attain a global reach (Bughin & van Zeebroeck, 2017). For fruitful transformation and for overcoming bottlenecks, the concerned stakeholders will need to design digital platforms in a way that that can act more effectively in the interest of its users, while at the same time, offering the financial benefits for the platform owners. In this way, we can build and maintain trust in digital platforms in the longer term and unleash their full potential (Dutch Transformation Forum, 2018).

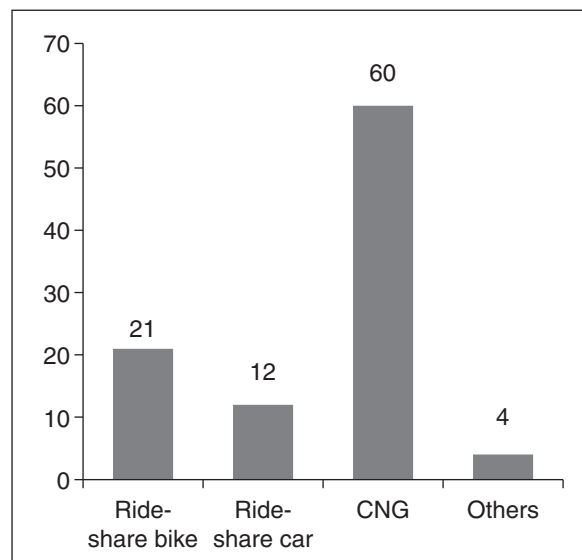
4. Digital Platform Economy in Bangladesh

Bangladesh has been witnessing an increase in sharing-based services, both from local and global companies, for example, Uber, Pathao and Shohoz. These companies have already raised significant equity funds. The ride-sharing

business in Bangladesh has grown notably and it has amassed 260 million USD to the digital platform economy with 6 million rides in each month (Rahman, 2019). A study has estimated that the size of the ride-sharing market of Dhaka city would be around BDT 22 billion a year (Kamal & Ahsan, 2018). Among the different modes of ride sharing in private passenger motor vehicle, the market share of compressed natural gas (CNG) autorickshaws was estimated to be 60 per cent, whereas bike-sharing and car-sharing services occupied 21 per cent and 12 per cent of the market share respectively (Figure 1) (Kamal & Ahsan, 2018).

Conducted on university students in Dhaka, it was found that consumers are generally positive about using commercial car-sharing services, but were concerned about their safety and security (Saadat, Ahmed, Jahan, Jahan & Zahed, 2018). Among the survey respondents who participated in the study, 80 per cent were willing to use car-sharing, 68 per cent preferred car-sharing over other forms of public transport, and 66 per cent felt that car-sharing would be a success in Dhaka (Saadat et al., 2018).

Figure 1: Market Share of Different Private Passenger Motor Vehicle-Hailing Services (in per cent)



Source: Authors' illustration based on data from Kamal & Ahsan (Kamal & Ahsan, 2018).

Changes in certain government policies have also given the digital platform economy a boost. For example, the approval of online payment services by the central bank in 2009 has enabled convenient and smooth transactions. Moreover, the formation of the Bangladesh Electronic Fund Transfer mechanism has further enabled various institutions to offer payment services to the unbanked segments of the population (export. gov, 2018). Online payments in Bangladesh have increased from BDT 1.68 billion in 2016 to BDT 19.78 billion in 2019 (Table 1). In 2020, online payment is projected to reach BDT 40 billion

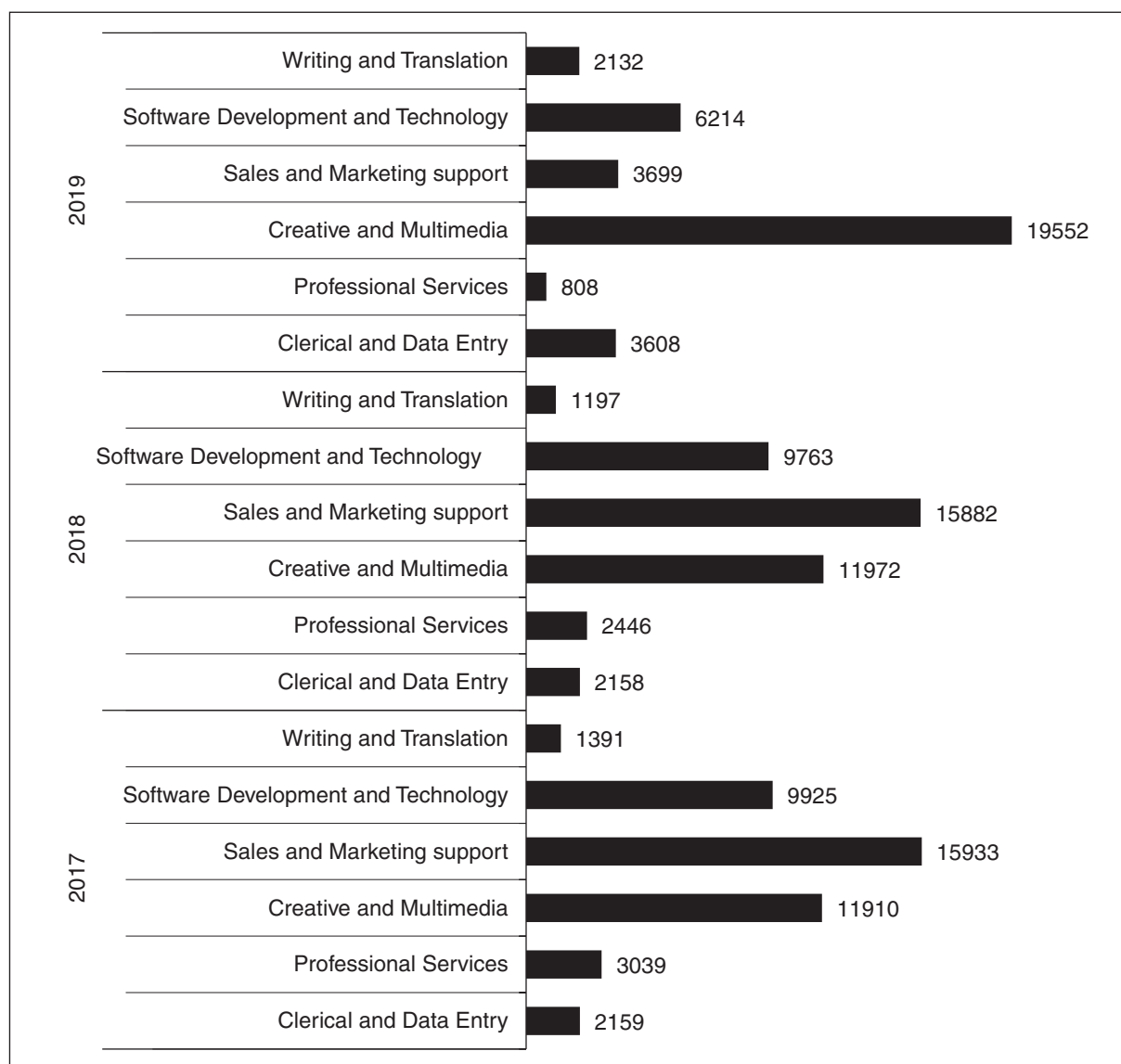
Table 1: Volume of Online Payments in Bangladesh Over Time

Year	Payment (in Crore BDT)
2016	168
2017	1,295
2018	1,576
2019	1,978
2020 ^p	4,000

Source: Authors' compilation based on data collected from e-CAB as of August 2020.

Note: p=projected.

Figure 2: Number of Freelancers in Bangladesh



Source: Authors' illustration based on the data collected from Online Labor Index (2020) of the Oxford Internet Institute.

due to the surge in online transaction during the COVID-19 pandemic (e-CAB, 2020).

Due to its low cost labour, Bangladesh has been deemed as the next big information technology (IT) outsourcing destination in the world. In the global freelancing market, Bangladesh is ahead of all other countries in sectors such as sales and marketing support, with significant contribution in software development, technology, creative and multimedia, clerical and data entry (World Economic Forum, 2019). The number of online workers has been growing over the years across most sectors. Figure 2 depicts the status of the online workers in the country.

Beyond freelancing, digital platforms have become a source of livelihood for thousands of people in Bangladesh (Table 2). Currently, there are 2,000 website-based entrepreneurs and up to 50,000 Facebook-centric entrepreneurs in Bangladesh

Facebook-centric entrepreneurs (Deloitte, 2018). Most consumers perceive benefits relating to improved convenience, more choice and increased transparency, as far as online platforms are concerned. Furthermore, online platforms enable more suppliers to participate in the market which enhances competition. In this way, consumers are more likely to find cheap products through a comparison platform, which may allow the consumer to access more information so that they are better informed about the product, service or content they are looking for (Oxera, 2015). Businesses may avail the benefits of digital platforms relating to funding, recruitment, marketing and e-commerce. Research has shown that digital platform companies diminish geographic barriers, reduce the cost of marketing and expand the size of the market (Oxera, 2015).

Digital platform companies also facilitate actors to contribute in the global value chain by reducing

Table 2: E-commerce Entrepreneurs and Employment in Bangladesh

Details	Total Number
Website-based entrepreneurs	2,000
Facebook-centric entrepreneurs	50,000
e-CAB members	1,300
Employment amid COVID-19 pandemic (approximate)	1,00,000
Job prospects in the next one year	5,00,000

Source: Authors' compilation based on data collected from e-CAB (2020).

(e-CAB, 2020). The COVID-19 pandemic has also expanded employment opportunities in the e-commerce industry. Moreover, around 500,000 jobs are likely to be created through digital platforms in the next one year (e-CAB, 2020).

5. Opportunities and Challenges of Digital Platforms in Bangladesh

5.1 Opportunities

Within digital platforms, there is a triangular connection between three parties: platform, seller and buyer. Therefore, digital platforms connect individuals who have demand with

transaction costs, helping validate the quality and credibility of suppliers, and matching suppliers with prospective international buyers. In addition to creating opportunities for cooperation and integration into global value chains, digital platforms employ instruments, such as consumer ratings, to overcome information frictions that enable firms to create a credible reputation (World Bank, 2020). Thus, potential buyers gain access to the previously unavailable information about the reputation of suppliers, which assists the former in making more informed decisions.

Digital platforms have become important enablers of trade in many markets across the world. The use of the digital platforms help enhance the choice

of consumers, the efficiency and competitiveness of producers, and also increase the participation of citizens from all walks of the society. There are at least four key factors which will ensure that Bangladesh benefits from the rise of digital platforms: i) increase in the number of internet users in the country; ii) greater involvement of companies in online activities; iii) improved technological know-how of individuals which allows them to use online search engines and other services; and iv) broader availability of smartphones for the majority of people (BoostDot, 2020).

Estimates suggest that around 39 million people in Bangladesh currently use Facebook (Statista.com, 2020b). Due to the increase in the availability of the internet, many entrepreneurs in Bangladesh are choosing digital platforms for continuing their business. While for the majority of the people, credit cards have not become available, mobile payments and cash-on-delivery have progressed as well-accepted processes (BoostDot, 2020).

The success of digital platforms is closely associated with the range of goods and services they offer to their consumers. Digital platforms permit smaller companies, in particular, to enlarge their operations outside their region, catering to customers in single markets (European Commission, 2019). The digital revolution has altered the way of demanding products that the customers require for and the mode of receiving this product, for instance, in the digital media, audience or the consumer may decide whether they want particular advertisements to attend to including when and how to attend.

Although the concept of the digital platform economy is new in Bangladesh, it is gradually gaining confidence and spreading rapidly among the new generation. For enhancing their credibility and acceptability, many digital platforms need improvement in their strategic approach and customer services. A number of other things—such as, ensuring the quality of the product, timely delivery of the services, efficient management of the inventory, flexible return policy and overall transparency—will result in greater growth of the digital platform economy in Bangladesh. To link

the target audience and brands, online marketers can use these components in an efficient way (BoostDot, 2020).

5.2 Challenges

There is an ongoing debate regarding the structure of the pays and benefits received by digital platform workers and the social safeguards in place for them. As digital platform workers are often considered independent contractors, they are not always entitled to receive the same level of pay and other benefits as enjoyed by regular employees. Without proper measures to ensure good platform work, the growth of the digital platform economy might be threatened, rendering it unable to contribute positively to the overall economy (World Economic Forum, 2020).

There is a gender divide in the case of accessing the digital platforms, especially in Bangladesh. The country's financial inclusion profile dictates that 41 per cent of the population has an account with financial institution, but only 2.8 per cent women do online transactions compared to 4.3 per cent men who do online transactions (Table 3) (DATAREPORTAL, 2020).

Table 3: Financial Inclusion Indicators of Bangladesh

Financial Inclusion Factors	Percentage of the Population Aged 15+
Has an account with a financial institution	41
Has a credit card	0.2
Has a mobile money account	21
Makes online purchase or pay bill online	3.5
Percentage of women with a credit card	0
Percentage of men with a credit card	0.4
Percentage of women making online transactions	2.8
Percentage of men making online transactions	4.3

Source: (DATAREPORTAL, 2020).

According to Bangladesh Multiple Indicator Cluster Survey (MICS) 2019, only 5.6 per cent households in Bangladesh owned a computer and only 37.6 per cent of households had access to the internet in 2019 (BBS & UNICEF, 2019). However, use of computers and the internet was found to be more common in relatively richer households and among men, compared to relatively poorer households and women. In 2019, only 0.4 per cent of households from the poorest wealth index quintile in Bangladesh had a computer, compared to 21 per cent of households from the richest wealth index quintile who had a computer (BBS & UNICEF, 2019). As of 2019, only 4.6 per cent of women had used a computer and the only 14.2 per cent women had used the internet over the course of their lifetime (BBS & UNICEF, 2019).

There are several challenges in developing and expanding the digital platform economy in Bangladesh, which were identified by the participants of the EGM. These include:

- i. Lack of access to computers and internet
- ii. Unreliable supply of electricity
- iii. Slow internet speed
- iv. Limited technical skills
- v. Poor English language skills
- vi. Low level of proliferation of credit and debit cards hindering online payment
- vii. Difficulties in obtaining payments from abroad
- viii. Legal loopholes that allow digital platform companies and workers to escape the tax net
- ix. Funding constraints that threaten the sustainability of digital platforms
- x. Insufficient foreign investment for digital platforms

During the EGM, the experts mentioned that lack of access to computers and the internet was preventing many people from participating in the digital platform economy in Bangladesh. The experts also stated that those who managed to overcome such obstacles to enter into the digital platform economy often faced problems due to unreliable supply of electricity and slow internet connection. According to the experts, the limited technical skills and poor English language skills of Bangladeshi workers made it difficult for them to

compete in the global digital platform economy and to secure jobs that matched their education and experience. As a result, digital platform economy workers from Bangladesh were either forced to accept menial tasks or offer very low prices to undercut their competitors. The experts agreed that due to the low level of proliferation of credit and debit cards, many consumers were facing difficulties in making online payments for their purchases in various digital platforms. However, this problem was partially mitigated due to the rapid spread of mobile financial services. Nevertheless, the experts emphasised that Bangladeshi digital platform economy workers were facing serious obstacles in obtaining payments from abroad due to the absence of global payment portals, such as PayPal. As a result, both Bangladeshi freelancers and their foreign clients were suffering. The experts felt that the time had come for the Government of Bangladesh to formally recognise companies and workers in the digital platform economy and gradually bring them under the tax net. However, they also mentioned that since the digital platform economy in Bangladesh was still at a nascent stage, the government must also provide some fiscal incentives for this sector in order to encourage further growth. Finally, the experts mentioned that, if the digital platform economy was to succeed in Bangladesh, then it would have to explore new and innovative forms of funding to ensure the long-run sustainability of the sector. In this regard, the experts believed that it would be crucial to attract foreign investment in digital platforms in Bangladesh in the coming days.

6. Conclusion and Recommendations

The role of digital platforms in the economy is increasing day by day. Business opportunities are also increasing in this digital platform economy, which has come to the forefront during the COVID-19 pandemic. However, building the trust and confidence of users in Bangladesh will be a major task of the digital platform economy in the coming days. Although lots of mobile applications are coming into the market, the policies related to the monetisation of mobile applications still do not

exist. Bangladeshi workers in the digital platform economy are working from their own motivation and have not received proper training from the education system. As a result, they have only seen the tip of the iceberg in terms of success in the digital platform economy. If the vast young population of Bangladesh could be properly trained and equipped with market-relevant skills, then they could reap tremendous benefits through the digital platform economy. Thus, the government must act urgently and prioritise the digital platform economy in its policy agenda so that Bangladesh does not fall behind other countries during this time of the fourth industrial revolution.

In light of the growing importance of the digital platform economy for Bangladesh, the following policies are recommended to boost the growth of the sector:

- i. Empower individuals with market-relevant skills, especially technical skills and English language skills, through specialised training, so that they can participate in and benefit from the digital platform economy.
- ii. Explore new financial tools and models for ensuring the sustainability of digital platforms in Bangladesh.
- iii. Formulate a 5-year national digital platform economy development plan.
- iv. Create a national guideline for the use of the data generated in digital platforms.
- v. Amend consumer rights protection laws so that they encompass digital platforms.
- vi. Attract foreign investors to come to Bangladesh and invest in digital platforms.
- vii. Bring companies and workers in the digital platform economy under the tax net.
- viii. Increase digital awareness among the mass population.
- ix. Provide tax holidays for new companies entering the digital platform economy.
- x. Encourage brick-and-mortar companies to go digital through fiscal incentives.

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Acronyms

a2i	Access to Information Programme
BASIS	Bangladesh Association of Software and Information Services
BDT	Bangladeshi Taka
CNG	Compressed Natural Gas
COVID	Coronavirus Disease
e-CAB	e-Commerce Association of Bangladesh
EGM	Expert Group Meeting
EUR	The Euro
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IoT	Internet of Things
IT	Information Technology
KII	Key Informant Interview
MICS	Multiple Indicator Cluster Survey
OECD	The Organisation for Economic Co-operation and Development
OLI	Online Labour Index
USD	US Dollar

One of the defining characteristics of the fourth industrial revolution has been the rise of the digital platform economy. Improvements in access to the internet, as well as increase in the availability of smartphones, have led to the growth of digital platforms in Bangladesh. Nationally, Bangladesh has become the second largest source of online labour in the world. This study explores the opportunities for generating employment among the large number of youth in Bangladesh through the digital platform economy. It also identifies the challenges which are holding the country back from yielding the full benefit of the digital platform economy. Finally, a number of policy recommendations are made for the way forward. It is hoped that the findings from this exploratory study will guide future research on similar topics.



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