Platform Economies in Emerging Markets and Developing Countries

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Surrounded by snow-covered mountains deep in an isolated valley in Pamir in Tajikistan, a farmer turns on his mobile phone. He is about to send money from his online bank account to his family in the capital city of Dushanbe. Even in the remoter regions in this low-income country, it is possible to conduct cashless financial transactions. Driven in part by the fears surrounding COVID-19, almost two million users registered to benefit from the newly created cashless zone over the past six months. This virtual zone is a platform using digital technologies to connect and facilitate interactions between financial service providers and their users. This is a story of how to enable creative construction and support for structural change in order to establish platforms that can contribute to inclusive, sustainable development.

Platforms: The New Nature of Firms

A physical presence is no longer a pre-requisite for doing business. Platform firms are on the rise all across the globe. These platforms, or new virtual marketplaces, are being created to expedite the trading of goods and services at low cost and scale – be it e-commerce, e-learning, e-banking, digital financial services, etc., a virtual start-up can grow into an online titan in a short time. Today, the world's most valuable public companies, including Apple, Microsoft, Alphabet (Google's parent company), and Amazon and their trillion-dollar businesses are built on digital platforms.

Thanks to these platforms, connectivity increases both within and across industries, resulting in integrated ecosystems of actors and technologies. These ecosystems generate enormous quantities of exploitable data (the quantities have increased significantly recently, due to the pandemic prompting customers to rely on online sales and services). This data, gained through leveraging new data processing capabilities and data analytics based on artificial intelligence and machine learning, can provide useful insights on customer behavior and preference and lead to improved and expanded services to underserved segments.

Alibaba, the Chinese e-commerce platform, is a perfect example. It had access to the sales data of the vendors selling through its platform. This data could be leveraged to calculate turnover and thus creditworthiness. Alibaba began to develop credit scores and provide working capital loans to the sellers on its platform – an operation that ultimately became Ant Financial, one of the largest financial services providers in the world. Traditional banks would have shied away from providing loans through such a mechanism, but thanks to the new kind of non-bank financial intermediaries, small and medium sized enterprises in developing countries finally have increased access to finance.

It is not only these large platforms that are now found in developing countries. All sorts of smaller and less-integrated platforms are now establishing a presence. In Ghana, the online platform Farmerline provides local-language information on the weather and market prices to a network of formers. Across the African continent, the e-commerce platform Jumia brings electronics, groceries, and clothing to consumers in ten different countries, and, subsequently creates jobs and business opportunities for entrepreneurs as a positive byproduct of the platform.

Such platforms, with their high potential for business development, are becoming remarkably popular among entrepreneurs and private venture investors. But how can development agencies and international finance institutions support their creation in and throughout developing countries?

SECO and IFC: A Partnership to Support the Cashless Zone in Pamir

Since 2009, SECO and International Finance Corporation[1] (IFC) have collaborated to increase financial inclusion and create jobs leveraging technology. The success of the cashless zone project in Pamir, like others across the globe, required the partnership enlist the support and commitment from many local stakeholders. It required contractual relationships with the regional government and the first microfinance bank in order to create a well-functioning ecosystem. Government buy-in and contracts with financial institutions and mobile service providers were critical in enabling the platform to expand into the remoter areas and to set up financial literacy programs for customers that would make it possible to introduce key services like e-payments. It was also crucial for SECO and IFC to be able to establish trust and transparency in order to overcome an unwillingness from service providers who feared that making their products interoperable would result in reduction of their market shares.

Regulations Enable Success

In parallel with the development of platforms comes the need for the creation or reform of regulations that will tackle challenges in areas of data privacy, competition, and taxation. The accumulation and commercial use of data collected by platform businesses demands that safeguards are in place to ensure consumer rights, consumer protection, and data privacy. Competition throughout the digital marketplace must be effectively regulated, especially since network impacts often benefit early adopters of technology and thus crowd out later entrants. Weaknesses in taxing platform firms also must be rectified in order to clarify transactions occurring along a cross-border network of users and producers.

To date, there is no international agreement on platform regulations. Consequently, any attempt to advise, establish, or support regulatory policy and/or reform in low-income countries is extremely problematic. Progress tends therefore to take a trial-and-error experimentation approach for both the public and private sector stakeholders. In Tajikistan, IFC and SECO innovated with the government to establish new laws for digital financial services, while the private sector tested out new products in a nascent legal landscape. Such pro-active

[1] IFC is a member of the World Bank Group and the largest global development institution focused on the private sector. IFC works in more than 100 countries, using its capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2020, IFC invested $22 billion in private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity.

environments are vital for accelerating developments like the establishment of the first cashless zone in Pamir.

Success: One Size Fits All?

Is it possible to replicate a successful platform from one low-income country to another? Is it easy? It is wise? The case of M-Pesa, a mobile phone-based money transfer service, payments and micro-financing service, serves as a useful example. M-Pesa was successful in the rural areas of Tanzania, DRC and Lesotho. It benefited from network effects of scale and near-monopoly status, first-mover advantage in particular start-up funding from UK's development agency, lack of viable alternatives, a favorable regulatory environment and a large nascent demand for the financial service, in particular the young population. Replication efforts in Latin America, India, South Africa, and most other emerging markets either failed outright or lack traction, owing to a lack in one or more of the aforementioned elements. To replicate a platform, it is important to identify all factors that enabled its success in one market while identifying the unique characteristics and customer needs in the next.

Technology: Not the Only Factor

The pace of innovation and commercialization of technology at the outset of this century has been tremendous. But it is not a guarantor of success by itself. In today's global, national, and local economies, technology and development often are impeded by well-worn, mundane constraints. Outdated regulation, lack of infrastructure (e.g. access to electricity) and low levels of education (traditional as well as digital), as well as the presence of vested interests all contribute to prevent progress. Therefore, instead of identifying as technology investors, the role of development agencies and international finance institutions should be to support governments in enabling creative development and structural reform.

SECO will continue to provide grants to IFC projects in developing countries that aim to promote a conducive enabling environment and the creation of digital financial services via platforms.

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