Proposal 1: Competition and Market Access in Online Freelancing Markets: Evidence from Country X

PRIMARY IGC THEME: FIRMS, TRADE, AND PRODUCTIVITY

GRANT TYPE: SMALL RESEARCH GRANT

BUDGET: £5,056

PROJECT DURATION: 1 YEAR

SUMMARY

Online freelancing is an emerging form of employment for skilled individuals in developing countries, serving a growing global market. This project studies competition and access in online freelancing markets in Country X, home to one of the world's top five largest population of freelancers. Online freelancing platforms provide Country X freelancers with direct access to global digital service markets. However, findings from exploratory work suggest that 1) local middlemen possess strong market power and 2) individual freelancers face barriers to enter the market and compete with existing middlemen. This project aims to understand why middlemen emerge in online freelancing markets and what mechanisms can increase competition and market entry. Building on Biglasier and Friedman (1994) and Bardhan et al. (2013), we propose a model of middlemen to describe how middlemen provide the reputation needed for online service trade to take place and how "high ability" freelancers may fail to compete with middlemen due to reputation and payment frictions. We will first collect descriptive data on freelancers from local freelancer networks and online platforms to test predictions from the model. Based on descriptive findings, we plan to conduct a field experiment with local freelancers to evaluate possible interventions to improve market access and competition. As the project is at its early stage, we seek IGC's financial support of £5,056 for our data collection effort, which will allow us to produce one of the first dataset on the freelance workforce in Country X and shed light on challenges faced by freelancers in global digital service markets.

RESEARCH DESIGN

1.Conceptual Framework
We propose a model of middlemen to provide the theoretical foundation for our study and a field experiment to test potential policy interventions to improve market access. Building on Biglasier and Friedman (1994) and Bardhan et al. (2013), our model describes consumers' (international clients) decision to purchase service online and producers' (individual freelancers) decision to sell directly on online freelancing platforms. We argue that middlemen exist because of information frictions faced by consumers. Since consumers cannot perfectly verify service quality at the time of the purchase, sellers' reputation is required for trade to take place. Hence, only middlemen with exceptional ratings on these platforms can attract orders and extract reputational rents, which incentivize them to maintain service quality.

On the producer side, we extend that the framework by Bardhan et al. (2013) by introducing two unique barriers faced by individual freelancers to sell directly to consumers and compete with existing middlemen. The original model shows that agents with heterogeneous ability sort into different occupations: high ability agents become middlemen and low ability agents supply to middlemen. We argue that high ability agents may fail to enter and compete in online markets in the presence of the "reputation trap" and payment frictions. First, since freelancers need to build a reputation to sell directly to consumers, they can only work on outsourced tasks at the beginning. However, their work history with middlemen cannot be verified by online marketplaces, which hinders their ability to build reputation over time and attract consumers. We call this scenario the reputation trap. Second, freelancers face issues with cross-border transactions due to financial regulations. Many freelancers that we interviewed cited payment frictions as the primary constraint to use Upwork and opted to work with local middlemen instead.

2. Data Collection
Our first step to pursue this research agenda is to collect descriptive data on freelancers from local networks and online platforms, which will allow us to gauge the extent of intermediation and test the framework described above. We plan to distribute a survey through local Facebook/WhatsApp groups (where individual freelancers usually learn about job opportunities) and scrape data on Country X freelancers from the largest platform, Freelance Experts, to get detailed information on freelancers' characteristics, work history, and pay. With the data, we can test the key prediction of the reputation framework: there should be a higher degree of market concentration among sellers for service more prone to information frictions. For example, if it is easier to inspect the quality of content writing services than web development, then there will be more competition among freelancers specialized in content writing.
We have secured collaboration with the Country X Freelancers Association (PAFLA) for distributing the freelancer survey. Given the project is at the early stage, we seek financial support from IGC to cover expenses for the data collection only.

3. Field Experiment
Based on descriptive findings from the data collection exercise, we plan to conduct a field experiment with freelancers to

test how reputation and payment barriers affect market entry and competition. The Pakistani government has initiated measures to support freelancers, including the introduction of special bank accounts to facilitate foreign transactions. We plan to exploit this new policy and collaborate with local freelancer groups to experimentally test whether the new financial products, together with a reputation boost to freelancers' Upwork profiles (through hiring freelancers for specific tasks and providing ratings on their performance), can promote market entry.

The experimental design is still a work-in-progress and depends on descriptive findings from the data collection exercise and implementing partners. We will apply for additional grants to fund this experiment after completing the data collection and finalizing the model.

IGC EVALUATION:

The reviewers viewed this proposal favourably due to it's potential to open up research on intermediation in an understudied market in the global south and it has a clear direction for a larger study. The proposal was at an early stage, but the research question was very timely and interesting.

PROPOSAL SUMMARY & RESEARCH QUESTION

The proposal summary offered a clear and thorough outline of the research's importance, objectives, and potential policy impact. It fits well with the objectives of the small grant, which is to fund exploratory work that can scale up into a larger study in the future. The strengths of the proposal include:

1. **Relevance and context:** Focusing on one of the largest freelance populations in the world, the proposal sets the context clearly in highlighting the growing importance of online freelancing and current shift in the labour market towards digital services.
2. **Research question:** The proposal clearly identified the key issue of the market power of local middlemen, and clearly stated that it aimed to understand why middlemen emerge in online freelancing markets and which mechanisms could increase competition and market access for freelancers
3. **Contribution to academic literature:** It is clear from the summary that the research team conducted a detailed literature review based on which they were proposing a model to describe the role of middlemen and the challenges faced by freelancers. The proposal aimed to create a new dataset on freelancers in Country X that will significantly contribute to understanding this market better.
4. **Early-stage support & policy relevance:** Research team clearly stated this project needs early-stage support and that intended use of the funding amount will be to just collect data. Due to the high relevance of this topic to other IGC countries, it is clear that the findings could help inform projects and policies that can support the digital economy in low-, and middle-income countries.

RESEARCH DESIGN

As a pilot study, this proposal provided a clear path to a large academic study by providing details of data collection and a field experiment. A well thought out methodology is showcased ensuring the reviewers of the feasibility of this proposal. Some specific strengths are:

1. **Conceptual framework:** The proposal provided a comprehensive context by extending existing economic models to explain the role of middlemen and the barriers faced by freelancers. The proposal clearly described the mechanisms by which information frictions and payment issues hinder freelancers' market entry and competition and outlines how the field experiment will test these mechanisms.
2. **Data collection:** The proposal outlined a clear plan for robust data collection, aiming to gather descriptive data through a survey and by using Upwork. The researchers also planned to collaborate with Country X Freelancers Association (PAFLA) for survey distribution.
3. **Hypothesis and identification strategy:** The research team planned to use descriptive data analysis and a field experiment to test how reputation and payment barriers affect market entry and competition. While the experimental design was still in its formative stages, there was enough information in the proposal to showcase the identification strategy employed.

This is a low budget proposal that promised huge returns as it planned to create one of the first datasets on freelancers in Country X and aimed to shed light on market challenges and contribute valuable insights to the global digital service market.