

CASELET

Digitizing Wage Payments in Bangladesh's Garment Production Sector

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BETTER THAN CASH
ALLIANCE



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BANGLADESH'S GARMENT PRODUCTION SECTOR

Digitizing Wage Payments

The journey from cash to electronic payments in Bangladesh's garment sector is gathering pace as garment production factories discover how digitizing wages can save time, reduce costs, increase transparency, and empower workers by improving their access to finance. In short, electronic payments have the potential to help companies improve their bottom line while making life better for workers, especially for women who represent 80%¹ of the garment workforce in Bangladesh.

To help guide garment producers in the transition to electronic wage payments and provide more insight for international garment brands, the Better Than Cash Alliance commissioned a survey of garment factories in Bangladesh that have already introduced electronic wage payments. The survey, carried out by the World Bank, quantified the cost and time savings of digital payments compared with cash, and measured employees' payment preferences, based on interviews and self-reported data shared by 21 factories in Bangladesh. It is the first of its kind to document key data points on the costs and benefits of wage digitization from a factory perspective. It will be augmented by further research, especially regarding the impact of wage digitization on workers' access and use of financial services, as well as business models for financial service providers.

The Opportunity of Digital Wage

Cost of Paying Wages in Cash

OPPORTUNITY COST FOR FACTORIES

EACH WORKER SPENT

18 MINUTES PER MONTH 

off the production line to receive their wages in cash

750 HOURS PER MONTH 

per factory of loss in production

PAYING ADMINISTRATIVE EMPLOYEES

13 MINUTES 

counting and disbursing payroll per worker per month

542 HOURS 

per month per factory



PAYING FACTORY WORKERS WAITING OFF THE PRODUCTION LINE

PAYING ADDITIONAL SECURITY GUARDS DURING CASH DISBURSEMENT



Note: This data represents an average factory of 2,500 workers during the first year. It is based on interviews and is self-reported by 21 factories in Bangladesh.

Payment for Garment Factories

Benefits of Digital Wage Payments

BENEFIT #1: EFFICIENCY & TIME SAVINGS

32% 

for bank account

80% 

for hybrid solutions

75% 

for mobile money

BENEFIT #2: EMPLOYEES' PAYMENT PREFERENCES

Workers do not want to go back to cash

BENEFIT #3: TRANSPARENCY, SECURITY, FINANCIAL INCLUSION

Transparency:
Transaction data
and accountability

Security: Accuracy of
payments and reduced
risk of loss or theft

Financial Inclusion: Increased access
to financial services & control over
finance, especially for women

BENEFIT #4: COST SAVINGS

The average factory surveyed reduced costs by

50% 

for bank account
within 2 years

85% 

for hybrid solutions
within 2 years

45% 

for mobile solutions within 1 year
However, when factories pay cash-out fee
for workers, it increases their cost.

The State of Wage Payments in Bangladesh's Private Sector

The 2016 Better Than Cash Alliance country diagnostic found that payments made by and to businesses constitute 83%² of the total value of payments in Bangladesh, making businesses the driving force of payments. **However, only 6%³ of the value of payments made or received by businesses is transferred digitally,** demonstrating significant potential for further digitization in Bangladesh's private sector economy to help drive productivity growth and profitability.

Wage payments constitute 27%⁴ of the total value of business payments in Bangladesh, representing US\$40.4 billion and 1.3 billion⁵ transactions per year. **However, 90%⁶ of the value of salaries are still paid in cash by businesses,** demonstrating the significant potential for businesses to realize cost savings and increased efficiencies while helping to build an inclusive digital ecosystem for Bangladesh.

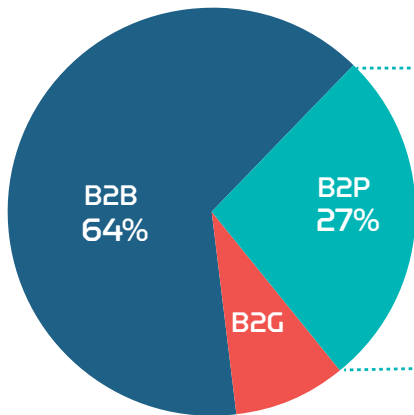
THE READY-MADE GARMENT SECTOR CONSTITUTES A KEY ENGINE OF THE BANGLADESH ECONOMY, REPRESENTING:

13%
OF BANGLADESH'S⁷
GDP

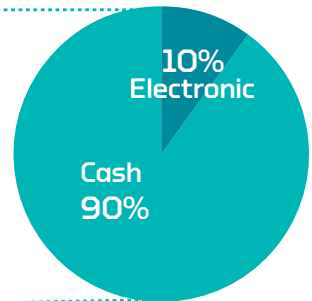
45%
OF THE
INDUSTRIAL
WORKFORCE⁸

4.4
MILLION WORKERS⁹
80%
OF WHOM ARE WOMEN

Business Payments in Bangladesh By Value¹⁰



\$ 40.4 BILLION
WAGE PAYMENTS,
90% CASH



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Costs of Cash for Factories

Across factories surveyed, the costs of paying wages in cash were considerable.

- The survey highlights the opportunity cost of loss production borne by factories when wage disbursement is made in cash. It estimates that each worker spent on average **18 minutes per month** off the production line to receive their wages in cash. This equates to **750 hours of lost revenue** from production per month for a factory with 2,500 employees.

Costs of cash payroll distribution also include:

- Wages of administrative employees – on average, administrative employees spent **13 minutes per worker per month** on preparing salary sheets, counting money, and overseeing cash payments, totaling **542 hours each month** for the average factory in the sample.
- Factory floor workers' wages while waiting off the production line to be paid.
- Guards' wages and security costs.

Based on these elements, the survey estimated that cost of wage payments in cash per worker is around US\$0.44 per month.

The study also demonstrated that paying wages in cash incurs a range of additional challenges that are more difficult to quantify.

For example:

- Women often have limited control over their earnings when paid in cash, due to a tendency for household finances to be controlled by males.
- Cash wage payments can be more easily stolen or misappropriated.
- Records of cash payments can be difficult to maintain accurately.
- Cash wage payments are more frequently subject to human error and can reduce productivity.

Types of Digital Wage Payments Surveyed

The study, carried out by the World Bank, surveyed 21 factories that had transitioned to electronic wage payments at some point in the five years prior to the 2016 survey. The digital solutions surveyed in this report are based on the limited number of solutions available to the sample of factories interviewed, falling into the three types described below. In other markets a wider range of digital solutions would be available to factories, such as prepaid cards, debit cards linked to accounts, or online account options to disburse wages. As a deeper and more competitive digital payment market develops in Bangladesh, lower cost and more tailored options will become available, providing additional benefits.



Bank accounts 10 factories

Payments are made into employees' savings accounts at a bank, allowing wages to be withdrawn at a bank branch or ATM, including those installed at factories. These accounts may also offer additional financial services, such as an auto-deposit saving scheme.



Mobile money accounts 6 factories

Payments are made to a mobile money account which is accessed via mobile phone agents and is not linked to a traditional bank account. Agent cash-out points are generally available across Bangladesh, even in the most remote areas. Mobile money providers offer a range of financial products, including sending and receiving money, making payments, and buying mobile phone credit.



Hybrid accounts 5 factories

Payments are made to "hybrid" accounts offered by banks that can be accessed through either a mobile phone agent or ATM. Hybrid accounts can send money, receive money, make payments, and buy airtime.

BENEFITS OF DIGITAL WAGE PAYMENTS

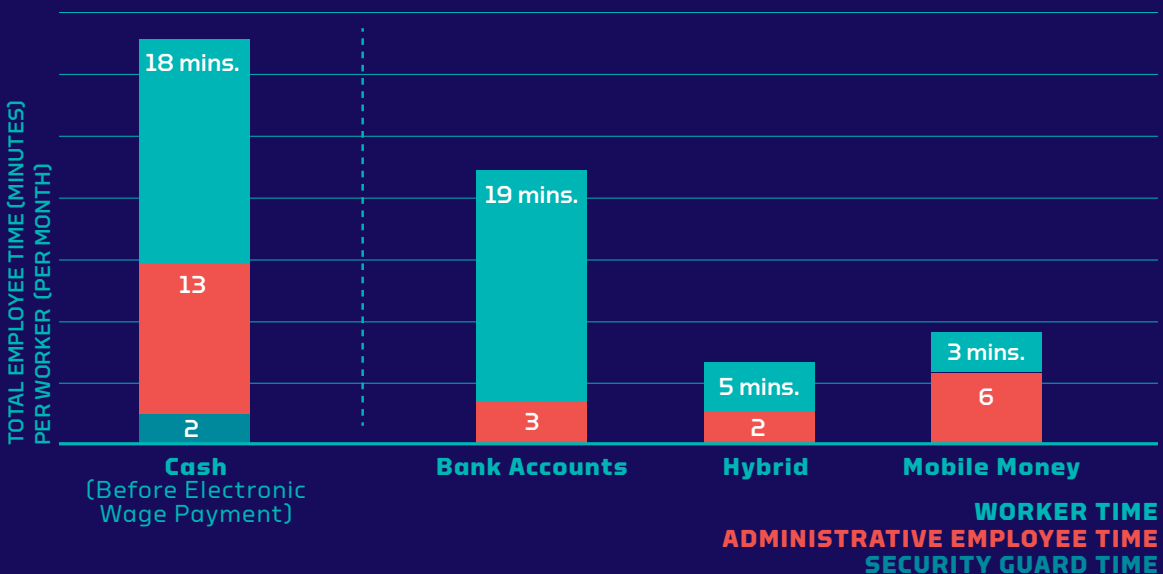
BENEFIT #1:

Efficiency & Time Savings

Total time savings were significant for factories that moved to digital wage payment:

- Overall time required for workers on the production line, guards, and administrative employees to disburse wages fell by between 32% and 80%. In general, production losses were significantly reduced, largely due to workers spending less time away from the production line or employers requiring workers to withdraw wages outside working hours.
- Ease of access to ATMs and workers' familiarity with payment technologies affect the amount of time workers spend withdrawing money, and consequently how long workers need to take off the production line to collect their wages. Company policies on whether workers were actually allowed to leave the production line to withdraw their pay from ATMs or agents also influenced the amount of time saved per factory.
- Time savings increase over time as workers learned about the new technology. For example, as workers become more comfortable, they no longer require assistance to withdraw their salaries at ATMs so that the incidence of technical difficulties and the time required to withdraw salaries decreases.

Time Savings Per Worker by Payment Type Received for the First Year



BENEFIT #2:

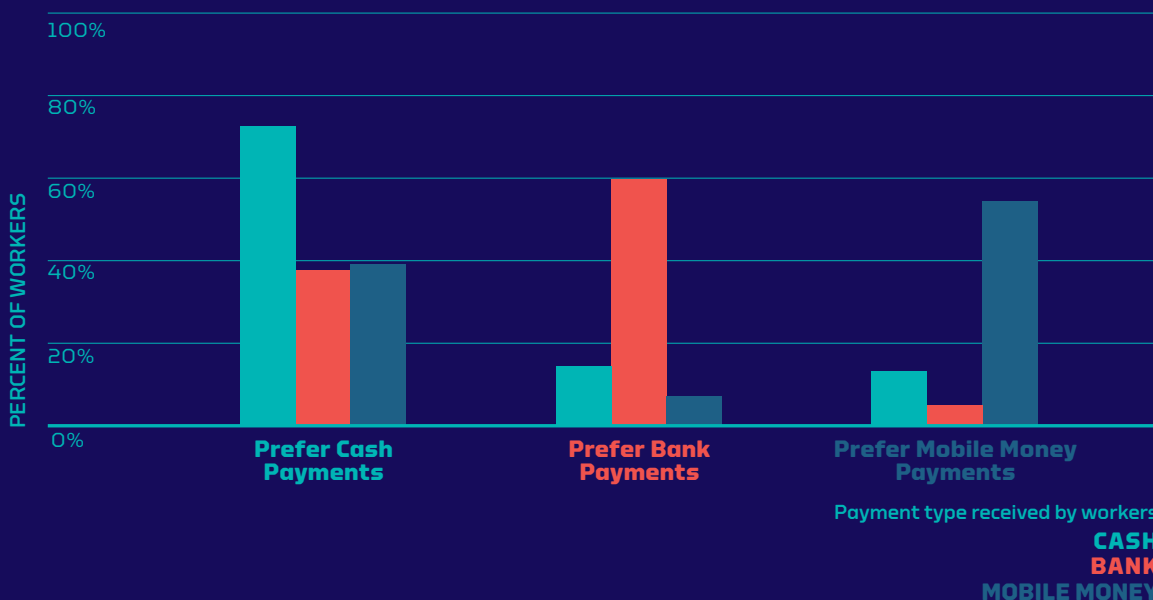
Employees' Payment Preferences

Factories that moved to electronic wage payments registered high levels of employee satisfaction about the shift.

The survey, conducted by the World Bank, found:

- Workers were generally satisfied with digital products and providers, preferring not to return to cash payments, largely due to the safety and convenience of digital payments.
- Employees' satisfaction rises over time, and is higher in the second year after the shift.

Worker Payment Preferences by Payment Type Received



BENEFIT #3:

Transparency, Security, Financial Inclusion

Digital wage payments also yielded a range of other benefits for both employers and employees, including:

- Increased transparency providing added potential to assist with audits and supply chain accountability, e.g., the timing and amount of wage payments are already documented in the digital transaction records received from the bank or mobile payments provider each month.
- Ensuring the accuracy of workers' payments and reducing the risk of loss or theft of wages for workers.
- Increased financial inclusion and financial capabilities of workers, arising from having access to accounts and engaging in regular formal financial transactions, as well as greater ability to save, particularly for women.



BENEFIT #4:

Lower Costs for 2 out of 3 Payment Types

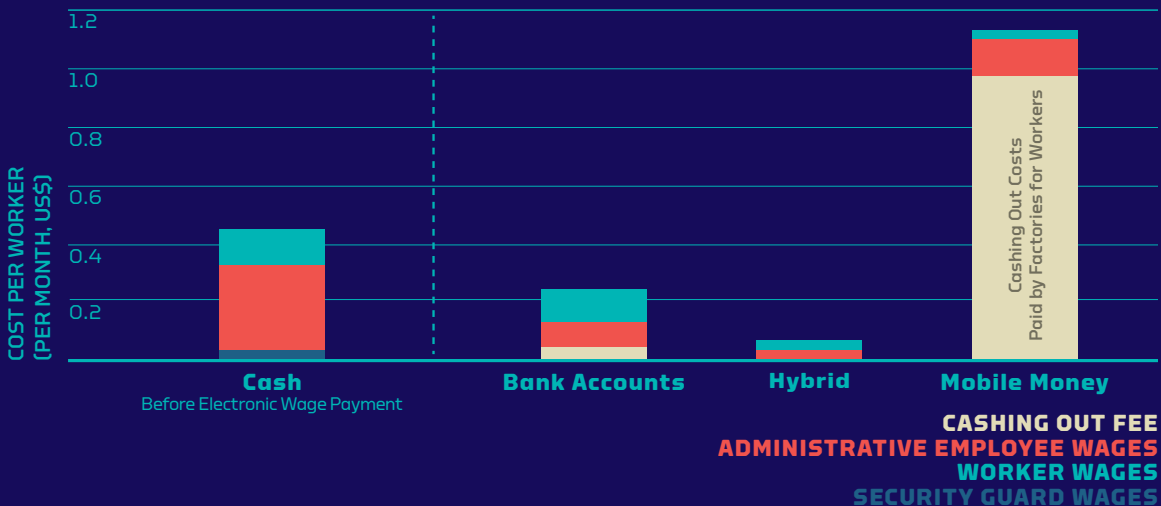
Transaction costs vary but are lower for most payment types.

The survey found:

- Digital payments using bank accounts cut total costs by 50%, moving to 85% for hybrid models, within two years.
- Mobile payments reduced costs as well, but factories currently cover part of the cash-out fee paid by workers at agents' network, thus increasing costs to employers.
- Average costs fall over time, and are substantially lower in year 2 for bank account and hybrid models, as firms and workers optimize the process and learn to use digital wage payment technologies more efficiently.

While the survey found relatively higher costs in the case of wage payments using mobile money, this was largely due to the use of mobile money agent services for cashing-out, since withdrawals from ATMs or bank branches cannot be used. As Bangladesh's digital payments ecosystem develops further over time, it can be anticipated these costs will decline.

Year 1 Average Cost of Salary Distribution Per Worker Per Month by Payment Method



Conclusion

While this study captures data from a limited sample of factories in Bangladesh, factories surveyed are seeing encouraging results in terms of time savings, cost savings, employee satisfaction, transparency, and accuracy of payments flowing from digitization of wage payments. Importantly, digitization is also helping to drive financial inclusion for workers by increasing familiarity with digital payments. This can serve as a bridge to other digital finance products providing more security, convenience, and economic opportunities for people on low incomes.

However, it should also be recognized that Bangladesh's garment sector is in the early stages of its transition to digital payments, with many more factories still paying wages and other payments in cash, compared to digital methods. As the digital payment ecosystem develops, a wider range of products will become available to factories and workers alike. Further research and dialogue – particularly between companies, the financial sector, and government policymakers – will be vital to driving progress. The development of a responsible digital payments ecosystem setting clearly the benefits of shifting to digital payments will be particularly important, to engage factory owners, managers, brands, buyers, as well as the digital financial service providers and policy-setting bodies.

METHODOLOGY & AUTHORS

This report is based on survey data for 21 mid-sized garment factories operating in greater Dhaka, Bangladesh. The total number of workers per factory varied from around 100 to 8,000 workers, with a median of 2,500 workers. All factories in the sample had previously distributed wages to workers in cash, and transitioned to paying workers via digital payments during the five years prior to the survey in 2016.

The data in this report was gathered through interviews with firms and self-reported by factories. In addition, each firm completed a survey on the costs and benefits of switching to electronic payroll. The surveys were conducted in June and July 2016 and were completed jointly by human resources and accounting teams at each factory.

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This work is a product of the staff of The World Bank Group with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank Group, its Board of Executive Directors, or the governments they represent.

END NOTES

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About The Better Than Cash Alliance

The Better Than Cash Alliance is a partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth. Based at the United Nations, the Alliance has over 50 members, works closely with other global organizations, and is an implementing partner for the G20 Global Partnership for Financial Inclusion.

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