

# MFS Salary Disbursement Action Plan

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## CONTEXT

The ready-made-garments (RMG) sector is one of the major drivers of Bangladesh's economy but financial services for RMG workers are still extremely limited. Salary disbursement is still a complex and time-consuming process for the RMG sector in Bangladesh. A large portion of RMG workers are out of reach for banking services and they do not have enough time to go to bank for banking. The strict work hours in factories do not do not spare any time to leave the factory premises except lunch time. As workers in these factories are mostly women, socio-cultural norms lead them to squeeze in as many household chores as possible in the forty-five-minute lunch break. Garment factories and mobile financial services (MFS) providers can jointly play a pivotal role to financially include RMG workers and allow them to access a range of financial services in the long run. This action plan explores how factories and MFS providers can collaborate in digitizing the salary disbursement process for the workers.

## 1. Salary Disbursement: Current Scenario

One of the most complex tasks in a factory is disbursing worker's salary payments. Compared to regular employee salary processing, it is a manual process that requires seven days on average to entirely complete it.

The typical cash-based salary disbursement process is illustrated below:

Step	Cost Involved	Time Required	Risks
<b>Preparing the Salary Sheet</b> Data from attendance and timesheets are entered to derive monthly <sup>i</sup> payments for each worker. This is normally done by the floor manager or the HR department.	Cost incurred by HR/floor management to manually tabulate timesheets	Four Days	Human Error, Leakage
<b>Approval from accounts and HR department</b> The salary sheet is reviewed by the accounts department and sometimes the head of another department (HR/Administration)	No Direct Cost	Half Day	Human Error, Leakage
<b>Cash request to head office (HO)</b> A cash request is placed by the accounts department for the total amount of workers' monthly wage payment	No Direct Cost		N/A

<p><b>Cheque collection from head office</b> The HO issues a cheque and a representative from the factory's HR team needs to collect it in person.</p>	Transportation	Half Day	If payday is on a holiday, advance planning is required
<p><b>Cheque encashment</b> Banks are given a reasonable notice to prepare cash with preferred denominations. Cash is collected from the bank branch most convenient from the factory.</p>		Half Day	Notes can be fake, torn or the wrong denominations.
<p><b>Safely bringing cash to factory</b> This is a risky part where large sums of money need to be transported to the factory. A special security vehicle is hired, an insurance company is involved and police need to be paid to ensure cash reaches the factory safely.</p>	BDT 15,000-20,000		Risk of robbery, theft
<p><b>Distribution of salary slip stating total wage payable</b> Before the day salary is disbursed, workers are issued a salary slip based on approval from the HR and accounts departments. This is done by the floor management.</p>	Printing, time cost of floor manager		Loss of the pay slip, if the employee is absent
<p><b>Distribute cash by floor/division</b> Once the cash has reached the factory, it is divided by floors and distribution responsibility is also divided. This is done so that the total production time lost through salary disbursement can be reduced. However, this increases the time admin staff are engaged.</p>	Cost incurred by admin/HR staff	Full Day	Mishandling cash by factory staff, leakage
<p><b>Queue management</b> The floor supervisor is responsible for roll calling and efficient queue management. Refreshments are served to the disbursement team.</p>	Refreshments: BDT 10,000 Revenue stamp BDT 25,000		
<p><b>Disburse cash and retain evidence</b> Workers receive their salary, return the salary slip and sign a logbook to confirm receipt of their salary. The factory maintains this evidence, but no documentation lies with the worker.</p>	At least one production hour lost for each worker		Workers' lack of duplicate records could allow for manipulation of the amount paid.

Key personnel involved in the salary disbursement process include:

1. **Accounts Manager:** S/he plays the central role in the disbursement process. S/he sends the salary sheet for the cheque request and is responsible until safe delivery of cash to the factory.
2. **HR/Admin Manager:** S/he is responsible for ensuring salary calculations, as well as timely and orderly payment of the wages.
3. **Production Supervisor:** This person is usually responsible for his/her department's matters related to wages.
4. **Assistant Manager:** S/he assists the accounts manager in all the required functions.

5. *Time Keeper/Floor-in-charge*: Attendance, record keeping and queue management on the pay day is usually the responsibility of the floor-in-charge.

## 2. Digitization in the RMG Sector

### 2.1 Overview

Bangladesh's garment sector is in the early stages of its transition to digital payments. There is also growing evidence<sup>1</sup> that making the transition to digital forms of payment can save money and time for employers and give employees access to formal financial services and more control over their financial lives. Though there are 16 licensed MFS providers in Bangladesh as of 2019, when it comes to digitizing wages for factories there are only two key players:

#### a. bKash



bKash is focused on providing salary disbursement solutions to the RMG industry. They have a dedicated unit working with factories and have a long-term plan for offering interest to RMG worker accounts. They are currently subsidizing cash out payments (part of the cost is shared by the factory but a larger chunk is borne by bKash) for workers to ensure MFS does not come with any extra cost to them. bKash has the largest agent network in Bangladesh.

#### bKash's key strengths:

1. Generous cost sharing for cash out fee
2. Largest agent network in Bangladesh
3. Professional corporate account management for RMG
4. Interest on MFS account balance for workers

#### b. Rocket (DBBL Mobile Banking)



Dutch-Bangla Bank Ltd (Rocket's parent bank) has the highest number of ATM booths among all Bangladeshi banks in addition to a huge network of Fast Track booths where there are six to eight ATM booth and a customer service officer (employee of the bank, not a third

#### Rocket's key strengths:

1. Largest ATM booth network
2. Large Fast Track and booth network
3. Deeper relationship with parent bank and can bundle corporate banking
4. Can offer free cash-outs at ATM

<sup>1</sup> Digitizing Worker Salary Payments (March 2018, FHI 360)

party). These make Rocket the most cash-ready mobile wallet.

## 2.2 Considerations before Digitization

### General

#### Workers' Readiness

The first criteria of having a mobile wallet is having access to a mobile phone – preferably owning a phone. Proof of ID is a mandatory item (National ID/passport/driving license), so not having one, can be a barrier to opening an account with an MFS provider. However, in some cases MFS providers may accept a combination of Employee ID and Birth Certificate for workers.

Before introducing MFS, it is vital to gauge the level of comfort and openness to learning new things, as well as their current capability. For example, the barriers to adoption will be different—and often more challenging—for an illiterate worker compared to someone with a basic level of education. It is also helpful to bear in mind that although mobile money can easily be cashed out, it requires a bit more time and effort than simply having cash in hand from the offset. Some workers may have the need to access instant cash, and as such they might be more resistant to adopting MFS. Factories are encouraged to use worker support networks such as participation committees (PC) to champion salary digitization initiatives.

#### For Choosing the Right MFS Provider MFS Supply in the Area

As the digital money ecosystem is in early stages of development, users generally have to depend on agents or ATM booths for cashing out from their mobile wallets. Therefore, the strength of the agent and ATM network is vital. Branch based withdrawal might be impractical considering banking hours overlap with production hours.

#### Cost Competitiveness

The factory should evaluate potential MFS providers in terms of various organizational needs, but cost advantage should be given utmost priority. While MFS providers do have a rate chart, they are open for negotiation with factories. The cost transferred to the workers should be as low as possible, preferably zero at the outset of the digitization initiative.

#### Integration with company ERP and Bank Account

Factories may consider approaching MFS providers that have partnerships with banks that the factory already uses for their core bank account. This can minimize the time taken to make funds available for disbursement, although it is not a prerequisite. Additionally, if the factory uses an ERP tool to monitor attendance, overtime and final payables, they can look for an MFS provider who can directly pull data from the ERP software to reduce the time taken for uploading data separately/sending paper-based instructions. This can free up significant degree of administrative resources and allow the minimization of errors in calculating salaries. Factories could also take advantage of the salary digitization effort to introduce broader automation initiatives such as the use of ERP software.

#### Customer Support

Experience has shown that assistance is often required by workers to safely operate their mobile wallets. This can come from a representative in the factory, an agent banking booth nearby, and MFS agent or a dedicated person within the organization equipped to handle such issues. Special attention for account recovery/lost PIN needs to be given, as this is a common issue faced by factory workers.

## 2.3 Benefits of Digitizing Payments

### Efficiency & Time Savings

Processing and disbursing cash payments is a multi-layered process that involves time investment from many departments within the organization. The good news is that MFS can completely automate the process from the time total individual payables are finalized by the factory (e.g. approved salary sheets/software output of wage calculation). MFS providers such as bKash and Rocket are now equipped with expertise to disburse payments almost instantly after availing the fund and payment instructions are shared through their portals.

Saved production hours (workers do not have to collect slips, stand in queue and sign) can contribute to improved outputs. The administrative staff involved in disbursement of salary can also better utilize their time – and in some cases management can rethink those roles.

### Transparency and Security

Digital payments can help to ensure the accuracy of workers' payments and reducing the risk of loss or theft of wages for workers. The majority of the factories who have digitized wage payments have realized that the presence of 'ghost workers' led to leakages from the payroll process. Even direct exporting factories with professional management faced these issues, which significantly inflated wage costs.

Transporting cash in the factories imposes high risk; the level of risk is so high that it needs to be managed through an insurance and security agency. All the components for risk mitigation involve costs to the company. By digitizing

payments, the risk can be controlled with no additional cost. In the case of bKash, the fee for cashing out can be fully subsidized (depending on negotiated rates) so the RMG workers do not have to pay directly. For Rocket, RMG workers do pay a cash out fee when using a Rocket agent, but withdrawals from ATMs are free.

Digitizing payments also ensures transparency and electronic records of transactions. The trend towards compliance mandates indicate that transparency may soon become a compliance issue for factories targeting international buyers.

### Cost Savings for the Factory

If all of the costs involved in cash payments are aggregated (such as mitigating the cash carriage risk, reduction of overhead and staff time, and lost productivity), a factory of 5,000 workers can save more than BDT 200,000 every month in the salary disbursement process by switching to MFS (please refer to cost comparison tool for more details). For a factory, it is a task outsourced at relatively low costs in comparison to cash. The cost of leakages, while difficult to estimate, can run into multiples of this depending on the factory.

### Workers' Satisfaction in the Long run

When workers receive wages in a mobile wallet with no extra cost to them, they can realize the benefits of digital payments and may not want to go back to cash-based salaries<sup>2</sup>. Ultimately, they end up having greater control of their finances.

## 2.4 Cost Comparison Tool

A framework for RMG factory owners and managers to estimate the efficiencies from

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<sup>2</sup> Digitizing Wage Payments in Bangladesh's Garment Production Sector, Better than Cash Alliance, March 2017

transitioning to MFS wage disbursements is annexed with this action plan. The framework can be used to find inefficiencies in current practices and how MFS can improve upon those. It will also allow the quantification of the financial benefits from MFS adoption.

The tool calculates cost of salary disbursement from the point where approved salary sheets are prepared, since there is no variation in effort or cost till that point. Factory managers can enter data in the amber colored cells to find out total cost of cash-based salary disbursement.

To derive at the cost of salary disbursement, the tool factors in the following components:

1. Salaries of people involved in the disbursement process (broken down to hourly rate)
2. Number of workers (no of workers x time spent by each for wage collected)
3. Number of departments/floors/units
4. Cost of revenue stamps (number of workers x stamp value)
5. Hourly wages (to calculate lost production hour)
6. Hours taken (per person x for each task)
7. Direct costs involved (transport, insurance, security, refreshments, etc.)

## 3. MFS-Based Salary Disbursement

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### 3.1 MFS Provider Onboarding Process

The onboarding process largely varies from factory to factory. Some factories may be better equipped than others to manage the transition. However, for a factory with 3,000 workers, it will generally take four to five months to completely digitize workers' salary. The steps involved in digital salary disbursement process are described below:

#### Closing deal with MFS provider

Finding the right MFS provider can take a lot of time and there is no standard timeline for this.

#### Involving middle management

After approval from directors/top management it is usually the middle management that works with the MFS provider. Therefore, it is crucial for all relevant people in the HR, Accounts or Finance departments to have full clarity about MFS-based disbursements.

#### Account Registrations

Once middle management is comfortable with the process, it is time to create mobile wallets for the workers. Usually registration does not take more than five minutes. An account opening form duly filled in, a photo ID (NID/passport/driving license/birth certificate) and a passport sized photograph is required to create an account. MFS providers deploy field teams to the factory to complete this task to reduce the burden on the factory's administrative staff.

#### Training

The workers need rigorous training on how use the USSD menu, cash out at agent points and use merchant payments. Workers' education levels are a barrier in the learning process, hence they need individual attention. Awareness of common risk factors, the concept of PIN privacy and account recovery also needs to be covered at this stage. The training can be integrated into the workers' orientation process so that new workers who join after the initial training delivery are well versed in MFS.



## Pilot

Every factory has a group of workers who are spokespersons of the broader labor force. They are the best candidates for piloting payment digitization as they can provide constructive feedback as well as inspire confidence in the new process among their peers.

## Fixing bottlenecks


Issues reported during the pilot period should be fixed before the phase by phase roll out.


## Phases of scale up

Usually the transition from manual payment to digital happens by batch. Factories are expected to notify the MFS provider when new workers join the factory. There are two approaches to payment digitization in terms of rolling out:


- a. Department wise scaling: In this option, departments digitize their worker payments one at a time. For example, in March, only workers in the 'Washing' and 'Cutting' department receive digitized payments. In April, along with the previous two, 'Labelling' and 'Drying' also receives wages through MFS. This approach gives the MFS provider some space to understand if their client has any unique requirement they can cater to.
- b. Fully digitize workers' payment at once: All workers in the factory start receiving salary in mobile wallets from the same month. This is recommended for smaller factories who have straightforward wage structures. This shortens the implementation process although all workers need time off for registration/training at the same time.


Both MFS providers and factories report that it is a straightforward process after a factory is fully on-boarded. The process of disbursement is:

 **1. Fund Availability**  
Ensure funds are available for the MFS provider before the final disbursement day. It can be done with electronic fund transfer or placing a cheque. For Rocket, it is best to maintain an account at DBBL for faster processing. No cash is involved in the transaction.

 **2. Payment Instruction**  
For Rocket the process entails completely a simple document containing the account number (mobile number+1 digit), recipient name and total amount payable needs to be sent to DBBL disbursement team along with a signed letter.

Factories using bKash are provided access to an online portal where they can upload the salary data with two data points for all the workers who will be paid through MFS: mobile number and salary payable.

 **3. Conversion to E-Money**  
Once the MFS provider has received the funds available and instructions for payments, they will place a request at Bangladesh Bank to convert the cash into e-money. This process takes a maximum of 2-3 hours.

 **4. Instant Disbursement**  
After the conversion, disbursement is instant provided there are no major network issues. The workers receive a real-time text message with a description, which typically states the month. The message is customizable. No further evidence or documentation is maintained in this process.

## 3.2 Steps in MFS Based Salary Disbursement

## 4. Challenges Related to Salary Digitization

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MFS in Bangladesh is considered a benchmark for many other countries. Since its inauguration in 2011, the industry experienced steep growth in all aspects. Through expanded market penetration and expansion in newer customer segments, MFS is no longer a niche offering. While it poses itself as one of the most promising candidates to address financial inclusion, there are some challenges too.

### 4.1 General Challenges

#### Limited Photo ID

Less than half of RMG workers have an official identification document issued by the government, which is a standard pre-requisite for opening a mobile wallet. While the majority of workers do have access to mobile phones, the SIM cards are not always registered in their name (due to the same underlying issue: official photo ID is needed for biometric registration of SIM cards). When a SIM card is registered under someone else's name, he/she cannot get a SIM replacement on his/her if the phone is lost/stolen. As all mobile wallets are attached to a phone number, they may lose access to their money for a while as a result.

### 4.1 Common Concerns for Factory Owners and Managers

Concerns	Solution
Resistance from Mid Management Middle management who works with the cash-based disbursement process are often used to the current method and likely to resist any change.	Top management must keep relevant people on the same page and set time bound targets so that they embrace the change with confidence.
Data Privacy For MFS-based salary disbursements, factories need to share workers' data with the MFS provider. While digital transactions allow factories to be more transparent, data privacy is a concern for some.	MFS is a highly regulated market like banking itself. Therefore, data protection and privacy will not be compromised by the providers as a regulatory compliance requirement.

#### RMG workers being in the last mile of digital money

Almost all RMG workers interviewed during the study stated, 'expense of cashing out' as their main objection to receive salary through MFS. The primary recipients of their money – the grocers and landlords – are generally not open to the idea of receiving mobile money. Moreover, many feel that cash is safer because they cannot afford the surprise of losing money from their wallet due to a technical glitch.

#### Considered as a 'money transfer' product

'bKash' is instantly recognized (the brand name is more widely known than the category name) as a money transfer product and this is essentially a service that can be availed through an agent. The difference between over-the-counter (OTC) and person-to-person (P2P) is unknown to most RMG workers and so are the benefits that come with owning a wallet.



### Lengthy onboarding process

The factories can consider a phased-in approach so Transitioning to payment digitization takes time. that all workers do not have to take a break at the Registration, training and piloting need to be same time. sequenced.

### Making Economic Sense

Negotiations with the MFS provider is one of the most important steps in the transition process. Factories might feel that the cost savings from MFS transitioning may not be attractive in the long run providers are aware of the concern and try make offers that offset cost to the company.

## 5. How Insights Were Gathered



Recommendations in this action plan are based on:

- a) **Direct interviews** with factory management, grocers (merchants), landlords, key MFS players in the market
- b) **Focus group discussions** with RMG workers
- c) **Observations** at agent points, factory premises