Innovations for Poverty Action

Authors
Kyle Holloway
Country Director, Colombia

Danielle Moore
Program Manager

The Potential Payoff of Electronic Wages: What Employers Need to Know

Editor's note: This post appeared originally on [www.inclusivebusinesshub.org]

The private sector, as employers, has a major role to play in women's economic empowerment. But not necessarily one born of social responsibility. Electronic wage payments are one of the most promising ways to give women control over the money they earn and encourage the use of formal financial services. These digital transfers have also been shown to reduce costs for businesses. But there are still some significant challenges to overcome. Is the private sector ready to take on these challenges to realize the potential payoff of digital wage payments?

A win-win for employers and employees

Today, more than 50 per cent of adults globally report that they still receive their wages in cash. Among low-income countries, that number jumps to nearly 85 percent and is even higher among women. For employers, this means withdrawing and transporting large quantities of money and manually tracking payments. A study in Afghanistan tested the introduction of mobile money instead of cash payments. The employer recovered the fixed costs—SIM cards, registration, training, and mobile phones—after only six months thanks to a 66% drop in the per-employee cost of delivering salaries, reduced staff time spent preparing the salaries, and reduced risk of transporting large quantities of cash in a hazardous setting. While these costs were largely shifted to the mobile network provider, as they expanded their agent network and made sure agents had enough cash on hand, the provider benefited too, as employees increased their phone use. In Niger, researchers foundsimilar cost savings when the government digitized social welfare payments. In that study, recipients also saved significant time collecting the payments—alone enough to offset the costs of transitioning to mobile money.

These electronic payments also offer employees an on-ramp to financial inclusion. When the employees in Afghanistan received their wages via mobile money, they were more likely to let money accumulate in the account instead of using less secure, informal methods of savings (e.g. keeping cash under the mattress). While the employees in the group who received their salary via mobile money did not on average save more than those receiving them in cash, another study demonstrated that these electronic wage payments were an opportunity to increase savings by introducing automatic payroll deductions. In addition, preliminary findings from Bangladesh indicate that digital wage payments for salaried factory employees increased savings and improved financial resilience when they encountered setbacks.

For women, who face greater social demands and have less household bargaining power, having their earnings deposited into their own account can give them more control over their money and, thereby, motivate them to work more. In India, researchers tested the impact of depositing women's wages into female-owned bank accounts versus those owned by the male head of household, the status quo. The switch led to a significant increase in the number of women working and their total earnings, especially among women particularly limited by prevailing gender norms.

Overcoming barriers to achieve maximum impact

This evidence presents a strong case for a win-win opportunity for women and their employers. But the researchers also identified barriers that affect whether digitization of salary payments has the desired impact. For example, mobile money users withdraw cash via agent networks, often local shopkeepers. If the agent doesn't have the cash on hand, the users may not be able to withdraw the amount they need. This is exactly what happened when the contractor in Afghanistan tested mobile salary payments for their employees. As a result, employees sometimes couldn't withdraw until after payday. In that study, the issue was resolved within a few months, but it's a lesson to be considered in any rollout from the start.

In addition, women are faced with gender-based barriers in mobile phone ownership, legal documentation, and financial and digital literacy. According to a GSMA report, women are 14% less likely on average, and 38% less likely in regions such as South Asia, to own a mobile phone than men. In some countries, women also face legal and social barriers to attaining the government identity documents required to open an account in their own name. For this reason, providing mobile phones and supporting account creation for employees may be considered an upfront cost to switching to digital wage payments. Finally, even simply knowing how to use the account can be a barrier, found one study in India. More research is needed to design and test solutions to overcome these barriers.

Before transitioning to digital wage payments, employers should carefully consider the potential pitfalls that affect whether the switch will have the intended impact. In particular, the design of digital wage delivery must address gender-based barriers to ensure that everyone is able to benefit. If employers do so successfully, this opportunity may be too good—for women and for businesses—to pass up.

September 18, 2017