



Digital financial services for garment workers in Bangladesh

Research on digital financial capabilities, financial products availability and usage, and social welfare ecosystem

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1 ■ Project background

The ready-made garment (RMG) manufacturing sector is one of the key industries for the economic and social growth of Bangladesh. The COVID-19 pandemic impacted this industry significantly as the demand in major markets fell significantly, many factories closed down, and workers faced difficulties in going to factories to work, and to banks to collect wages or withdraw cash. Early in the pandemic, the Government of Bangladesh supported the RMG industry by providing different stimulus packages and mandated digital wage disbursement, which helped to boost the payment digitization process in the industry. However, after August 2020, when the Government's support was withdrawn, the use of digital payments in this industry declined by more than 50 percent. This clearly indicates the presence of gaps in the digital payments ecosystem and the absence of a long-term sustainable business model.

The COVID-19 pandemic has also highlighted the absence of an effective and efficient social protection mechanism in Bangladesh that is linked to an accurate and updated workers' database. Many workers, especially those working in the informal sector, were left behind by the country's social protection systems during the pandemic due to lack of infrastructure and system to access a social safety scheme

Studies indicate that inadequate infrastructure, insufficient access to affordable internet, minimal digital literacy, insufficient financial capabilities and mistrust between demand and supply sides are some of the major areas of concern. There is also a significant gender gap in smartphone ownership, internet access, and awareness of digital and financial services. While a few large factories have developed initiatives to improve digital and financial literacy, these have not addressed the gender nuances.

The United Nations Capital Development Fund (UNCDF) designed a research project titled 'Collective Impact on Future of Work in Bangladesh' to identify the gaps in the digital finance ecosystem and recommend a self-sustaining business model for improved usage of digital financial products and social protection services by the RMG manufacturing sector workers, specifically women workers.

This document outlines the project methodology, the present status of the financial ecosystem of Bangladesh, and the social protection ecosystem. It offers an analysis of the research output and proposes a recommended business model.

2. Project approach and methodology

The study was designed to be multidimensional, consultative and collaborative with all stakeholders and target group i.e. RMG workers. The major steps of the approach were:

- Understanding the critical needs and gaps in the current system
- Acknowledgement of stakeholders and policymakers
- Developing recommendations and dissemination

The methodology used during the study is shown in Figure 1.

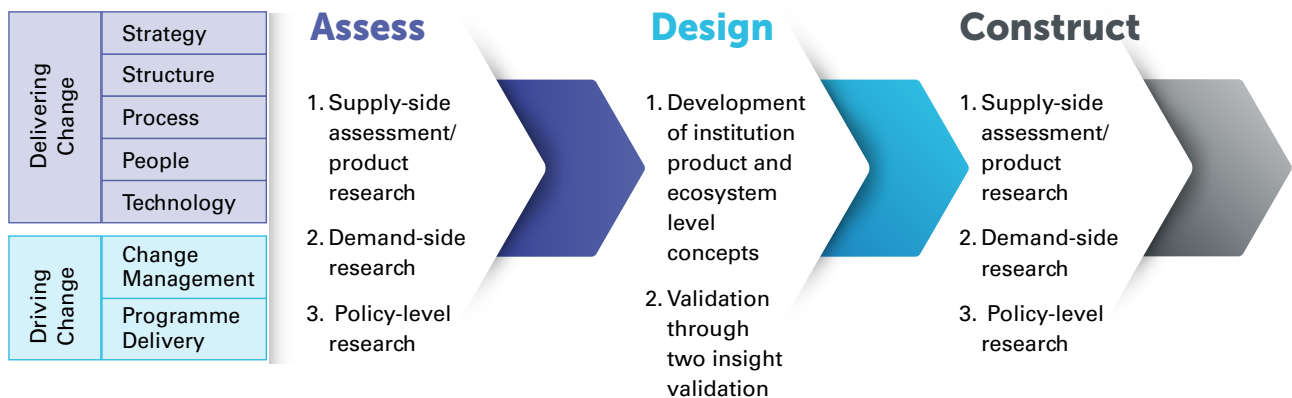


FIGURE 1 | STUDY METHODOLOGY

At the 'Assess' stage, the authors used various tools and techniques to understand the current state of the digital financial ecosystem in Bangladesh. This included an assessment of both the supply side and the demand side of the present system. Five change levers (Strategy, Structure, Process, People and Technology) were evaluated using a combination of desk research and primary research for understanding the 'As-Is' scenario and identifying the need gaps. Primary research was carried out using a pre-approved questionnaire for each group of stakeholders.

At the 'Design' stage, the authors developed concepts at the institutional-, product- and ecosystem-level, before validating the findings and recommendations during the validation workshop.

At the 'Construct' stage, the authors summarized the insights provided by stakeholders during the workshops, and incorporated those insights into the report. The proposed solution, which will address the identified gaps, will be disseminated through a future workshop. This solution has been developed with the sustainability of the digital financial products in mind, and may be explored in the next implementation stage.

2.1.1. PRIMARY RESEARCH

An expert team carried out the primary research to understand the on-ground realities for the project. The ecosystem consisted of multiple stakeholders as beneficiaries, facilitators, implementors and regulators. The responses from each of these stakeholders were triangulated to identify any abnormalities. A detailed description of the research plan is provided below.

2.1.1.1. SAMPLE SIZE AND STAKEHOLDERS

Based on the secondary research, the team identified four major categories of stakeholders: RMG workers, manufacturing firms, financial institutions and governing bodies.

- **RMG workers:** This study covered around 500 RMG workers (400 in surveys and ~100 from focus group discussions) in different part of Bangladesh. A total of 15 focus group discussions were organized. A mix of small, medium and large factories were identified as having the representative sample size. These factories were in Dhaka and nearby areas, including Mymensingh district (Bhaluka), Dhaka district (Chandra, Narayanganj, Hemayetpur, Ashulia, Savar, Demra and Tejgaon) and Gazipur district.
- **Garment manufacturers (employers):** This study covered 16 garment manufacturers across the major garment hubs. The authors selected different sizes of factories— in terms of turnover and number of workers —to ensure that the findings are representative of the industry.
- **Financial institutions:** A total of 10 financial institutions participated in the primary research. A mix of mobile financial services (MFS) companies, banks and insurance companies were covered to receive a wide range of views.
- **Governing bodies:** Both Government departments and leading trade bodies (the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) were consulted as part of this project.

Figure 2 illustrates the sample selection, including size, distribution criteria, nature of respondents and type of primary research tool used.

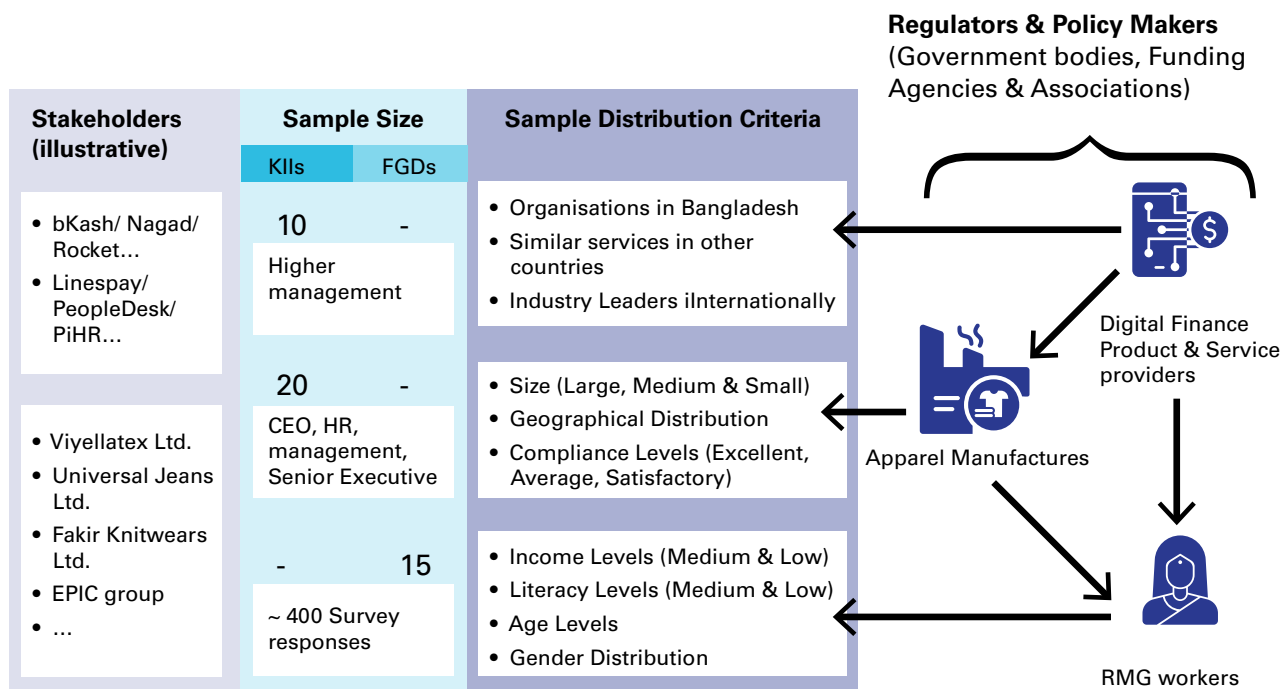


FIGURE 2 | SAMPLE SELECTION

2.1.1.2. RESEARCH TOOLS

The research tools (Key informant interviews, focus group discussion and survey) are shown in Table 1.

TABLE 1 | OVERVIEW OF RESEARCH TOOLS

	Digital capabilities	Digital products and services	Social protection
Demand	<ul style="list-style-type: none"> Level of digital knowledge and practices Current efforts for improvement Gender-specific issues Ways of access 	<ul style="list-style-type: none"> Role of manufacturers, regulators and implementing agencies Need of the solution Acceptance criteria for solution Intent to pay 	<ul style="list-style-type: none"> Availability of schemes/ programmes Awareness, understanding and ease of access for beneficiaries Additional requirements Role of manufacturers in rolling out schemes
Supply	<ul style="list-style-type: none"> Demographic presence Product portfolio Needs: Technical and financial 	<ul style="list-style-type: none"> Viable business case Implementation strategies Monitoring and evaluation Interoperability Technical and financial support required 	<ul style="list-style-type: none"> Current involvement of financial organizations Current level of integration (if any) Viable business case for collaborations

3. Overview of the financial ecosystem of Bangladesh

In recent years, Bangladesh has seen the growing adoption of digital financial products and services. The country has invested significantly in ramping up its digital infrastructure. The number of internet banking customers increased to a record 6.57 million in February 2023, up from 4.7 million in February 2022 and 3.4 million in February 2021, according to the most recent figures¹. A key aspect of the Government of Bangladesh's digital inclusion policy is to encourage the uptake of mobile money and other digital payment platforms. Mobile currency transfers were the most widespread digital use case in Bangladesh and preference of mobile money transfers was three times greater than bank transfers.

The financial system of Bangladesh broadly comprises three sectors²:

1. **Formal sector:** The formal sector includes all regulated institutions, including banks, non-bank financial institutions, insurance companies, capital market intermediaries such as brokerage houses, merchant banks, microfinance institutions and MFS providers.
2. **Semi-formal sector:** Includes those institutions which are regulated but do not fall under the jurisdiction of the Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by specialized financial institutions such as House Building Finance Corporation, Palli Karma Sahayak Foundation, Samabay Bank, Grameen Bank, non-governmental organizations (NGOs) and discrete government programmes.
3. **Informal sector:** Includes private intermediaries that are completely unregulated.

3.1 TRANSITION IN THE PAYMENT ECOSYSTEM

During and after the COVID-19 pandemic, Bangladesh observed a surge in internet usage and digital payments within the country and internationally. The demand for contactless payment in urban and rural areas of the country has contributed to the rise of the fintech industry in Bangladesh.

1 Source: Bangladesh emerges as a unique digital financial services market - Future Startup

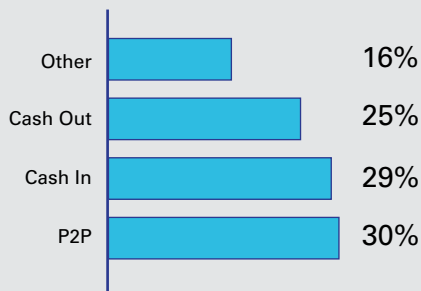
2 Source: Bangladesh Bank

3.1.1 MOBILE FINANCIAL SERVICES

Mobile financial services (Figure 3) have enabled new forms of contactless payments, integrating all kinds of services within one platform. In the past, such platforms have focused on promoting their value through the introduction of digital payments using quick response (QR) codes, interoperable payments facilities for e-commerce services, and money transfers from financial institutions. Daily MFS transactions are growing steadily by 24 percent per year³.

With digital payments being established among customers, MFS operators such as Bkash have partnered with banks and non-bank institutions to launch nano-lending and micro-saving facilities for their customers. This enables consumers to use the mobile wallet for purposes other than payments and to access formal financing at acceptable interest rates and without collateral.

Nature of MFS usage

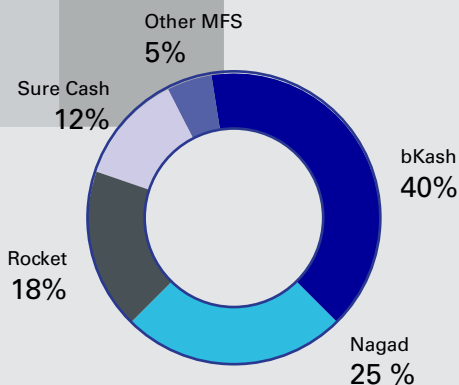


bKash bKash, a subsidiary of BRAC Bank, has the highest market share, accounting for 40.07 percent or 5,39,68,418 account holders in the MFS industry.

Nagad Nagad, the digital financial service provider of the Bangladesh Post Office (officially), which makes up 25.39 percent or 3,41,96,247 account holders of the total market share.

Rocket Dutch-Bangla Bank's Rocket accounts for 18.18 percent or 2,44,92,299 account holders.

% Market share of MSF in 2022



Source: Business post, Business Inspection, Bangladesh Bank

“
 Total number of customers in MFS stood at 196.8 million at the end of February 2023. Out of this, the number of male customers is 113.7 million and the number of female customers is 82.6 million.
 ”
 Source: A Business Standard

FIGURE 3 | OVERVIEW OF MOBILE FINANCIAL SERVICES IN BANGLADESH

3 The Business Standard

3.1.2 BANK AND NON-BANK FINANCIAL INSTITUTIONS

In addition to the continuous initiative from Bangladesh Bank, local banks and other financial institutions adapted new technologies to embrace digital financing. Financial institutions introduced easy-to-use websites and mobile applications, and collaborated with MFS platforms to ease the payment method. A lot of digital products have been introduced by commercial banks and insurance providers. From the research some examples of digital financing products are given in Table 2, while Table 3 shows some of the leading insurance companies in 2023.

TABLE 2 | DIGITAL FINANCING PRODUCTS OFFERED BY LOCAL BANKS AND OTHER FINANCIAL INSTITUTIONS

Organizations		Products
bKash	The City Bank bKash Digital Nano Loan	The City Bank bKash Digital Nano Loan is a new service that allows eligible bKash users to request and receive instant loans ranging from Tk. 500 to Tk. 20,000 through their bKash app. The loan is provided by City Bank, the largest private commercial bank in Bangladesh, in collaboration with bKash, the largest mobile financial service provider in Bangladesh. The loan is collateral-free, meaning that the borrowers do not need to provide any security or guarantee to get the loan. The loan interest rate is 9% per annum, following Bangladesh Bank's guidelines. The borrowers can repay the loan in three equal monthly installments (EMIs) from their bKash accounts. The loan is designed to help the unbanked population and micro-entrepreneurs to meet their emergency personal or business needs.
IPDC	IPDC Orjon	IPDC Orjon is a digital platform that uses blockchain technology to provide supply chain finance solutions for corporates and micro and small enterprises (MSEs) in Bangladesh. It is developed by IPDC Finance Limited, the largest non-banking financial institution in the country, in partnership with IBM and with financial assistance from DFID.
Prime Bank	Prime Agrim	Prime Agrim is a unique, never-seen-before, nano loan service of Prime Bank Ltd. for its own account holders. This mobile based application, powered by AGAM, is available on Android phones to provide instant loans or salary advances. Users will be able to get a credit score in under 5 minutes which will then determine their loan eligibility status. This alternative credit scoring technology is inspired by AGAM's proprietary Artificial Intelligence driven system III©, (Individual Independence Index).
IDLC	IDLC-bKash Digital Saving Scheme	IDLC-bKash Digital Saving Scheme is a partnership between IDLC Finance, the largest non-banking financial institution in Bangladesh, and bKash, the largest mobile financial service provider in Bangladesh, to offer a convenient and secure way for bKash app users to save money and earn interest. The scheme allows customers to open savings accounts with IDLC Finance from their bKash app, and deposit monthly instalments of Tk. 500 to Tk. 3,000 for a term of 2 to 4 years. The savings instalments will be automatically deducted from the bKash account and transferred to IDLC Finance on a specific date of each month.

TABLE 2 | DIGITAL FINANCING PRODUCTS OFFERED BY LOCAL BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTNUED)

Organizations		Products
Dhaka Bank	E Rin	E-rin of Dhaka Bank is an end-to-end digital lending app that allows customers to apply for an unsecured personal loan of up to Tk. 50,000 and get it disbursed in their account within two hours on a banking day. Customers can apply for the loan 24/7 from anywhere in Bangladesh without submitting any physical documents to the bank. They just need to have a bank account, a Facebook or Google account, a valid ID card and an address proof, and upload them through the e-rin app. The app uses a predictive algorithm called the Social Loan Quotient (SLQ) to create a curated credit profile of the customers based on their social networking activities and other factors.
Bank Asia Limited	DPS 100	DPS 100 of Bank Asia is a deposit pension scheme that allows customers to save Tk. 100 per month for a fixed tenure and receive a lump sum amount at maturity. It is a special savings plan for low income people who want to build up their savings habit and secure their future.
EBL (Eastern Bank Limited)	Salary Card	EBL salary cards for RMG workers are a type of payroll card that Eastern Bank Limited (EBL) offers to the employees of the ready-made garments (RMG) sector in Bangladesh. The card allows the RMG workers to receive their salaries directly into their cards without opening a bank account. The card can be used to withdraw cash from ATMs, make purchases at POS terminals, and access other banking services through EBL Skybanking app. The card is designed to promote financial inclusion, convenience, and security for the RMG workers who are often unbanked or underbanked.

TABLE 3 | LEADING INSURANCE/HEALTH SERVICE PROVIDERS IN IN 2023

Insurance company name	Company origin	Company background
MetLife	America	The company offers life, health and education insurance products, and a wide variety of other insurance plans to its customers.
Delta Life Insurance Co Ltd.	Bangladesh	The company is known for providing timely insurances services to its customers. The company offers life, micro, group life and health insurance, and more.

TABLE 3 | LEADING INSURANCE/HEALTH SERVICE PROVIDERS IN IN 2023 (CONTINUED)

Insurance company name	Company origin	Company background
Jibon Bima Corporation	Bangladesh	Jibon Bima Corporation offers 15 different types of life insurance schemes, including whole life insurance, child protection policy, child endowment, and more.
Sandhani Life Insurance Co. Ltd.	Bangladesh	The company is renowned for providing their services vastly throughout Bangladesh in both urban and rural areas. The company provides services such as micro insurance, Group Bima (group insurance), Health Bima (health insurance), and more.
Green Delta Insurance Ltd.	Dhaka	Green Delta Insurance Company Limited is one of the leading private non-life insurance companies in Bangladesh. They have an insurance product, Nibedita, which is only for female workers.
HealthX	Dhaka	HEALTHx is a platform where patients, doctors and pharmacies find smart solutions for their health care-related issues.
Bimafy	Dhaka	Bimafy is the first insurtech platform in Bangladesh. It aims to increase the everyday use of insurance and other financial services in people's lives.

Sources: LightCastle Partners, 'The Payments Landscape: Are digital payments important?', 2022, (<https://www.lightcastlebd.com/insights/2022/08/the-payments-landscape-are-digital-payments-important/>, accessed 13 October 2023); Munira Fidai, 'Digital Nano Lending: Hope for the unbanked', ICE BusinessTimes, 15 February 2022, (<https://ibtbd.net/digital-nano-lending-hope-for-the-unbanked/>, accessed 13 October 2023)

3.1.3. LEADING PAYMENT GATEWAYS AND WALLETS IN BANGLADESH

TABLE 4 | LEADING PAYMENT GATEWAY AND WALLET PROVIDERS

Insurance company name	Company background
SSLCOMMERZ	Provides digital payment solutions to more than 3,500 clients. The platform has additional features to make payment gateway integration easier and complexity-free for clients.
Payoneer	Payoneer is a payment gateway that enables customers to send or receive transactions without a merchant account. This platform provides all the payment services. It is a popular choice among freelancers and international corporations.
Skrill	Skrill is another popular payment gateway and one of the best alternatives to PayPal. This payment gateway has reached its peak due to its low currency conversion rates.
Neteller	Neteller is ideal for sending money to and from merchants. This is an e-Wallet service and is available for both Android and iPhones.
Portwallet	Portwallet is a new payment gateway based in Dhaka. The platform offers online payments and intends to expand its infrastructure to enable internet commerce.
AmarPay	Amarpay is a leading FinTech company in Bangladesh. It offers budget-friendly payment gateway services for B2B and B2C businesses while providing clients with mobile integration and QR payment options.
Stripe	Stripe is one of the largest payment gateways available to businesses worldwide. They offer easy-to-use API integration customized for meeting different business needs.
SurjoPay	SurjoPay works with many prominent organizations in Dhaka to solve their payment problems. They offer QR-based payment solutions and are known for providing a developer-friendly platform for businesses.
D Money	D Money is a digital wallet that provides lifestyle, payment and financial services within a single app. D Money is a 100% Bangladeshi product.
iPay	Bimafy is the first insurtech platform in Bangladesh. It aims to increase the everyday use of insurance and other financial services in people's lives.

3.2. CURRENT IMPEDIMENTS TO PROGRESS

For several years, the Government initiated several development programmes that advocated digitizing wages of the workers in the RMG sector to improve financial inclusion. The Government has launched some initiatives for interoperability, which include Bangla QR (BQR), a secured payment collection method that facilitates person-to-merchant (P2M) transactions through a QR code. Once the BQR codes are deployed at a store, customers can pay using BQR-enabled payment apps, selecting a preferred payment method without sharing any user credentials. The Government has also launched Interoperable Digital Transaction Platforms, such as Binimoy, which is another initiative by government to promote interoperability and make digital payment feasible. Binimoy enables money transactions across MFS and banks.

In 2022, the Government of Bangladesh launched the Saathi programme with 100 women entrepreneurs who will provide agent banking and mobile banking services in the centres. Currently, there are 8,400 union digital centres that facilitate one-stop digital services for rural people.

Mobile services have been at the forefront of this digital transformation. The optimistic expansion of the MFS sector has been aided by a tech-savvy community, mobile connectivity, and internet ingress. The Government disbursed cash to distressed families in the country using bKash; recipients did not need to pay the cash-out fees and National Identity Card (NID) verification was used to ensure that the right people received the money. However, the population as a whole still faces numerous barriers to digital progress (Figure 4).

Bangladesh's RMG sector is in the early stage of its transition to digital payments, with significant number of factories still paying wages and other payments in cash. Female RMG workers still work in a challenging work environment due to the absence of collective bargaining process, gender-based wage disparities, informal recruitment, irregular salaries, long working hours, lack of health and safety standards, and other issues.

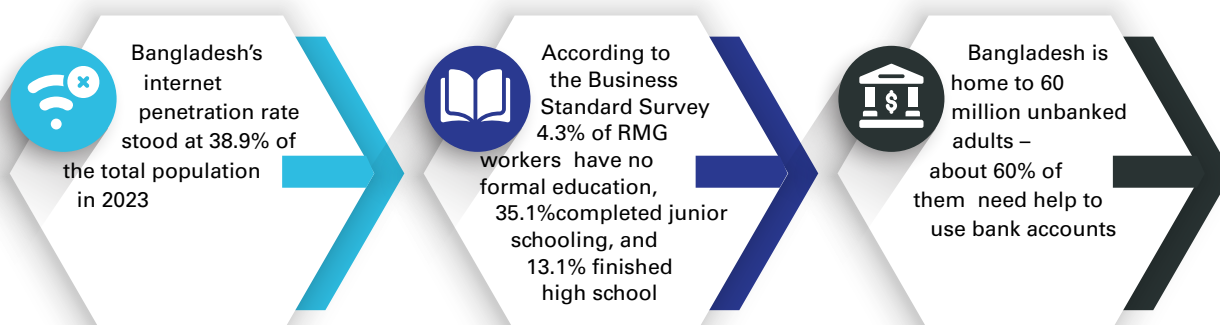


FIGURE 4 | BARRIERS TO PROGRESS IN THE DIGITAL TRANSFORMATION

Sources: The Business Post, 'Over 61% Bangladeshis have no internet access', 9 February 2023, (<https://businesspostbd.com/news/2023-02-09/over-61-bangladeshis-have-no-internet-access-2023-02-09>, accessed 13 October 2023); Farhanarashid, Cheazlantaib, 'An Analysis of Human Resource Management (HRM) Practices in Bangladesh Ready-Made Garments Sector', International Journal of Management and Applied Science, vol. 4 (3), March 2018, (http://www.ijaraj.in/journal/journal_file/journal_pdf/14-454-157085874129-35.pdf, accessed 13 October 2023); Rishi Agarwal et al., 'Future of Work for Female Garment Workers in Bangladesh', FSG, April 2022, (<https://www.fsg.org/wp-content/uploads/2022/09/Future-of-Work-for-Female-Garment-Workers-in-Bangladesh.pdf>, accessed 13 October 2023); DataReportal, 'Digital 2023: Bangladesh', 13 February 2023, (<https://datareportal.com/reports/digital-2023-bangladesh>, accessed 13 October 2023); Fintech for Health, 'Wage Digitization for RMG Workers: Advancing Financial Inclusion in Bangladesh', (<https://fintechforhealth.sg/wage-digitization-for-rmg-workers-advancing-financial-inclusion-in-bangladesh/>, accessed 13 October 2023).

3.2.1. FINANCIAL LITERACY

Financial literacy is a prerequisite for financial inclusion. A survey by Garment Worker Diaries found that 17 percent of women did not know how to use their new digital payroll accounts because they had not received any training, and 29 percent reported that the process of using digital accounts was too difficult. After COVID-19, the return to cash for wage payment was partly due to the Government ending its financial support for workers, payroll processes not being fully digitized, the costs associated with withdrawals, the limited financial payments ecosystem, and a lack of digital financial knowledge and capability.



The Sarathi project was financed by MetLife Foundation as part of the Swisscontact Development Programme. It was implemented in 2018 in Bangladesh. It was co-financed by the Swiss Agency for Development and Cooperation and the Federal Department of Foreign Affairs. The project was focused to address inadequate financial literacy and lack of access to formal banking services of RMG workers. It also addressed the inefficiencies of cash-based RMG factories, and lack of commercially viable business solutions for commercial banks to cater to the needs of the RMG workers.

UNCDF, together with Asia's financial wellness platform Wagely and a consortium of Quizrr and Ulula, committed US\$556,000 to improve the financial and digital inclusion of RMG workers in Bangladesh.



Sources: Swisscontact, 'Sarathi' (<https://www.swisscontact.org/en/projects/sarathi-progress-through-improved-financial-health#:~:text=The%20Sarathi%20%E2%80%93%20Progress%20through%20Financial,workers%20and%20their%20community%20members>, accessed 13 October 2023); Douglas Blakey, 'AGAM International and Swisscontact partner to accelerate financial inclusion in Bangladesh', Retail Banker International, 9 May 2023 (<https://www.retailbankerinternational.com/news/agam-international-and-swisscontact-initiative-to-boost-financial-inclusion-bangladesh/>, accessed 13 October 2023); Abul Bashar, 'Promoting Financial Literacy & Strengthening Financial Consumer Protection in Bangladesh', (https://www.unescap.org/sites/default/d8files/event-documents/Md.%20Abul%20Bashar_Fin%20In%20%26%20Con%20Emp_ESCAP.pdf, accessed 13 October 2023).

3.2.2. CASH PAYMENTS FOR WAGES

Cash payment of wages is still prevalent in the RMG manufacturing industry. This system is not only cost and time intensive but is also a major deterrent for moving towards digital payments. Most RMG workers are financially precluded from formal institutions due to systematic biases such as being unable to meet the requisite documentation requirements. Due to low financial literacy, typically the cash wages are transferred to families, who often live in peri-urban or rural areas, and are then invested through informal financial routes. The patriarchal cultural norms often reduce women's effective control of the money when paid in cash, leaving women in a weaker position to exert full control over their financial assets.

In 2020, according to a survey by the country's apex garment makers' body, BGMEA, around 76 percent of garment factories pay wages through cash, while 11 percent use various payment methods. In March 2022, 53 percent of salary payments in the RMG industry were digital and 47 percent were in cash. These data are drawn from interviews with about 1,300 workers interviewed weekly from April 2020 to March 2022.

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There is a gender divide when paid by digital platform. The country's financial inclusion profile dictates that 41 percent of the population has an account with financial institution, but only 2.8 per cent women do online transactions compared to 4.3 per cent men who do online transactions.

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Sources: Apparel Resources, 'MFS barrier to workers' salary disbursement', 13 April 2020, (<https://apparelresources.com/business-news/sustainability/mfs-barrier-workers-salary-disbursement/>, accessed 13 October 2023); Diana Rugut, 'Worker Diaries in Bangladesh, Update through March 2022', GWD, 27 April 2022 (<https://workerdiaries.org/worker-diaries-update-in-bangladesh-through-march-2022/>, accessed 13 October 2023); Fahmida Katyun, Syed Yusyf Saadat and MD Jahrul Islam, 'Economy in Bangladesh: Opportunities and challenges', Digital Platform, May 2021, (<https://cpd.org.bd/wp-content/uploads/2021/06/Digital-Platform-Economy-in-Bangladesh.pdf>, accessed 13 October 2023).

3.2.3. OTHER IMPEDIMENTS

Research into the digital transactions in Bangladesh highlighted many other impediments related to the low penetration and awareness of digital transactions. Some of these include:



Sixty percent of MFS operators require help to operate their accounts. This puts them at risk of security breaches and indicates that there is a lot of work to be done even after new accounts are opened. (Source: BRAC Institute of Governance and Development)



Bangladesh does not have access to several other universal payment systems, including Apple Pay, Google Pay, Square and Strip. Getting an international credit card or debit card can be challenging due to the country's limited banking infrastructure and strict rules. (Source: Business Standard Bangladesh)



One in every ten MFS users in Bangladesh has faced financial fraud. MFS frauds and scams are very common in the country, and this reduces the credibility of the MFS providers and forces customers to stick to traditional payment methods. (Source: Policy Research Institute of Bangladesh)



Although MFS is very popular in Bangladesh, the cash-out charges are very high. These high rates discourage consumers, especially the less affluent ones, from using MFS more.

3.3. AREAS FOR IMPROVEMENT

Some of the identified areas for improvement are:

- 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 clearly setting the benefits of shifting to digital payments will be particularly important, to engage factory owners, managers, brands and buyers, as well as the digital financial service providers and policy-setting bodies.
- There are hybrid systems of wage payment methods being used by the factories for the wages distribution – Bank Accounts, Mobile Accounts and Hybrid Accounts. Interoperability throughout the system should be implied. We need to ensure that the basic interfaces are present in all types of payment systems.
- There are various payroll companies providing the employee platform for the disbursement of salaries. Those platforms can add financial products that are beneficial to RMG workers. Such bundling of services will help the workers to understand the process of saving or managing money, taking loans, buying insurance products, etc.

4 ■ Social protection ecosystem

Social protection schemes for garment workers in Bangladesh (see Table 5) are implemented under the broader Social Safety Net (SSN) programme. It targets various aspects of workers' well-being and improvement of their socio-economic conditions. Some key aspects of the SSN programme that benefit garment workers are:

1. **Financial assistance:** Financial assistance is provided to garment workers through various channels. For example, the Garment Workers' Welfare Fund offers compensation, medical treatment and rehabilitation services in case of workplace accidents. Cash transfer programmes such as the 'Safety Net Program for the Poorest' help eligible households, including those employed in the garment industry, to alleviate poverty and improve livelihoods.
2. **Health and safety:** The programme recognizes the importance of health and safety in the garment industry. It includes provisions for regular health check-ups, awareness campaigns, and access to healthcare services for garment workers. These initiatives aim to ensure the well-being and safety of workers within the industry.
3. **Skills development:** The programme emphasizes skills development training for vulnerable groups, including garment workers. By enhancing their skills and productivity, these training programmes aim to improve their employability, job prospects and income-earning potential.
4. **Social assistance:** Social assistance to garment workers includes provisions for food security programmes. For instance, the 'Vulnerable Group Development' programme provides food assistance to pregnant women, lactating mothers and children, thereby supporting the nutritional needs of workers and their families.
5. **Grievance redressal mechanisms:** The programme acknowledges the importance of addressing worker grievances and disputes. While not specific to garment workers alone, the programme includes mechanisms such as labour courts, arbitration processes and helplines to provide avenues for resolving issues related to employment and workplace concerns.
6. **Empowerment and social inclusion:** These aim to empower marginalized groups, including garment workers, by providing them with social protection and access to resources. This helps to improve their socio-economic conditions, promote their rights and facilitate their integration into mainstream society.

TABLE 5 | A SUMMARY OF MAJOR SOCIAL SECURITY SCHEMES IN BANGLADESH

Scheme	Governing Body	Coverage	Benefits
Garment Workers' Welfare Fund	Ministry of Labor and Employment	RMG workers	Financial assistance, compensation and rehabilitation services
Group Life Insurance Scheme	Bangladesh		Financial support to nominated beneficiaries in case of death
Workers' Health Support Program	Ministry of Health and Family Welfare		Access to healthcare services, check-ups and awareness campaigns
Financial Literacy Programs	Bangladesh Bank		Improved financial knowledge and management skills
Grievance Redressal Mechanism	Ministry of Labor and Employment		Platform for resolving issues and disputes
Daycare Centres	Ministry of Labor and Employment	Children of RMG workers	Childcare services
Maternity Allowance Program	Ministry of Women and Children	Female RMG workers	Financial support during maternity leave
Workers' Children Education Assistance	Ministry of Education	Children of RMG workers	Educational assistance for children

The SSN and Worker Welfare Fund both have multiple gaps when it comes to their last mile delivery. Table 6 shows the major aspects of these funds, based on secondary research.

TABLE 6 | KEY FEATURES OF THE SOCIAL SAFETYNET AND WORKER WELFARE FUND

	Social Safety Nets	Worker Welfare Fund
Description	140+ SSN programmes administered by 23 Ministries and Divisions	Export-oriented factories would have to contribute 0.03% of their freight on board price to the fund while the contributions from the government and buyers would be voluntary.
	Interoperability among different financial service providers will be the key to bring the services at the doorsteps of the citizens	Two bank accounts for the fund, the money would be deposited equally in the two accounts. <ul style="list-style-type: none"> Grants for workers or their family members would be taken from the beneficiary account Contingency account to meet the dues of workers of any closed factory if its owner is unable to pay the workers.

TABLE 6 | KEY FEATURES OF THE SOCIAL SAFETYNET AND WORKER WELFARE FUND (CONTINUED)

	Social Safety Nets	Worker Welfare Fund
Challenges	Interoperability among different financial service providers will be the key to bring the services at the doorsteps of the citizens	98.1% of buyers refused to contribute to the cost of paying partial wages to furloughed workers, required by law, and 72.4% of furloughed workers were sent home without pay.
	A system-level integration is required between financial service providers and the MIS of different ministries for data sharing and reporting	4 out of 5 workers were dismissed without their severance pay
	Dhaka	Development of workers' database for all regular and probationary workers at all small, medium and large factories, accessible by associations and government agencies
	SSN must ensure updated database and avoid data discrepancies. They can also avail assistance from the financial service providers if required.	Review and reactivation of the Bangladesh Labour Welfare Foundation, which was formed in 2010, in accordance with the Article 234 of the Labour Act, 2006 (Amended 2018), so that it can cater to the needs of workers in emergencies.

5. Research analysis

5.1. PROFILE OF THE PRIMARY RESEARCH RESPONDENTS

5.1.1. WORKERS' PROFILE

Approximately 500 workers (400 in survey and ~100 workers in a total of 15 focus group discussions) were included. The focus of this research work was geared towards women workers. The overall gender distribution of the workers in this study is shown below.



5.1.1.1. PROFILE OF WORKERS SURVEYED

Table 7 gives a detailed profile of the 400 workers who were surveyed as part of this study.

TABLE 7 | PROFILE OF WORKERS SURVEYED

Parameters	Categories	Female (%)	Male (%)
Gender		80	20
Age distribution	<18 years	1	0
	18–29 years	74	61
	30–40 years	23	26
	> 40 years	2	13
Job role	Operator	51	46
	Helper	17	15
	Other	32	39
Marital status	Married	80	81
	Single	16	19
	Divorced	4	0
Educational background	Illiterate	1	0
	Primary	54	52
	Secondary	39	37
	Graduate	1	0
	Diploma	5	11
English language proficiency	Writing	33	38
	Speaking	12	6
	Reading	5	5
	None	50	51
Smartphone users (amongst the workers having a mobile phone)		58	56
Workers having NID	Yes	76	79
	No	24	21

5.1.1.2. PROFILE OF WORKERS IN FOCUS GROUP DISCUSSIONS

Table 8 provides details of different parameters used during the primary research from the focused group discussions.

TABLE 8 | PROFILE OF WORKERS WHO PARTICIPATED IN THE FOCUS GROUP DISCUSSIONS

Parameters	Figures in %	
Gender	Male: 9 Female: 91	
Workers owning a mobile phone	96	
Workers owning a smartphone (among the workers having mobile phone)	64	
Workers having NID	75	
Educational qualification of workers	Illiterate	7
	Primary	36
	Up To 8th standard	35
	Secondary and above	22
	Technical	0

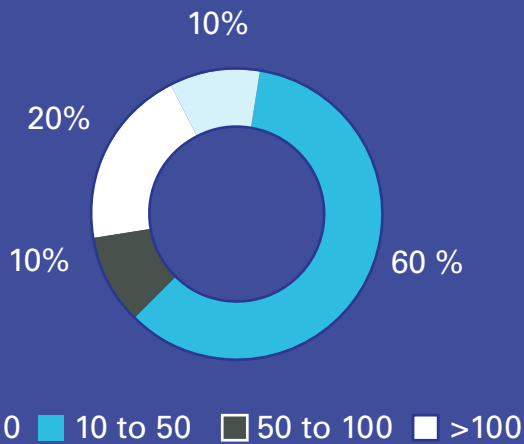
5.1.2. FACTORY PROFILING

Sixteen factories were covered in the primary research (see Figure 5 for some features of the 16 factories). These factories are situated in Dhaka and the nearby areas. The list of factories participated in the primary research can be found in the Appendix.



Gender distribution of the workers

Distribution by number of workers



Distribution by revenue (USD Mn.)



FIGURE 5 | KEY FEATURES OF THE 16 FACTORIES USED IN PRIMARY RESEARCH

5.1.3. PROFILING OF FINANCIAL SERVICES PROVIDERS

Nine financial services providers were covered by the study, including banks, mobile financial service providers and insurance companies. Though most of the financial service providers have significant interest to work for RMG sector. But not all the service providers have a notable reach in the industry. Among all nine service providers, only two service providers highlighted that they provide service to more than 100 factories. Other service providers are growing and slowly extending their services to new RMG factories.

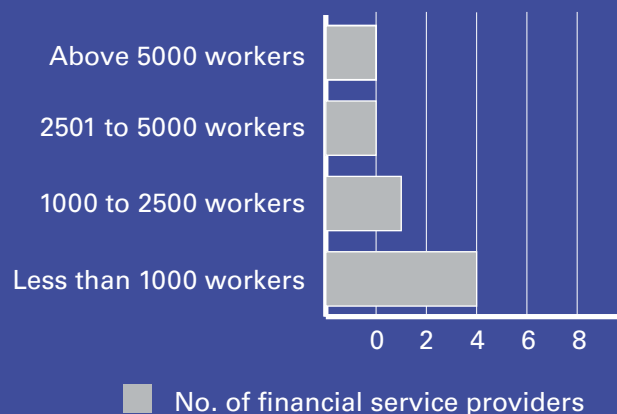


FIGURE 6 | LINKS BETWEEN FINANCIAL SERVICES PROVIDERS AND FACTORIES

5.2. DIGITAL FINANCIAL LITERACY

The financial literacy of an individual may be assessed on six major parameters: (i) earning capabilities, (ii) spending by self, (iii) saving and investing in different assets/financial instruments, (iv) borrowing as per the need of the life and (v) protecting self/family from unforeseen financial stresses. Once the person is literate on each of these parameters and begins using digital products or services to achieve them, we may consider that the digital financial literacy of the person is satisfactory.

Earn: All of the RMG workers who participated in this study are at least earning wages and 83 percent of them are receiving a salary either in a bank account or in an MFS account. They therefore fulfil the first criteria of financial literacy (i.e. earning). In 83 percent of cases the employer has helped the worker to open bank accounts. However, 13 percent of workers are still receiving wages in cash and thus they are not using digital products. Around 8.5 percent of the workers mentioned using online banking services and approximately 42 percent use MFS.

It is also interesting to observe that 28 percent of workers prefer receiving wages in cash as they are either not skilled to handle bank/MFS accounts or they find it difficult. Around 72 percent of the workers admitted that they cannot use an ATM and thus they are dependent on others (e.g. co-workers/family members) to withdraw money using an ATM. These workers fear losing money as they are sharing the ATM PIN with others; many are also concerned about losing the ATM card. There is a direct correlation between educational background and usage of an ATM card. Around 50 percent of workers with a high school diploma and graduates use an ATM card, whereas only 17 percent of the workers with a primary educational background use an ATM card. Some workers mentioned that the server speed becomes very slow during holidays and on the wage payment date, when most workers across the country try to withdraw money.

Spend: The spending pattern of the workers interviewed is shown in Table 9.

TABLE 9 | WORKERS ENGAGEMENT IN PAYMENT FOR DIFFERENT EXPENDITURE CATEGORY

Expenditure item	% of workers
Purchase of groceries/food items	95%
Paying rent	85%
Sending money to family	61%
Repayment of loan	< 10%
Entertainment & mobile top-up	11%

However, usage of digital products for spending money remains low, at around 1 percent. We tried to understand the reason for the persistent high usage of cash transactions for spending. Ninety percent of the workers mentioned that they cannot use an online banking system and almost all said that they do not know about the process of using a QR code. We may conclude that although the workers are financially literate in spending, their digital financial literacy is limited.

Save: Around 60 percent of the workers interviewed mentioned that their earnings are not sufficient for any savings. Analysis of their wages indicate that 75 percent of those workers earn less than BDT 15,000 in a month. Those who are saving are mainly keeping the money in cash form in their homes. The workers had no specific financial goals for these savings. Mostly, they save money as protection against the impacts of misfortune (e.g. medical emergency, death, loss of job). A negligible (0.04 percent) number of workers use digital products for saving purposes. Therefore, we can conclude that the financial literacy of the workers in this parameter is moderate; however, their digital financial literacy is almost nil.

Invest: Around 20 percent of the workers interviewed invest their saved money in land and cattle, and 10 percent make investments in gold. However, none of them are using any digital products or services for making these investments. Such types of investments are mainly for savings, as some workers prefer not to keep their savings in cash form in their home.

Borrow: Ten percent of the workers interviewed take loans from financial institutes to meet the requirements of their family, especially during any health-related emergency. Most of them approach micro-credit agencies. A negligible (0.01 percent) number of workers use digital services for borrowing purposes. In an emergency situation, most workers borrow money from their friends or a their employer for an advance on their salary. A low level of awareness about the process of borrowing from financial institutes, a complicated and time-consuming application procedure and requirements for documents have been identified as major bottlenecks. Therefore, we may conclude that the financial literacy of the workers in this parameter is low and digital financial literacy is close to nil.

Protection: None of the workers interviewed have ever purchased any insurance policy for protecting themselves and their families against unforeseen circumstances such as a medical emergency or death of the wage-earning members of the family. If they face such an emergency situation, they mostly approach the employer for an advance on their salary. In some cases, they also approach co-workers and other family members for the financial support. Only 2–7 percent of the workers are aware of such insurance products. Therefore, the financial literacy and digital financial literacy of the workers is nil in this parameter.

Table 10 summarizes the financial literacy and digital financial literacy of the workers who participated in this study.

TABLE 10 | FINANCIAL AND DIGITAL FINANCIAL LITERACY OF WORKERS

Parameters	Earn	Spend	Save	Invest	Borrow	Protection
Financial literacy	100% earning	85% are spending in grocery & rent	~60% are not saving any amount	~10% invest in gold 20% invest in land & Cattle	~10% take loans	None used life, health & Group insurance
Digital financial literacy	~8.5% use online banking service ~42% use MFS	~1% use digital mode for grocery & rent	~1% use digital mode for grocery & rent	None	Negligible (0.01%) use digital mode for loan payment	None

5.3. SOCIAL WELFARE

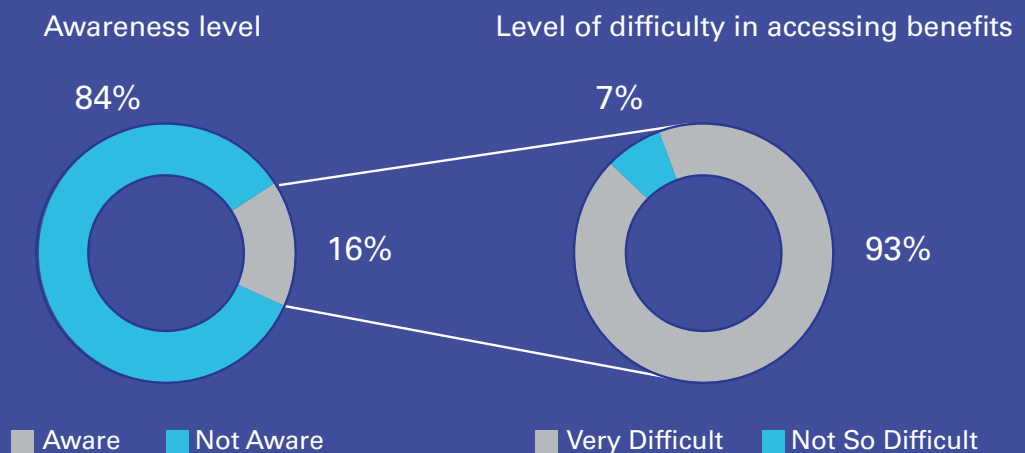


FIGURE 7 | WORKERS' AWARENESS OF SOCIAL WELFARE SCHEMES

Only 16 percent of workers interviewed are aware of the social welfare schemes offered by the Government (Figure 7). Those workers who are aware do not know about the details of the schemes, eligibility criteria, benefits offered and the process of availing those benefits. Of those workers who are aware of the Government social welfare schemes, 93 percent believe that it is very hard to avail the benefits. Complexity of the system, documentation requirements and non-availability of the services in the rural areas are some of the reasons identified by the workers as barriers to accessing the schemes.

Some of the major benefits the workers receive are maternity benefit, nutritional benefits for new mothers, childcare benefits, maternity and nutrition stipend, monetary aid for new mothers, lactating mothers' allowance etc. The sources of these benefits are employers, trade bodies and Government. However, the coverage of such social benefits is limited to few large and medium sized companies. The workers highlighted their need for receiving assistance in skills training, hospital expense coverage for childbirth, provident funds, loans, children tutorial support, and more.

Leading trade associations (e.g. BGMEA, BKMEA) carry out several welfare activities for the RMG sector workers. These initiatives include running health centres, providing free-of-charge medicines, carrying out awareness drives on health issues, running schools for workers' children, providing stipends to meritorious students, monetary benefits to lactating mothers, training for skills development, and more. However, the scale and continuity of such activities is limited.

5.4. AVAILABILITY AND USAGE OF DIGITAL FINANCIAL PRODUCTS

Around 50 percent of the workers interviewed possess smartphones so should be able to access digital financial products. Further, 70 percent of the workers mentioned that they have access to internet so they can also access the digital financial products using either their smartphone or a smartphone belonging to their family member/friends, or from a cybercafé.

More than 50 percent of workers use a smartphone for entertainment purposes and around 35 percent use one for communication (e.g. WhatsApp), but the usage of digital financial products is low among the workers interviewed. As mentioned earlier, 8.5 percent of workers use online banking services. Although a significant number (42 percent) of workers have an MFS providers' account, most use it once a month to withdraw their total wages. This trend is prevalent as the workers want to avoid the cash-out charges imposed by MFS providers.

Several reasons for the low usage of digital financial products emerged, including a low level of awareness, limited training, usage of English language by some service providers, fear of loss of money by venturing into the unknown space of digital, and lower acceptability/usage by relevant business establishments (e.g. grocery shop).

We understand that it is still early days for digital financial products in Bangladesh and, at present, the major emphasis is on awareness creation. Some MFS players have used posters and public announcement systems to inform workers about the basics of digital financial literacy or remind them about salary payment or documentation requirements. This has created positive results, but these activities need continuous funding support. As most manufacturers have not demonstrated interest in investing in such awareness creation activities, the efforts remain sporadic. Some used ambassadors or champions to generate awareness. A toll-free number is also offered by some MFS providers.

6 ■ Gaps in the digital financial ecosystem

The following gaps have been identified in the digital financial ecosystem, which consists of RMG sector workers, manufacturers, trade bodies, financial institutions/financial service providers and Government.

Awareness: The awareness level of the workers related to managing financial matters is very low. Most of the women workers hand over their wages to their husband/any other family members. Unless the workers are made aware about the process of managing their own earnings, they will not become economically independent. It is also important to make them aware of the social welfare schemes and their rights in workplaces. Some of the insurance providers are offering low-cost products that can be very useful in an emergency situation. However, the workers are still dependent on their friends and relatives for arranging emergency funds. Once they are aware of the benefits of finance management and social welfare schemes, they may be interested to know more about its process and available modes, including digital services. Awareness creation around digital financial products is definitely a prerequisite for increasing their penetration and usage among RMG sector workers.

Training: Once the RMG sector workers are aware, they will need training and support. Only 27 percent of the workers interviewed have received training and almost all trainings have been arranged by the factories during the onboarding process. A short training during the onboarding process is not sufficient. Workers need to be trained on a periodical basis to refresh their knowledge/skills and update them about the new developments. Training may cover financial literacy, social welfare and digital financial services. There is a need for a 'one-stop solution' for responding to their queries and supporting them in completing the desired activities.

Collaboration: Most of the stakeholders are presently working individually and are mostly not aware about the need/plans of the other stakeholders. For example, while interacting, the MFS providers showed interest in collaboration for providing training, and manufacturers are also interested in providing them with access to the workers and supporting the training process. However, there is a gap in the role of a collaborator, which could be filled by leading trade bodies, development agencies, Government departments or even a special purpose vehicle. Interoperability is key. Binimoy has set a good example but there is a need for more, similar models. There is also a need for collaboration for offering bundled services (e.g. educational loans and health insurance) and offering incentives (e.g. cashback) for multiple usage of the MFS accounts.

Access: Smaller factories (less than 200 workers), especially those which are not members of leading trade associations such as BGMEA and BKMEA, have been left behind. Workers who have been placed by contractors are also not covered in many cases. Many of the services do not reach to the last mile in rural areas. Workers who are eligible for social welfare benefits are reluctant to apply for the benefits, as they believe that the system is too complex. There is a definite need to widen the coverage and made the system user-friendly.

Cost: The cash-out charges imposed by the MFS service providers act as a deterrent to usage of the account multiple times for different purposes. Currently, the workers do not perceive any cost benefit by using digital modes of transaction compared to cash transactions. Therefore, they prefer to continue with their familiar practice of cash transaction.

Infrastructure: The absence of a complete and updated database is a major barrier to the increased penetration of digital financial services and social welfare benefits within the RMG sector. The Government could take a mandate and collaborate with leading industry association. The NID database may also be leveraged for this purpose. The service providers need access to this database to be able to offer their services to the eligible workers. The availability of ATMs in rural areas is also low, as the return on this investment is very low for banks.



7. Proposed solution model

The solution model has been proposed based on the research work carried out and the feedback received from the stakeholders during the validation workshop held on 12 September 2023.

Awareness creation and training: A collaborative approach involving manufacturers, trade bodies, financial service providers, NGOs and Government departments is required to scale up the awareness creation drive and continuous training of workers on financial literacy, social welfare schemes and accessing social welfare benefits, and usage of digital modes for financial transactions. Around 40 percent of the workers interviewed for this project expressed interest in knowing more about mobile banking and digital services. A focus group could be created, involving the interested organizations, which will drive the awareness creation and training in specific RMG manufacturing cluster(s). A 360-degree promotional approach needs to be taken, including, for example, usage of posters, handbooks, stickers, hoardings, multimedia messages, social media and push notifications. A selected number of workers may be specially trained in each factory as ‘champions’, who in turn will educate their co-workers on digital financial literacy and social welfare schemes. These ‘champions’ may receive incentives for successfully carrying out this additional responsibility. A public-private partnership approach may be taken, with objectively measurable targets and specific timeline.

Regulatory push: The Government may discourage/stop cash payment of wages through regulations. It may also advise manufacturers to ensure that all workers have a valid NID. This will help in the creation of a complete database of the engaged workforce and push the digital wage disbursement process.

Milestone-based incentivization for MFS players: The MFS players have mentioned that a minimum volume of business is necessary to make them sustainable in the long term. However, workers are reluctant to pay the cash-out charges and thus the number of digital transactions is currently limited. The Government could incentivize the MFS players for a fixed time duration (e.g. three years) once it achieves a minimum transaction volume. The rate of incentive may increase as the MFS players achieve a higher volume of transactions within the given timeline. The milestone-based incentive system will ensure that the Government is providing fiscal support to the companies with the best chances of sustaining business in the long term.

Collaboration: The formation of different types of collaboration will be important to offer meaningful products to the RMG sector workers and increase transaction volumes. Bundling of different products (e.g. education loan and health insurance) will require collaboration between service providers. Interoperability needs to be improved. A cashback offer to the users will require collaboration between service providers and product/service sellers. Collaboration between banks

and MFS providers is important to provide a seamless experience to the RMG sector workers. Collaboration with Government and trade bodies will be important to access the database of the workers and to bundle the social welfare benefits with other offerings. For example, childcare services and educational assistance may be combined with an education loan. If the database is developed with a collaborative approach at the industry level, there will be no need to enter the complete details of the worker if they should change employment from one factory to another. Only the name of the employer will change. If the worker becomes jobless, the status of employment will change. MFS players and banks may collaborate with manufacturing units to set up ATM facilities within the campus and an internet café/facilitation centre for supporting those workers who do not have a smartphone.

Agent banking for the coverage of the last mile: There are factories in remote areas of the country where the presence of the formal banking system is negligible. Banks are providing services to those areas through the agent banking system. MFS players may 'piggyback' on the existing agent banking system for offering digital financial products to the workers who are located in those regions. The Government may provide fiscal support to the agent banking system so that it can cover more areas that are presently underserved by formal banking system and MFS.

Innovation: As the gap between the 'as-is' and 'to be' positions is wide, innovations will be required in all phases by all stakeholders. Some examples which were identified during the discussion are:

- An auto-debit option may help to improve the financial discipline among the workers for savings, payment of Equated Monthly Instalment (EMI)s of the loans, payment of insurance premiums, etc.
- Usage of the Bengali language and icons will help to improve the user-friendliness of the digital financial products.
- Providing smartphones to the workers on a loan basis and deducting the cost for the monthly wages could be useful.
- Developing the digital financial literacy training content in Bengali and uploading this content to social media would improve access.

Appendix

PRIMARY RESEARCH COVERAGE

Sl. No	Name of Stakeholder	Type of Stakeholder
1	Bkash	80
2	Nagad	MFS
3	Upay	MFS
4	EBL	Bank
5	Bank Asia Ltd	Bank
6	Guardian Life Insurance Limited	Insurance
7	Zaynax Health	Insurance
8	Bimafy	Insurance
9	HealthX	Insurance
10	Green Delta Insurance	Insurance
11	UHM Limited	Manufacturer
12	Fakruddin Textiles	Manufacturer
13	Nur Group	Manufacturer
14	AKH Fashion Ltd	Manufacturer
15	Giant Group	Manufacturer
16	Seacotex Fabrics Ltd	Manufacturer
17	Attires Manufacturing Ltd	Manufacturer
18	Experience Group	Manufacturer
19	Anowara Group	Manufacturer
20	HamidTex Limited	Manufacturer
21	Epylion Group	Manufacturer
22	Fattulah Apparels	Manufacturer

LEAVING NO ONE BEHIND IN THE DIGITAL ERA IN BANGLADESH



Impact Capital
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