BETTER THAN CASH ALLIANCE | Empowering People Through Electronic Payments

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Business Toolkit

The Better Than Cash Alliance has prepared a series of toolkits to help different stakeholders in their shift towards digital payments.

Choose the one which likely best suits you

Ecosystem Diagnostics
How to conduct a diagnostic to review the digital payment ecosystem

Development Partners

Payments Measurement
How to measure the payment flows so as to track the shift to electronics

Business

Government

This toolkit is primarily intended for:

Your institution	Medium or large business (50 or more employees, including subsidiaries of multinationals)
Your role within the institution	CFO or senior financial manager
Your level of prior digital payments knowledge required	Low to medium
The stage of your organization’s digitization journey	Ready to learn or just getting started
The geography where you work	emerging market

First time reader? Get tips on how to navigate this toolkit.

Go directly to the decision tree to help determine your starting point.

Go directly to the index to navigate throughout the toolkit.

Not you above? Maybe another BTCA toolkit may fit your needs better.

Tips on how to use BTCA toolkits to get what you need, fast

BTCA toolkits aim to provide a practical, modular source of advice to readers, so that:

- **first time readers** with limited background on the subject can navigate smoothly through the entire toolkit in stages if they wish; while
- **return readers or those with particular questions or interests** can quickly and easily get to the sections relevant to them.

However, there are a variety of particular uses you may have in mind so an initial decision tree will enable you to form your own path to relevant material. And you can always get back to the index using the button at the bottom of every page.

Context and Awareness	Readiness and Engagement	Framing the Case	General Resources
This section gives the bigger picture around why you should consider shifting.	This section helps you decide how to prioritize where to start.	This section takes you through a structured process to recommend how to shift a specific payment type, using applied examples. A one page summary at the start of each section will help you get the highlights fast.	This section contains links to other useful materials, frequently asked questions and a digital payment glossary.

This toolkit aims to help you first, understand the bigger picture of digitizing (context and awareness), then prioritize where you can start in your organization (readiness and engagement) and finally, work through to a recommended option in each of the payment types.

However, the toolkit is **not an implementation manual**: to get to implementation, you will need to take additional steps (such as develop a detailed plan) which are specific to your situation.

Decision Tree: How to use this toolkit

You can download it as one PDF file here or determine your starting point using the links in the diagram below

Estimated Time to read all

Specific Tools to use/download

1 Are you new to digital payments?

yes →

Read the introductory section as a whole or jump to:
- Major trends
- World of digital payments
- Test your knowledge and mark your business's progress

30 min

Payment knowledge self test

Payment glossary

no ↓

2 Are you ready to invest effort in shifting?

no/not sure →

Read the readiness section as a whole or jump to:
- Your drivers
- Your payment profile
- Readiness checklists
- Prioritizing

40 mins +

Your stage of the journey

Complete your payment profile

Assess your readiness

yes ↓

3 Are you ready to frame the case for particular payment streams?

which? →

Employees

Suppliers

1 hour

no ↓

4 You may still find these resources helpful.

FAQs: Salaries **and** Suppliers

Resource Center

First time readers:
See these Toolkit navigation tips

Index: How to Navigate This Toolkit

Jump to the relevant sections using the links in the index below

Context & Awareness

Automating back end processes means digitizing payments

This **first section of this business toolkit** aims to provide readers with a context of the trends affecting electronic payments in general and why businesses are shifting to electronic payments.

By reading this section, you will:

- Develop a general awareness of why businesses are shifting
- Get an understanding of trends in the sector and in general
- Take a simple self test of your knowledge of electronic payments
- Access a glossary of payment terms

Where does digitizing payments fit in for businesses?

Digitizing payments and receipts are part of a wider process of digitizing business recordkeeping and accounting processes. While they don't always happen simultaneously, digitizing back end processes can make digitizing payments much easier and more efficient, and digitizing payments often opens up ways for businesses to improve the way they track payments, helping them cut costs and improve their understanding of their cash flows. Not only is this important for businesses, it matters, too, for their employees and suppliers and the wider economy. **This toolkit supports businesses** which wish to take a closer look at the benefits and how to assess them.

For further general reading:

BTCA's White Paper, The Journey to Cash lite, set out the general case for governments, businesses and development partners to shift to electronic payments. For businesses, there are some resources which help to set the scene, but fewer than for governments or for development partners.

Why are businesses shifting to digital payments?

Increasing evidence suggests the following reasons are driving the shift

Reason	Finding	Example
Cost Saving	Moving from cash and check to digital payments significantly reduces cost to businesses: as much as by 50% for salaries and 30% for suppliers.	These numbers come from studies of costs in businesses in the US, Canada and Europe, and recent studies in Afghanistan and Philippines.
Transparency	Digital payments improve traceability which reduces losses from payments to fraudulent or incorrect recipients such as employees or suppliers.	In India, a recent study found that making social security payments digitally results in a 47% reduction in the incidence of bribe demands compared with cash payments.
Speed and security	Digital payments can be instantaneous, reducing the time the payee must wait to receive.	In the US, a recent study has found that moving from cash and check to electronic benefit payments is associated with a 10% reduction of the crime rate.
Financial inclusion	Digital payments to employees or small businesses can be the first entry point for unbanked people, supporting the usage of new services for additional reasons	In Mexico, a recent study has found that accounts opened to receive social transfers led to increased frequency of receiving remittances also through formal channels.
Economic development	More electronic payments leads to an increase in GDP of between 0.3% (developed) and 0.8% (emerging).	A 2013 Moody's cross country study of 56 countries over five years reported this finding.

Want to read more on the benefits of digitizing?

BTCA together with the World Bank and Bill & Melinda Gates Foundation brought out a 2014 report called The Opportunities of Digitizing Payments. In this report, the authors argue that digitizing payments will contribute significantly to reaching broader policy objectives and call for a renewed focus on governments to digitize their payments and receipts including social transfers.

Digitizing business Payments

Did you know?

- Businesses paying employees electronically, rather using paper-based approaches like cash or check, have been able to reduce costs by 50% or more. This means that electronic payments have become a source of cost advantage to them.
- The majority of adults in the world already has a mobile phone; this increasingly gives them access to new mobile financial services. This means that more of your customers than ever before will be able to pay their bills electronically and more of your employees will already have access to payment accounts.
- In more and more countries over the next decade, the majority of subscribers will have a smart phone, giving access to the internet for financial services transactions equivalent to that on a PC. This means that people who may never have a personal computer will have the same functionality as those who do.
- Governments in more and more countries are actively encouraging businesses to file and pay taxes electronically. This can reduce the time and cost of the rising burden of compliance.
- Surveys in various countries show that large and medium sized businesses are moving away from checks as a means of paying their suppliers; and that they expect to move even faster in the years to come. This means that more businesses, whether as suppliers or customers, are already making the shift to digital payments.
- Businesses which automate their invoice processing through to electronic payment to their suppliers may be able to save 30% or more in costs. This savings means that more and more businesses will be automating their account payable and receivable processes to get greater efficiencies and more control of the process.
- International donors are encouraging businesses in emerging countries to adopt electronic payments for their own benefit and for the benefit of their employees and suppliers. This means that resources may be available in some countries to assist the shift.
- Many governments are promoting greater transparency in government and the private sector. Digitizing payments can help businesses show they are committed to transparency initiatives.

How does your business fit into emerging trends?

Many businesses, especially in emerging economies, are just getting started

Around the world, businesses make a substantial number of payments to their suppliers, employees and governments. The largest number of payments a business makes is typically to its employees and its suppliers. Where detailed surveys are available of how businesses pay, they show these common patterns:

- Most payments between businesses are still made by check (for example, 50% of B2B payments in US in 2013, although in the countries of northern Europe, this figure is much lower)
- Even most salary and wage payments are likely done in check or cash (65% of Canadian small businesses paid salaries by check in 2011) and BTCA 2014 surveys of businesses with less than 25 employees in three developing countries found that almost all were still paid in cash.
- Large businesses (those with more than 1000 employees) are much more likely to make their payments electronically. (The majority of payments made by large US businesses is electronic; and even 90% of Canadian medium-size businesses pay salaries electronically).

In emerging countries, the trends are generally similar although less survey data is available. The figure to the right shows the average percentage of all formal business payments for four categories of payments which are digital, calculated from underlying estimates across four emerging countries at differing levels of development in 2013. In these countries alone, formal businesses made 136 million payments per month worth US$156 billion; and they received more than 224 million bill payments from consumers. Across these categories in these countries, payments by formal business to government were most likely to be electronic, followed by payments to employees and then to suppliers. For receipts of bills, however, only a small fraction was received electronically.

Fig. 1 The average proportion of business-related payments which is digital across four emerging countries

Source: Weighted average from BTCA country diagnostics in four emerging countries, 2013.

What factors are facilitating change?

Digitization in the wider economy is creating new opportunities

However, the world of electronic payments is changing fast. There are many key trends driving this:

- **Increasing acceptance:** The spread of mobile data technology is connecting more people, placing the ability to make electronic payments in the hands of people and businesses which have never had this ability before.
- **Increasing ability to pay electronically:** And more and more people and businesses have accounts at financial institutions into which they can receive and make payments.
- **Increasing familiarity with electronic payments:** As more users become comfortable with using electronic payments, the extent to which education and effort is required to make a shift is reducing.
- **Increasing options:** the world of mobile and internet payments has opened new options for businesses, and has created competitive pressure on existing options. This is changing the way businesses pay and are paid—see for example the story from Kenya to the right.

The result is an increasing shift towards electronic payments by businesses worldwide. Even in a country like the US where checks are still used in 50% of business to business transactions, that number was 81% only ten years ago. A 2013 survey of US finance professionals reported that half were likely to commit to electronic payments for their business payments to major suppliers in the next three years. In Kenya, mobile payment options did not exist before 2007; but already by 2011, 67% of small and medium businesses surveyed already used mobile money for some business purposes.

Digital vs electronic payments: what's the difference?

Neither term has a standard definition; but both are generally used to mean the same thing—transfers of value which are initiated and/or received using electronic devices and channels to transmit the instructions. Hence in this toolkit they are interchangeable.

Note that digitizing is often applied to processes other than payments: hence a government could digitize its accounting system, but still make payments by paper (check or cash).

For more on e-payments, see here.

Click here to read how businesses in Kenya are using mobile money.

What difference does mobile money make to small and medium businesses in Kenya?

Kenya has become known as a country in which more than two thirds of the adult population have made or received electronic payments using their mobile phone, mostly through the well-known M-Pesa mobile money service. While by far the majority of mobile payment transactions are still used to send money between individuals, the use of mobile payments by small and medium businesses is growing.

A 2011 survey of 865 SMEs (with on average 14 employees and $1000 per day in revenue) found that 90% of owners had mobile phones and 67% used mobile payment for business purposes. In fact, mobile money was used by 31% of businesses as the most common way to pay bills, close to the proportion commonly using cash (38%) and bank transfers (27%). The majority of business owners reported that they wanted to use mobile money more since they found it to be "safer, more efficient and convenient than other payment channels" (p.80). However, the cost structure for mobile payments and the relatively limited user interface constrained further usage.

Most countries do not yet experience Kenyan levels of adoption of mobile payments across the population—where even customers are pushing these businesses to accept mobile payments from them! Also, because of limits on the maximum transaction and balance sizes, mobile money in Kenya is not used extensively by larger businesses. However, Kenya provides a picture of a future which is possible in all countries and even likely in some in future. This shows also that the shift to electronic payments may not be led only or mainly by large businesses, as is common in developed countries: small and medium business also have increasing options electronic payment.

What is a digital payment and why does it matter?

There is no one standard definition; defining this clearly is part of defining the scope of your process

The term digital or e-payment is generally understood to mean a transfer of value from one payment account to another using a electronic device (such as a mobile phone or computer) and communications channel (such as a mobile wireless channel.

Note that while this seems simple—a payment either is or isn't electronic—it is not quite so simple. The nuances of the definition are discussed elsewhere in the BTCA Measurement toolkit.

Each payment type carries a different profile which means that it is suited for some applications and not for others. How to decide which is best? Ultimately, this can only be decided in the context of a specific country and a particular business payment stream. But here are some general guidelines.

Businesses are usually looking for some mixture of the following attributes in a payment instrument:

- Acceptance: the ability of a wide range of payees to receive it;
- Time to pay: this can be measured in two parts—the time it takes to debit the payer's account and the time until the payee receives the credit of the same funds;
- Cost to use: what is the all in charge per payment for payer and payee?
- Risk of fraud: how easy is it for payer or payee to lose money using this instrument?
- Flexibility: are there features which enable additional functionality such as setting future time to pay or recurring payments?
- Information provided with payment: what information (how much, and in what format) can be sent with the payment? (this enables the payer and payee to reconcile their accounts more easily).

So where do mobile payments fit?

The growth of mobile payments has opened new possibilities for unbanked people to open mobile wallets and to receive and make electronic payments. Mobile payments are certainly electronic payments. However, since the mobile phone is increasingly a sophisticated device which can be used to access the internet and therefore types of internet banking, the term 'mobile payments' is often loosely used to cover a number of different payment cases: from transfers between or into bank accounts using internet protocols to payments between wallets (which are not bank accounts) offered by non-bank providers.

Test your knowledge of digital payments

Click here to see the answers.

Take a simple self-test which you can take to see whether you have a finger on the pulse of digital payments as it applies to this toolkit.

	Finding	True/False/ Uncertain
1	A majority of businesses of different sizes are favorably inclined to shifting to electronic payments yet feel constrained in their ability to do so.	Answer
2	Mobile wallets are the same as bank accounts.	Answer
3	Know your customer rules require that banks and other financial entities always have to verify the identity of a new customer.	Answer
4	Payment modules are available only in the large enterprise accounting systems used by big corporations.	Answer
5	Once an electronic payment has been credited to the account of the recipient, the payer cannot revoke it.	Answer
6	A SWIFT code is a unique set of letters and numbers used by banks as their address for international transfers.	Answer
7	Real time transfers debit the account of the sender and credit the account of the receiver at different institutions instantaneously.	Answer
8	The information on incoming wire transfers is limited to the name and account number of the beneficiary because of the limited space in message fields.	Answer
9	It is not possible to achieve the security of two factor authentication (for example, when using card plus PIN in an ATM withdrawal) for internet banking.	Answer
10	There is an international standard for electronic invoicing developed by a UN agency.	Answer

Note: these answers will be embedded on web-based version.

Test your knowledge of digital payments

Jump back to the questions.

Answers

Jump back to the questions

	Explanation	Answers
1	This is generally true: surveys in US (2012) and Canada (2011) have reported this.	True
2	Some so-called mobile wallets are in fact bank issued accounts but it depends on regulation and also who issues the mobile wallet. The features of mobile wallets can be similar to those of fully functional bank accounts, or wallets can look more like prepaid accounts.	Uncertain
3	There are usually exemptions under a risk-based approach which does not require verification in all cases, for example, low value accounts held by individuals	False
4	Payment modules which prepare payment instructions in a form which can be uploaded to a bank are available also on some accounting packages used by small businesses.	False
5	This actually depends on the rules of the particular payment scheme--for example, in some schemes, direct debits can be reversed by the payer during a window of time after the payment has been deducted.	Uncertain
6	This actually depends on the rules of the particular payment scheme--for example, in some schemes, direct debits can be reversed by the payer during a window of time after the payment has been deducted.	True
7	Note that what is called ‘real time clearing’ can in fact take up to 1 minute or more before confirmations of the transfer are issued or funds become available.	False
8	Banks can and do provide more information in various countries as a value added service to clients.	False
9	Various means can supply an additional authentication factor in the on-line banking world, such as a token which generates one time passwords or by call back to a pre-defined number.	False
10	UN/CEFACT has developed invoicing standards, building on earlier standards for electronic data interchange.	True

If you scored 6 or higher: you probably already have a strong grasp of digital payments in the business context. If you scored lower, you could always read the payment glossary and linked material to fill in a few gaps.

Your score

How far along the journey is your business?

For most businesses, shifting to digital payments is a process which benefits from careful assessment and sequencing. This simple assessment can give you an idea of where your business stands today.

	Please answer each question below in the column provided	Yes/No/Don't Know
1	Is top management already committed to shifting payments and receipts from paper to electronic in the near term?	
2	Has the issue of increasing use of electronic payments been identified in your company as a future, long-term priority?	
3	Have you set targets for the proportion of different types of payments which should be electronic by a defined date/s?	
4	Do you scan the market place regularly for new payment instruments and solutions which may be of use in your business?	
5	Have you ever calculated how much it costs you per transaction using your current payment approach/es? [If so, are you willing to submit your numbers to BTCA confidentially in return for benchmarking data?]	
6	Do you regularly measure and report on means of payment used to receive and make payments?	

Note: this self-test feature will be "live" on the web-based version

Your score

At which stage are you? The more questions above to which you can answer "yes", the more likely it is that you are at an advanced stage of the journey, and may wish to skip right to framing the case for specific payment types in this toolkit.

If most of your answers are "no" or "uncertain", then you are still at an earlier stage, in which it will take more time and effort to understand, promote and frame the case to shift. The next section will help you prioritize and decide on a starting point.

Context & Awareness

A first check point

Congratulations! You have reached the end of this section

So, at this point, you should be aware of the opportunities and potential created by digital payments and able to see how this might apply to your business situation.

If you are, you are ready for the next section which takes you a level deeper. Since payments differ so much by type in their potential to be digitized, the next step is about deciding how to prioritize where and how to focus your efforts, before you invest the further time and effort necessary to investigate and frame a specific case to shift.

Go on to the next section

Introduction to readiness and engagement

This section is intended for the reader who understands the potential for shifting to digital payments and now wants to apply this to a specific business, asking: Where should I start?

This section walks through these four steps to guide your starting point

Drivers
- What you are trying to achieve?
- Rank objectives and identify tradeoffs using this tool

Scope
- What volume and type of payment flows are you looking at?
- Summarize your current or expected flows by building your payment profile

Context
- How ready is the wider environment to support change now? Use a checklist
- How ready is your organization to start the process? Use a checklist

Prioritize
- Assess whether and if so where to start further detailed analysis

What are you trying to achieve?

Start by ranking your own objectives and motivations when you consider digitizing payments, using the table below

Note: supplied interactively or via Business toolkit download #1

Business toolkit sheet #1. Identifying Drivers

Possible Motivations of Business	Notes	Priority Rating
Reduce Costs		
Better cash flow management		
Minimize losses due to fraud, misappropriation, failures in payment process		
Satisfy needs of customers, employees, suppliers		
Keep up with competitors		
Corporate social responsibility		
Comply with regulation or other rules		
Other (write in)		

Note that some businesses would like to achieve all the above; but there may well be tradeoffs among some of the objectives set out above. Hence the importance of starting with a ranking of the objectives. See the example on the next page.

The weighting given may vary depending on who assigns it; coming to a common mind will be an important part of the next stage of framing a specific case.

Your current payment profile

A stocktaking of your current payment flows is a starting point from which to assess the potential and the need. You can use the downloadable spreadsheet below to compile yours.

Note: supplied interactively or via Business toolkit download #2

Business toolkit sheet #2. Payment Profile

% of payments for each row done in:

A	Type	Payments	Who do you pay?	# of payees	# payments per month	Cash	Check	Electronic Payments	Other	Average value paid per month
1	B2P	Salaries and wages	Individuals							
2	B2G	Taxes, licenses	Government Agencies							
3		Suppliers: on invoice	Businesses							
4		Other (add)								
5		Other (add)								
6		Other (add)								
			Total	0	0					
B		Receipts	Who pays you?							
1	P2B	On account (billpay)	Individuals							
2	B2B	On account (billpay)	Businesses							
3	G2B	On account (billpay)	Governments							
4		Other								
5		Other								
				0	0					

Evaluating the wider national payments landscape

You may be ready to shift but your country's national payment ecosystem may not yet support a shift. Large businesses or subsidiaries of multinationals may have more leverage than smaller players in the economy: however, depending on the scope of your objectives and your timeframes, you may decide to take the environment as given; or if you have the time, you may set out a broader agenda to change it.

There are a number of available sources which may help you form a quick and easy view of the readiness of your payment landscape to shift:

- **The Mastercard Advisors** Cashless Journey (2013) estimates the proportion of cash used at point of sale by **consumers** in 33 countries, grading countries into four stages of the journey away from cash.
- The **VISA** GEAR study (2011) also includes indicators of infrastructure development as well as the social & economic and policy environment supporting digital payments for **government**, for a sample of 62 countries.
- Citi Digital Money Readiness Index (2014) includes measures of the propensity of businesses and individuals to adopt digital payments, and demarcates 90 countries into categories of incipient, emerging, in-transition and materially ready to shift to digital.

Fig. 2. BTCA Diagnostic countries

In 2013, BTCA performed payment ecosystem diagnostics on 4 countries. Here's how they stack up in terms of these indices:

	World Bank Country classification	Mastercard Cashless (n=33)	GEAR ranking (n=62)	Citi Digital Money
Columbia	UMIC	Inception	41	Emerging
Malawi	LMIC	n/a	n/a	n/a
Nigeria	LMIC	Inception	62	Incipient
Philippines	LMIC	n/a	30	Emerging

If your country is not listed in these surveys, or if you wish to form a more detailed view, you may wish to perform an ecosystem payment diagnostic, focusing on the payment use cases which you select in this section. A separate BTCA toolkit describes how this can be done.

However, that process will take time and effort, and may involve external resources, which are better spent when you decide to frame a specific case. For now, simple checklists of your and your internal capacity will give you some sense of the options.

A quick assessment of the national payment ecosystem

If you do not have detailed enough information available for your country, then you could use this simple categorization approach below to get a sense of the general options likely to be available. However, you will need to refine this view later by investigating further when you come to frame the case for any particular shift.

The simple categorization of payment ecosystems below is based on the outcomes of the BTCA country diagnostics and maps back to national income levels since those are easy to establish. Note that there could be divergence in what this means for digitization: a low income country may in fact be ahead of stage 1; and equally, an upper middle income country could be behind stage 3.

Payment ecosystem categorization

Likely characteristics	Stage 1: Early	Stage 2: Incipient	Stage 3: Emerging	Stage 4: Mature
(i) World Bank income classification	Low income country	Lower middle country	Upper middle country	Upper income
(ii) % banked	0-20%	20-50%	50-75%	75%+
Example from diagnostics	Malawi	Nigeria, Philippines	Colombia	Not covered
Implications: stage of journey to cashlite	Bulk payer transition	Bulk payer transition well underway	Bulk payer transition over; focus on many to 1 payments	Bulk payer transition over
Likely payment instrument choices available	Limited range of instruments available widely; checks still used for business & government	Wide range of electronic instruments may be available, but few yet widely used	Full range of electronic instruments available; increasing usage of internet banking	Full range available, already high usage of internet banking
Emerging options	May have emerging mobile-related options which are worth exploring	May well have mobile options but with limits on size & coverage	Mobile usually integrated into mobile banking propositions	Mobile payment options mainly via smart phone apps

So what does this mean for your potential to shift?

This will ultimately depend on your own timeframe and resources to engage with providers to create new options; but start at least with understanding what is likely available today.

The table below gives a quick assessment of how likely it is that, for a country in a given stage, it will be possible to digitize a typical case within each defined payment stream using widely available existing options. In framing the case for a particular shift later, you will need to confirm this through your investigations with providers and others with knowledge.

Stage of payment ecosystem

Ability to shift payments to:	Stage 1: Early	Stage 2: Incipient	Stage 3: Emerging	Stage 4: Mature
Employees	Depends on location: Urban—Medium High Rural—low	Urban-High	Urban—likely already shifted Rural—medium	Already shifted
Suppliers (businesses)	Low	Medium	Medium-high	High
Government (taxes)	Low	Low+	Medium-high	High

If the likely potential is low for a country at your stage, don't give up! First, you will need to collect more information to verify this for a specific use case. Second, it may simply mean that you should allow for more effort (and therefore time) to find or develop new options. Only if you don't have the time, and can otherwise afford to wait, then it may make sense to check back in a while on what has changed: the payment ecosystem is now evolving fast in many places around the world as more people have internet access via smart phones.

Your market conditions

Even if you can't yet place your national payment ecosystem, you may recognize some of these characteristics in your market conditions.

Note: this self-test feature will be "live" on web-based version

	Characteristics	Tick here if applicable to you
1	Some of your suppliers have already approached you asking you to pay them electronically, rather than in check	
2	Most of your employees probably already have their own bank accounts	
3	Most of your employees may not yet have bank accounts but they live in urban areas	
4	The risk of holding cash on premises to make payments is rising	
5	Your concern about fraud on checks is rising	
6	The government offers specific incentives to use electronic payments; or disincentives (such as fines or added costs) if you donate	
7	Your bank has approached you in the last six months to make you aware of new options or improved services which it wants to offer you	
8	A competitor to your bank has approached you in the last six months wanting to explain new electronic payment offerings	
9	Your are aware that some of your competitors are intentionally using electronic payments to their suppliers and employees	
10	The burden of compliance and strictness of enforcement of labor laws and/or tax laws is rising in your country	

Even if few of these apply at present, it may still be worth your while to explore the case more deeply now, so feel free to continue on the journey. Another option would be to make a diary note to come back and check the list again in six months—at the rate that changes are taking place, the chances are that something may have changed in your country or sector by then.

Your internal readiness

"Count the cost before building the tower" as the proverb goes. This checklist provides a quick way for you to check what you already have available in house or outside, which will affect the time and effort taken at the next stage.

Note: this self-test feature will be "live" on web-based version

	Characteristics	Tick here if applicable to you
1	You already use internet banking for payments.	
2	You already use an accounting package (or packages) for all your business accounts.	
3	You already have internal skills in your finance and accounting area with experience in electronic payments	
4	You already know where to get advice on this issue in your country	
5	You have some capacity in your finance accounting area (e.g. you are not in the midst of a peak time of year such as year end close or audit)	

Even if few of these apply to your business at present, it may still be worth your while to explore the case more deeply now, so feel free to continue on the journey. Another option would be to make a diary note to come back and check the list again in six months—at the rate that changes are taking place, the chances are that something may have changed in your country or sector by then.

Evaluate your market conditions

How to prioritize where to start?

Since payment streams differ in their characteristics and options for digitizing, it is worth considering each main type you have identified in turn, against your characteristics for prioritization.

Of course, you must **set your own criteria**, but you should consider at least the following:

- **The materiality of each to your objectives:** in other words, if you succeeded in shifting all the payments of this type, how much would it impact on your most important objectives? A payment type with relatively few payments may not have much impact on your bottom line, but they may help you test out and build confidence in new back end processes.
- **The likely availability of digital payment solutions:** at this stage, you have not yet done a detailed analysis of options available, which will follow, but your assessment of the environment should enable you to assess the feasibility of shifting each type at present. For example, there are likely to be more options for people or entities based in urban areas than in rural areas.
- **The ease of transition** for each type: this is linked to the resources you have and will need to shift, how well equipped your business already is and how much influence you have over your payees. For example, you may be well equipped to transition payments to suppliers but have limited influence over them; while it may be more effort to transition your payroll but you have more control over how employees get paid.

In each case, you may want to consider the outlook now versus a year or so in the future—options available now may be limited, but you may be aware that things are changing so that the foreseeable future outlook is better than the current situation alone may suggest.

A simple prioritization tool

This is one simple way to get to a quick sense of potential priority payment stream/s to explore—of course, you can add or change criteria and weightings. Later, more judgment will be required to frame the case but the aim here is to get you to possible starting points quickly.

Note: supplied interactively or via business toolkit download #3

Step 1: Decide on your criteria and assign an importance weighting to each.

Step 2: List the important payment streams you are considering

Step 3: For each, assign the highest rank score if that stream best fulfills that criteria, then step down to 1, or even assign a 0 if the option is unavailable or immaterial.

Step 4: Calculate the weighted totals by multiplying the scores by the weighting in each column and adding across each payment stream.

Step 1: Here we use the 3 criteria previously discussed and weigh them

Step 2: These are the main types identified in the payment profile

Step 3: Here are the raw scores in each cell i.e. 4=best, 1=worst

Step 4: Highest scores are potentially places to start: for this organization, it is suppliers

Business toolkit sheet #3. Example Prioritization tool

Payment stream: Payments to:	1. Materials to objectives	2. Availability of options	3. Ease of shifting	Weighted Total
Weighting	40%	30%	30%	100%
1.Employees	2	2	4	2.6
2.Suppliers	3	4	3	3.2
3.Government	4	1	1	2.2

Some final thoughts on prioritizing

Congratulations! You have reached the end of this section.

Of course, how you weight and define your criteria will have a big effect on the outcome, so you may wish to consider different permutations. For example, if shifting salary payments had the most potential to achieve your objectives, and if you scaled up this factor to weigh 60%, say, then this stream would emerge as the top priority.

You can of course 'tweak' the scoring as you like: for example, it may be that simple rank point scoring does not allow for enough difference in which case, you could simply move away from rank scoring to absolute scoring.

If options for shifting one type simply are not available at present, then you might rule this stream out on that basis alone.

However, the aim is to get you to see a "there, there" for shifting as time efficiently as possible. This stage therefore gives you the confidence to motivate for the resources needed to undertake the more extensive **analysis required to frame a shift in the next section**.

Go on to the next section

Introduction to framing the case for specific payment streams

This section contains two modules which will help you frame your case to digitize specific payments streams. In each case, the module provides a general context, and then walks through a disciplined process shown below to ensure that the decision to shift has considered options, risks and barriers to come to the best chance of success.

1. Determine Drivers ▶ 2. Identify Stakeholders ▶ 3. Investigate Options ▶ 4. Calculate Costs ▶ 5. Assess Risks ▶ 6. Recommend

As you learn about each of these steps, you can see how they can play out in practice, using an example of a business called Phicorp that is based in a country called Ecosystemia, a composite of country types which are the main focus of intended readers of this toolkit. You'll be able to jump back and forth between the information and the example, or you can read either all the way through.

Note that these modules get you to the point of making a clear case to shift the defined type of payments. They do not address implementation since the institutional setting and country contexts of businesses vary so widely.

Click below to get started learning about:

Module: Salary payments to employees

Module: Payments to suppliers

Module: Salary Payments to Employees

Shifting salary payments

Context

Payment of salaries is a payment stream in which the benefits of shifting to digital payments are usually most compelling for businesses. There are a number of reasons why this is so:

- **Labor and taxation laws affecting payroll are becoming more complex** in many countries, making it harder for human resource functions to keep up on their own;
- Most countries now have **some form of batch electronic funds transfer system** among banks, or at least a subset of them (although its robustness and cost will likely need some further investigation) which is usually sufficient to make bulk payments of this kind;
- The **risks of holding large sums of cash on premises** on widely known dates (paydays) are rising in many places—not only for the employer but the employee who may be robbed on her way home;
- In many countries, there are increasing options of payment accounts available for employees, such as pre-paid or mobile money accounts;
- An **employer has considerable influence over how the employees are to be paid**—which is not true when it comes to receiving payment from customers, for example, or even making payments to large suppliers—making it easier to shift.

For these reasons, most larger businesses in many countries have already shifted most if not all of their employees to digital payments; but there is a strong case for those which have already started to consider their options to go further; and even for small and medium formal businesses which have not started to assess the case to shift. In this area, as in many, the benefits of shifting only the payments are small in relation to the benefits which may come from automating the payroll process.

What do we mean by salaries?

For the purposes of this toolkit, "salaries" are loosely defined as any wage payments made to full-time, part-time or casual workers on a regular or semi-regular basis. This module does not address other payments to workers such as expense reimbursements, petty cash, or employee benefits.

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Know all this already? Move on to steps

Typical Payroll Process

The payroll process can be handled with different degrees of formality and automation depending on the size and scale of the business, but in general follows the **Steps 1 through 8** shown in the diagram below.

Steps of payroll process

1. New employee take on
2. Prepare payroll
3. Authorize and fund
4. Pay
5. Deliver Payslip/notification
6. Pay deductions/tax
7. Accounting input and recognition
8. Periodic: tax forms, exit, bonus/special payments

Steps 2-7

Regular payroll cycle

Steps 3-6:

Regular payroll cycle that actually includes payments

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Know all this already? Move on to steps

Options for digital payroll process

This module will guide you through the steps of investigating the case for digitizing your salary payments. Above and beyond the question of how you will pay, is the extent to which you can or will integrate the two tasks of managing your payroll and making payroll payments; and whether you can do both of these tasks internally or need outside help. The table below shows the main options for the payroll process, differentiating between an internal payroll process and an outsourced one.

Options	A. Payroll done internally			B. Payroll outsourced
	A1. Payroll integrated with ERP software	A2. Payroll package stand alone	A3. No package - manual process (computer spreadsheet or men-and-paper)	B1. Outsourced payroll service provider
Considerations	Typically part of larger packages, but also smaller	Software updating due to law changes	Risk of error	Reliable providers available?
	Internal staff requirements		Interface to payment process	Ease of changing providers
				Communications channels to provider

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Options for digital payroll process

Know all this already? Move on to steps

Payment instructions generated by business or by out-sourced provider?

An outsourced provider may also offer the service of generating the payment instructions and sending them directly to the bank for processing. This may simplify the process for the business because the service provider specializes in ensuring that the links to the bank are secure and operational. However, in this case, the payroll provider will also need the ability to fund the payroll, either by an authorization by you to the bank that within agreed value limits, they have authority to debit the business account; or else by pre-funding the provider through making one transfer to them of the total in advance of the payroll date. Factors guiding this choice: capacity of service provider, means of funding.

Is one payment instruction file or multiple required?

At issue here is whether one bank is able to process all transfer instructions received for accounts at other banks or providers, or not. If not, then the payment instruction file may need to be broken up into sub-files which can be dispatched to multiple banks or providers. Of course, this increases the cost of the process and the possible points of failure. However, it may be necessary in countries where for example, transfers payments across banks are expensive or unreliable; or when some employees are paid via other types of accounts, such as mobile wallets, which are not connected to the banking system. Factors guiding this choice: functionality of EFT credit system, account types of employees.

Are employees given choice of banks or do they need assisted options?

Generally, employers would prefer that employees choose their own bank and nominate the account into which they are paid. However, this is not always possible, especially for unbanked employees who need assistance to open bank accounts. In this case, the employer may have an agreement with its bank to make special efforts (including coming on-site) to open accounts for them. In addition, the employer may negotiate with the bank to offer additional options as a means of incentivizing employees to nominate accounts: for example, the employer may pay the regular fee on the account and bundle in at least one withdrawal per month for free so that the basic costs of the account are not borne by the employee.

Finally, there may be cases where in addition to assistance in opening accounts and subsidizing the cost, the employer may make additional efforts because of the drivers in the case for change: for example, in areas which lack existing **financial touch points** like ATMs, employers may negotiate with banks either to locate an ATM or agent on premises, if the potential volumes are large enough, or else for a mobile ATM service to be available on site at certain times of the month. This may involve additional costs for the employer, but may be part of enabling a shift from the employer supplying the cash directly. Factors guiding this choice: number and location of unbanked employees, financial infrastructure available.

Even if the payroll generation process is automated, there are still a range of options for the payment component of the salary process.

Shifting salary payments: Step 1

Determine your drivers

A decision to shift salary payments involves costs and risks, as well as benefits for a business and for its employees. The issue is not only whether to shift, but how to shift. To answer this question requires first clarifying your objectives. You can use a table like the one below to prioritize and rate them. The process of clarifying these is likely to involve a discussion with other stakeholders and may require an iteration across departments before getting to final sign off.

Business toolkit sheet #4. Drivers for salary payments

Motivations	Priority Rating
Reducing costs	
Managing compliance risk as result of increasing complexity of tax or labor law	
Reducing risk that cash on premises will be stolen	
Reducing other theft/misuse risks such as payments to ghost workers	
Offering more options for employees	
Employees are wanting more access to financial services (such as credit, but you are not willing or able to provide)	
Keeping up with competitors that are competing in your labor pool	
Corporate social responsibility (CSR) related to financial inclusion for employees	
Other	

Remember to consider the possible tradeoffs!

For example, there are likely tradeoffs between minimizing your own costs and the time it takes for employees to receive the funds.

How can salary payments demonstrate our corporate social responsibility?

Your country's government might have goals or a strategy to promote financial inclusion. Making digital payments to employees may also entail helping them get access to formal financial services or other support from financial providers.

Shifting salary payments: Step 2

See how Phicorp approaches this step

Identify your stakeholders

A decision to shift salary payments involves costs and risks, as well as benefits for a business and for its employees. The issue is not only whether to shift, but how to shift. To answer this question requires first clarifying your objectives. You can use a table like the one below to prioritize and rate them. The process of clarifying these is likely to involve a discussion with other stakeholders and may require an iteration across departments before getting to final sign off.

Business toolkit sheet #5. Salary payment stakeholders

Common Payment Stakeholders	Role	When/how to engage them in the process
INTERNAL		
CEO/ Country manager	Ultimate approval	At the outset (Step 1) to establish the drivers; then at check in points
Finance & accounting	Reviewer	Depends on their role, they may drive this process or be part of the team hence involved throughout
Risk and audit â€“head office	Reviewer	At least when considering risks (Step 5)
EXTERNAL		
Recipients	Client	This depends on how well you already understand their financial services needs— see next page
Unions or employee groups	Interested party	May help you identify employee needs and preferences early on
Payment providers	Service provider	While you will only appoint service providers later, after you have reached your decision, you will likely engage with some as you investigate options
Other (Write In)		

Note: supplied interactively or via Business toolkit download #5

Shifting salary payments: Step 2

Employees as stakeholders — how well do you know them?

Many if not all businesses would consider their employees as key stakeholders, yet the ways of bringing the needs and preferences of this sometimes large and diverse group to the decision table are not always planned upfront. A survey of employees – especially ones who are currently paid by cash or checks – may be needed to better understand the types of financial services employees currently have and also what their attitudes are towards different types of payment approaches.

Questions to ask your employees

I. Do you have a bank account now?
   a. If so, which bank?
   b. And why have you not asked to be paid into the account rather than cash?
II. Have you ever had a bank account?
   a. If so, why do you not use it now?
III. Do members of your family or your community have bank accounts?
   a. If so, what do they say that they find most useful about having a bank account?
   b. If so, what do they say is hardest about having a bank account?
IV. If salary were paid into the account and each had to draw cash at the nearest branch, agent or ATM:
   a. How far in travel time from the workplace is the nearest branch, agent or ATM? Is it open during convenient hours (before or after work, or during breaks)
   b. How far in travel time from home is the nearest branch, agent or ATM?
V. What more would you like to know about having your own bank account?
VI. What additional financial services might you want to know about from the bank e.g. options to save, to get a loan, to get insurance?

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Shifting salary payments: Step 2

Value proposition for employer and employees

There are slightly different issues to consider depending on which side of a payment transaction you sit. However, it is important to understand the issues from both sides since you may have to persuade employees by making the proposition why they should shift.

Category	Employer (the Payer)	Employee (the Payee)
Cost savings	Operational cost savings, based on reduction of staff time, materials used, However, may require up-front costs to identify employees and weed out ghost employees, which could be expensive and cause delays; may be more salient with biometrics.	You can save costs, through reduction of travel time to your bank, your time waiting in line, and by eliminating the need for check discounting.
Improved cash flow management	You can control your cash flow better by better control over timing of payment. This may be a case where you prefer the delay and control that checks offer, rather than the regularity of bank transfers.	You can reduce the time to being able to make use of your salary payment (relative to check) and improve the regularity. You may qualify for other financial products which help you manage your cash better.
Improved fraud management and control	You have better control over expenditure than with paper instruments requiring physically present signatories	You will have more control over funds received into your account than on checks which require depositing. Also better able to keep payments private from friends, family.
Efficient reconciliation	You can reconcile your bank account more easily.	Accounts or other digital payroll may also offer money management/budgeting services.

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Shifting salary payments: Step 3

Investigate your options

In considering your options for salary payments, what are your choices really? As the figure below suggests, you probably have to **take some things as given** — especially if one of the drivers is to change quickly. However, there are at least **three critical choice variables** related to the payment aspects shown below. This sub-section will then address how you go about deciding on each.

Factors to take as given

- Target employees and numbers → The areas where they work and live
- Country legal environment → Requirements to open accounts; who can provide
- Payroll services available

Critical choice variables for payment

- A. Maximum distance employees should travel
- B. The payment account features
- C. The role of the automated payroll provider

You may be able to influence the cash-out channels your employees have access to, depending on your relationship with your bank or payment service provider.

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Shifting salary payments: Step 3

Investigate your options

Above these choice variables sit some bigger choice questions to face:

1. **Are you willing and able to accommodate multiple solutions for different employee circumstances?** For example, employees at your head office may be able to open accounts and access cash at ATMs, while at more remote offices, you may need to provide a direct cash out option for now. Multiple options increase the complexity of management; and may limit your choice of payment providers.
2. **Are you willing to build in an approach which can evolve over time?** You may be more able to build in an evolutionary process towards digital payments, even if some employees have to continue with cash or checks.

In practice, investigating options will mean iterating between these three key choices to get to the most feasible ones, hence this stage may take the longest time.

Critical choice variables for payment	A. Maximum distance employees should travel	B. The payment account features	C. The role of the automated payroll provider
This affects	Number & type of cash access points	Time to roll out, security, cost and time from issuing payment to employee receiving funds	Who you can work with; the costs & risks

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Shifting salary payments: Step 3

Choice A: Distance to cash out for employees

A. Maximum distance employees should travel | B. The payment account features | C. The role of the automated payroll provider

Digital salary payments are no use to employees if they cannot cash-out their salaries to make at least some of their payments in cash (or if they cannot use the digital value to make payments, but this is less under your control). The maximum distance or time which any one should travel will have an important effect on the payout infrastructure you will need your bank or payment service provider to provide, if it is not already available.

Examples of payout infrastructure to consider within a radius of your sites:

- Existing financial infrastructure:
  - Bank or postal branches, ATMs
  - Cash agents used by banks or mobile money providers
- New special purpose infrastructure
  - ATMs installed on company premises
  - Fixed point agent (in one place, but able only to serve employees)
  - Mobile point (such as a cash van, which moves around servicing different offices or work sites at different times)

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Note: supplied interactively or via business toolkit download #6

Choice B: Compile a baseline profile

A. Maximum distance employees should travel | B. The payment account features | C. The role of the automated payroll provider

It is important to capture at least some simple initial data from your current system about your employees and how you pay them today since that will inform your investigation of further options at the next steps. Compiling a simple data sheet like the one below will help narrow your options for payment instruments. And you should take this data to your bank and any automated payment provider to help you design your payroll process.

Business toolkit sheet #6. salary payment profile

		# paid into bank accounts at present	# with bank accounts but not paid into	# unbanked today	Pay periods per month	Average total value of payroll per cycle	Number of bonus/ additional payment cycles during the year
Head office	Full-time employees						
	Part-time employees						
	Casual workers						
Remote offices, work sites	Full-time employees						
	Part-time employees						
	Casual workers						

A note about unbanked employees:

The proportion of adults in emerging economies who have bank accounts today varies from around 20% (low income countries) to over half (middle income countries). The proportion of people with accounts is increasing as **new account offerings** become available. However, even if the number of your employees without accounts today is large, this is not in itself a problem since you may enable them to open accounts for the first time as part of your shift, with support from a bank or other provider. The real questions are where the unbanked employees work and live so as to be able to determine whether they would be able to use their bank accounts effectively or not. And employers must consider whether to incentivize or require employees to open accounts. But even when shifting to digital payments makes sense for your business, it may not be profitable, or profitable enough, for your bank or other banks in your area. Depending on how they assess fees and allocate the balance in your corporate account, fully functional bank accounts for all your employees may cost your bank more than your float commitment. You may need to explore alternative types of accounts, such as prepaid, where there is less functionality and banks' costs are lower.

Shifting salary payments: Step 3

Choice B: Payment account options for employees

A. Maximum distance employees should travel | B. The payment account features | C. The role of the automated payroll provider

What Features Do Employees' Payment Accounts Need?

For employees who are unbanked today, what are the options for opening new accounts? The answer will depend on legal and market circumstances in a country, and in general, these are the considerations:

- How reputable and secure is the bank or provider (especially if not covered by deposit insurance)?
- What are the costs for the transaction profile of a typical employee, made up of:
  - Regular fees plus
  - Transaction fees for expected monthly profile of transactions, considering 'not on us' fees for using other bank infrastructure relative to the availability
- Do the accounts offer access to other useful financial services for employees?
  - Does the provider also have policies which would prevent abuse (e.g. over extending access to credit that is automatically debited via the account)?

Not all accounts need to be bank accounts in the formal or legal sense of the word.

Fig. 6. Options for accounts for employees

TYPE	BANK ACCOUNT	PREPAID PAYROLL CARD	MOBILE WALLET
ISSUED BY	Bank	Bank or non-bank	Typically a non-bank mobile money service such as an MNO
SUBJECT TO REGULATION?	Yes	Typically yes, although depends for non-banks	Typically yes
FUNCTIONALITY	Typically issued with a card for access to ATM at least	May be limited to withdrawing cash only	Depends—usually includes ability to deposit and withdraw via agents at least; and to send to others on same network
PROS	• Opens access to other financial services such as savings	• Easy to open and issue • May be cheaper than full accounts	• May be easy to open • May offer access to wide agent network for cash
CONS	• May have additional requirements to open • May be more costly	• Does not offer additional services • May be limited to certain places for payout, depending on type	• Access to additional financial services may be limited • Requires employee to have cell phone • Requires reliable connectivity to work

Shifting salary payments: Step 3

Choice B: Questions for banks and other providers

A. Maximum distance employees should travel | B. The payment account features | C. The role of the automated payroll provider

Your bank may be a real partner in helping you shift to pay your employees digitally. If you do not know, an important step is to enquire of your bank about the cost and reliability of its digital offerings, and if necessary, also asking competitor banks. Normally, banks would offer payment services such as salary payments to corporate clients via their corporate internet banking service. This is usually similar in function to personal internet banking payment options but has additional security controls built in as a result of the larger amounts at stake.

Ask these questions to the cash management or commercial internet banking staff member at your bank or others:

i. How do you charge for bulk payments—fixed fee per payment or single fee?
ii. Please give me a copy of the agreement which I would have to sign
  a. Can you describe the circumstances under which I will be held responsible when a payment is not made?
  b. What is the bank's obligation if it makes payments later than the agreed date or credits the incorrect accounts?
iii. Through which channels can I submit batch payment files?
  a. What happens if one is not working?
ii. How secure is this channel?
iii. What controls are available over access to the account?
iv. Which type of accounts do you have which are suitable for my unbanked workers?
  a. What are the fees on the accounts?
  b. What minimum documentation must employees have to open an account?
  c. Are their minimum balance requirements to open or maintain the accounts?
  d. Do you offer additional incentives to the client to hold these accounts, such as: free insurance, access to credit, loyalty rewards?
  e. Do you offer additional services for these accounts, such as allowing payroll deductions for pensions, insurance, etc.?
  f. Can you provide me with a list of your branches, agents or ATMs in the following areas?
  g. Will you send staff to selected workplaces to provide account opening services during the workday or lunch break? If so, on what basis?
  h. If my workers already have accounts elsewhere, can you into their existing accounts? Is there an added cost? If so, who pays?

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Choice C: Questions for automated payroll providers

A. Maximum distance employees should travel | B. The payment account features | C. The role of the automated payroll provider

You may be able to handle digitizing your payroll in-house. This may require directly integrating your accounting system with your payment system. Another option is outsourcing all or part of the back-end process. In larger, more developed markets, a range of suppliers has emerged which offer services to automate even particular small parts of the process. However, where these services do not exist, you may have fewer options to automate your whole invoice process but it still may be worth shifting parts.

Ask these questions to the automated payroll provider:

i. Can you supply me with references of current clients in our industry or of our size whom you currently serve?
ii. How often do you update your software/ service?
iii. How does the timing of payments work i.e. from our given payday, when will you notify us of the funding required and how do we do this?
iv. In your standard agreement, in what circumstances may we suffer loss and what forms of recourse do we have if you do not make the payments on time as specified?
v. How do you charge for your service?
   f. Initial costs?
   g. Regular fixed costs?
   h. Costs per employee per period?
   i. Costs of one off transactions?
vi. What types of report do you supply and in what medium?
vii. What type of connectivity is required by you to update our payroll data?
viii. What is the minimum duration of a contract?
ix. How much notice do we have to give of cancellation?
x. In event of terminating the service, in what format will you supply us with our payroll data history?
xi. Do you provide confidentiality undertakings that the data will not be supplied to any third party or used for marketing to employees?

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Consider potential barriers

In summary, as you assess options, you may also become aware of barriers in the way. The table below lists common barriers and how to address each.

Fig. 7. Salary payment barriers for consideration

Potential barrier	How to address it
1. Employees live and work a long way from places where they can access cash from their accounts	As discussed, this is an important consideration; however, even if true today, watch this space as new forms of cash distribution using bank or non-bank agents are becoming common in many countries.
2. Employees prefer to be paid in cash	This preference needs to be better understood—is it the result of lack of infrastructure (#1 above) or previous bad experience with banks? Understanding this will enable better engagement with employees as stakeholders.
3. Banks don't provide suitable payment account products for my employees (e.g. they charge high fees)	Banks in most countries offer some type of basic account, although the charges may discourage employees. Depending on your size and the competitiveness of the market, you may be able to negotiate to subsidize the cost of a basic account to make it attractive to employees.
4. Bulk electronic transfers are not reliable or safe	This is a likely comment on the national payment system; and may require you to use only one bank for all salary accounts so that transfers are internal to that bank.

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Shifting salary payments: Step 4

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Calculate costs

The information you have now assembled enables you to complete this calculator of costs and benefits. You can either run the calculator based on the default parameters, which are not specific to your business or country, or else override these assumptions with specifics from your context. The assumptions are specific to bank transfers, so you should override those if you are considering prepaid payroll cards or mobile money.

Remember that not all costs and benefits can be easily quantified: and even if they were, the outcome will be determined by the extent to which the solution addresses your own drivers which may be hard to measure. For example, the new option investigated may even be more expensive initially based on costs alone, but may reduce risk considerably; or increase competitiveness in the labor market.

Remember also that the general trend is for formal businesses of all sizes to automate payroll and to pay employees digitally. In other words, there may still be reasons which make it harder or slower to shift now in your situation, but the starting presumption should be to look for ways to make this shift possible and desirable. You would be joining multitudes of other businesses like yours around the world.

Phicorp salaries #4. Payroll calculator – Option 1

Enter the following details:	UNITS		
No of employees	Number		
Payperiods per month	Number		
Average pay per employee per payperiod			
Of the above employees:		Now	Target
% paid in cash	%		
% paid by check	%		
% paid by bank transfer	%		
Do you prepare & distribute cash paypackets internally (alternative: outsource this)			Yes/No
Do you write checks for pay manually (alternative: print checks or outsource the printing)			Yes/No
Assumption choices			
Do you want to supply your own assumptions? (if not, the calculator will use the default)			Yes/No
Short format (enter only key own assumptions which will be used instead of defaults)			
Bank charge per check processed			0.25
Bank charge per EFT processed			0.25
Bank monthly charge for EFT service if any			50
Monthly employment cost per payroll clerk			1000
Cost to cash carrier for each paypacket filled if applicable			1
Do employees get given or take time off from work to deposit checks? If so, how long on average per person?			15

Shifting salary payments: Step 5

Note: supplied interactively or via business toolkit download #9

Assess the risks

At this stage, you do not yet have the need nor have the information required for a detailed risk audit of each option—that should follow once you move to implementation and have processes and procedures to evaluate. For now, you should seek to test to which risks each option set is most vulnerable. Below, some standard vulnerabilities are listed so that you can consider how vulnerable each option is to risk. This will likely affect your recommendations; since, depending on your drivers and institutional risk appetite, you may prefer a less risky option which offers less instead of a risky option which offers more but is more prone to failure.

Business toolkit sheet #9. Salary payment risk assessment

	Potential vulnerabilities	Answer	What you can do
1	Can you be sure that the payroll software or service will be kept up to date?		
2	Have the needs of unbanked employees been adequately considered?		
3	Have you considered the needs for education or safeguards for newly banked employees in accessing new financial services via their accounts?		
4	Have you considered how to train/ retrain accounting/HR staff in the new process?		
5	Have (or your internal auditor or external auditor) you reviewed the high level control risks of the new process?		
6	Do you have backup processes for ensuring timely salary payments even if the usual communications channel to the bank or payroll provider is not working?		
7	Are the tax agencies and benefit providers ready to receive payment electronically as planned?		

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Questions for:

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Shifting salary payments: Step 6

See how Phicorp approaches this step

Recommend

The final step is to evaluate the feasible option/s against your drivers, in the light of the costs and risks. This should lead to a clear recommendation to proceed in which the stakeholders identified have been considered and in defined cases, consulted. This will ensure that a well thought through recommendation is not only more likely to be approved but also to prove easy to implement when you move to that stage.

If you have identified more than one, then you could use a table like the one below to evaluate the extent each option meets the objectives you outlined earlier.

Business toolkit sheet #10. Salary payment option scoring tool

Drivers	Weighting	Option 1	Option 2	Option 3
Reducing costs				
Managing compliance risk as result of increasing complexity of tax or labor law				
Reducing risk that cash on premises will be stolen				
Reducing other theft/misuse risks such as payments to ghost workers				
Offering more options for employees				
Employees are wanting more access to financial services				
Keeping up with competitors that are competing in your labor pool				
Corporate social responsibility (CSR) related to financial inclusion for employees				
Other				
Weighted total	**100%**			

Quick Access
Phicorp case study
Cost calculator

Questions for:
Employees
Banks
Automated Payroll provider

Shifting salary payments: Step 6

What next?

Congratulations! You have reached the end of **Framing the Case: Module on salary payments to employees**

So, if you have applied these steps, **you will have now completed a thorough analysis of the case to shift employees** towards receiving digital payment of their salaries and wages.

In a world which is slowly but surely going digital discussed in Section 1 of this toolkit, The Better than Cash Alliance hopes that you have identified at least one feasible option which stands a good chance of meeting your objectives. Once this option has secured the necessary internal approvals and endorsements, depending on the scale of the shift, you will likely have to enter into subsequent stages of analysis which are important but not in the scope of this toolkit:

- A thorough feasibility study, which would include detailed costing, leading to
- A full proposal;

And once that is approved:

- The development of an implementation plan, which would include procuring all the support you may need.

Do you need help in your process?
BTCA's Technical Assistance Fund may be able to help you with funding to secure technical support as you develop your case to shift and then your subsequent stages— contact TAF.

We would like to hear your experience of undertaking this analysis so that we can improve it and also to encourage ongoing peer learning— please let us know.

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Cost calculator

Questions for:

Employees

Banks

Automated Payroll provider

Example for Module: Salary Payments to Employees

Phicorp in Ecosystemia

This example is based on a composite profile of the data and experiences of a typical entity faced with the decision of whether and if so how to digitize in the target geographies of lower and middle income countries.

Please refer to the Excel file title "Phicorp salaries" as you work through this example.

An Applied Example : Phicorp's salary payments

The Republic of Ecosystemia is a lower middle income country with a diverse population of around 60 million citizens at the latest census. It is estimated that around 40% of its adults are banked: in the cities, people are relatively well serviced by banks and other financial providers, but just over half the population still live in rural areas, some of them remote, with infrastructure challenges. The proportion of smart phones with internet access is around 20% of population (mainly in the cities where bandwidth is good, but this expected to rise fast over the next five years. Financial inclusion is a general policy goal of the government there, alongside job creation and poverty reduction.

The payment ecosystem is at stage 2 of the 3 stages identified in the quick diagnosis– i.e. there are clearing houses for electronic debits and credits but not widely used or promoted outside of particular cases (e.g. salary payments). Checks are widely used by businesses; cash commonly for purchases. Mobile money exists quite widely, but tends to be for niche personal applications, not for business or larger payments.

In this context, **Phicorp** is a large locally-owned producer and distributor of dairy products in a competitive market with two other large national firms. Phicorp has a head office in the capital city, where it employs full-time staff; two production plants, with casual labors and a small number of full-time staff; and several regional collection centers, staffed by full-time workers and part-time workers paid on a commission basis.

As part of its effort to digitize payments, the CFO has asked the Finance manager to assess whether, and if so how, to shift how salary payments are made.

Example: Shifting salary payments: Step 1

Note: PhiCorp salaries download #1

Determine your drivers

The Phicorp Finance Manager has identified its drivers to digitize salary payments and weighted each one as follows:

Phicorp salary example #1. Drivers

Motivations	Rating Priority
Reducing costs	25%
Managing compliance risk as result of increasing complexity or tax or labor law	
Reducing risk that cash on premises will be stolen	15%
Reducing other theft/misuse risks such as payments to ghost workers	45%
Offering more options for employees	
Employees are wanting more access to financial services (such as credit, but you are not willing or able to provide it directly)	
Keeping up with competitors that are competing in your labor pool	
Corporate social responsibility (CSR) related to financial inclusion for employees	15%
Total	100%

A note on Phicorp's choices:

Phicorp is concerned that it is losing money due to fraud somewhere in its payroll system. The accounting staff suspects there are ghost workers being paid by checks and cash at the production plants and collection centers. So while the actual payments are important to Phicorp, the process of recording and managing payments is just as important.

Example: Shifting salary payments: Step 2

Identify your stakeholders

The responsible manager at Phicorp has identified its key stakeholders for this digitization project as below:

Phicorp salaries #2. Stakeholders

Common Payment Stakeholders	Role	When/ how to engage them in the process
INTERNAL		
Finance & accounting	Reviewer	While the team tasked with leading the analysis is all on board, some staff members who deal with check processing may feel threatened. Need to make sure they feel informed throughout the process.
CFO	Ultimate approval	Will need to manage relationships and interests across departments, especially HR.
HR	Endorser	HR must support eventual choice and communicate and champion it with employees
Risk and audit	Reviewer	At least when considering risks (Step 5)
Production plant and collection center staff	Reviewer	Front-line staff not in the head office: need to understand their processes and relationships with part-time workers and casual workers early on; you may need to offer incentives to get them on board.
EXTERNAL		
Employees	Client	This depends on how well you already understand their financial services needs
Unions or employee groups	Interested party	May help you identify employee needs and preferences early on

Note: PhiCorp salaries download #2

A note on internal process at Phicorp:

Even though the accounting staff seems to have a clear mandate from the CFO to investigate digital payments, their ability to actually implement changes will be severely limited if they don't seek out wider engagement – and if they don't have the authority of the CFO to back them up.

Example of shifting salary payments: Step 3

Note: PhiCorp salaries download #3

Compile a baseline profile

After surveying its employees, the Phicorp Finance staff compiled the data in the table below:

Phicorp salaries #3. Profile

		# paid into bank accounts at present	# with bank accounts but not paid into	# unbanked today	Pay periods per month	Average total value of payroll per cycle $	Number of bonus/ additional payment cycles during the year
Head office	Full-time employees	0	100	0	2	200,000	1
	Part-time employees						
	Casual workers						
Production plants	Full-time employees	0	50	0	2	75,000	1
	Part-time employees						
	Casual workers	0	50	200	4	112,500	2
Collection centers	Full-time employees	0	25	0	2	37,500	1
	Part-time employees	0	25	50	2	75,000	1
	Casual workers						
TOTAL p.a.			**250**	**250**	**18,000**	**$13,05m**	**300**

Example of shifting salary payments: Step 3

Isolating feasible options

The process described so far in this stage has aimed to isolate the **feasible options** based on considering the main choice variables. There is likely an iterative process required. Remember, the default option is always to maintain your current method for making payments. Using this process, Phicorp has narrowed its choice down to two options:

	Option 1	Option 2
Overall goal	• Maintain cash payments to casual workers • Shift most full- and part-time workers from check to bank transfers	• Shift most casual workers to bank transfers • Shift most full- and part-time workers from check to bank transfers
Timeline	Within 3 months	Casual workers over 2 years, others within 1 year
Paypoints	None needed; most of the targeted ones already have bank accounts	New paypoints needed for casual workers; bank to install ATMs on premises of production plants
Account types	No new accounts created	No frills' accounts created for casual workers
Payroll provider	Continue to process cash and checks internally	Continue to process cash and checks internally
Notes	This is the easier of the two options since these employees generally already have accounts. However, employees' familiarity with ATM cards should be investigated. May generate resistance from unions or other parties that previously discounted checks for some employees.	This will take significant effort and might need to be tested on a pilot basis with casual workers at just 1 production plant or on just 1 factory line. Need to provide for financial literacy campaign and training on using ATMs.

Example of shifting salary payments: Step 4

Calculate costs

Note: PhiCorp salaries download #4

Phicorp salaries #4. Payroll calculator – Option 1

Enter the following details:	UNITS		
No of employees	Number	500	
Payperiods per month	Number	2	
Average pay per employee per payperiod		725	
Of the above employees:		Now	Target
% paid in cash	%	40%	40%
% paid by check	%	60%	10%
% paid by bank transfer	%	0%	50%
Do you prepare & distribute cash paypackets internally (alternative: outsource this)			Yes
Do you write checks for pay manually (alternative: print checks or outsource the printing)			Yes
Assumption choices			
Do you want to supply your own assumptions? (if not, the calculator will use the default)			No
Short format (enter only key own assumptions which will be used instead of defaults)			
Bank charge per check processed			0.50
Bank charge per EFT processed			0.25
Bank monthly charge for EFT service if any			50
Monthly employment cost per payroll clerk			1000
Cost to cash carrier for each paypacket filled if applicable			1
Do employees get given or take time off from work to deposit checks? If so, how long on average per person?			15

Outcomes — Option 1

Based on the assumptions used, by moving to Phicorp's target payment approach:

- Phicorp stands to reduce its annual payroll related costs from $12,385 to $6,371
- This translates to a potential annual saving of $6,015 or 49%

Notes on Phicorp's costing exercise:

Not all of these payments may be able to be shifted immediately; some employees may resist change for a long time. Also, cost savings were not the primary driver for Phicorp. Even if this costing exercise had shown digital payments to be less cost efficient, Phicorp may have gone ahead with digitizing its payroll to improve its recordkeeping.

Example of shifting salary payments: Step 4

Calculate costs

Note: PhiCorp salaries download #4

Phicorp salaries 4. Payroll calculator – Option 2

Enter the following details:	UNITS		
No of employees	Number	500	
Payperiods per month	Number	2	
Average pay per employee per payperiod		725	
Of the above employees:		Now	Target
% paid in cash	%	40%	10%
% paid by check	%	60%	10%
% paid by bank transfer	%	0%	80%
Do you prepare & distribute cash paypackets internally (alternative: outsource this)			Yes
Do you write checks for pay manually (alternative: print checks or outsource the printing)			Yes
Assumption choices			
Do you want to supply your own assumptions? (if not, the calculator will use the default)			No
Short format (enter only key own assumptions which will be used instead of defaults)			
Bank charge per check processed			0.50
Bank charge per EFT processed			0.25
Bank monthly charge for EFT service if any			50
Monthly employment cost per payroll clerk			1000
Cost to cash carrier for each paypacket filled if applicable			1
Do employees get given or take time off from work to deposit checks? If so, how long on average per person?			15

Outcomes — Option 2

Based on the assumptions used, by moving to Phicorp's second payment approach:

- Phicorp stands to reduce its annual payroll related costs from $12,385 to $5,333
- This translates to a potential annual saving of $7,053 or 57%

Notes on Phicorp's costing exercise:

The cost savings for Option 2 are slightly more than for Option 1 but more importantly, Phicorp's primary driver was reducing fraud and increasing transparency – something bank transfers are good at but which is not possible to estimate exactly so is not in the calculator– so it will chose Option 2.

Example of shifting salary payments: Step 5

Consider the risks

The Phicorp team has completed an initial assessment of its option for salaries as shown below.

Phicorp salaries #5. Risks

	Potential vulnerabilities	Answer	What you can do
1	Can you be sure that the payroll software or service will be kept up to date?	YES	Vendor undertaking
2	Have the needs of unbanked employees been adequately considered?	YES	We have specifically considered their needs to access cash close to the premises
3	Have you considered the needs for education or safeguards for newly banked employees in accessing new financial services via their accounts?	YES	Bank will offer on-site take on session for new employees every two months
4	Have you considered how to train/ retrain accounting/HR staff in the new process?	YES	Payroll vendor will supply
5	Have (or your internal auditor or external auditor) you reviewed the high level control risks of the new process?	Not yet	This will be done after decision to proceed
6	Do you have backup processes for ensuring timely salary payments even if the usual communications channel to the bank or payroll provider is not working?	YES	Bank will accept faxed instructions or delivered file from authorized persons if communications not working
7	Are the tax agencies and benefit providers ready to receive payment electronically as planned?	YES	According to bank which provides services to them also

Example of shifting salary payments: Step 6

Recommend

The final step is to evaluate the feasible options against your objectives, in the light of the costs and risks. This should lead to a clear recommendation to proceed in which the stakeholders identified have been considered and in defined cases, consulted. This will ensure that a well thought through recommendation is not only more likely to be approved but also to prove easy to implement when you move to that stage.

One way to go about this is to assign a score to measure the extent each option meets the objectives outlined earlier, as per the example below, where 1 is the best option, 2 is second best, so that the lowest overall score becomes the best ranked.

Business toolkit sheet #10. Salary payment option scoring tool

Drivers	Weighting	Option 1	Option 2
Reducing costs	25%	2	1
Managing compliance risk as result of increasing complexity or tax or labor law		N/A	N/A
Reducing risk that cash on premises will be stolen	15%	2	1
Reducing other theft/misuse risks such as payments to ghost workers	45%	2	1
Offering more options for employees		1	2
Employees are wanting more access to financial services (such as credit, but you are not willing or able to provide it directly)		N/A	N/A
Keeping up with competitors that are competing in your labor pool		N/A	N/A
Corporate social responsibility (CSR) related to financial inclusion for employees	15%	2	1
Weighted total	**100%**	2	1

A note on internal process at Phicorp:

Option 1 gives Phicorp and employees more flexibility and time to learn and adjust so scores highest in this category. But Option 2 is more closely aligned with Phicorp's stated drivers, particularly in reducing the risk of fraud. If Phicorp had different priorities, its decision might be different.

Module: Supplier Payments

Shifting payments to suppliers

Know all this already? Move on to steps

Context

Paying suppliers, which are usually other businesses, on invoice is one key use case in the wider B2B stream of payments. All businesses will have to make payments of some type to their suppliers, whether:

- Major suppliers, where the relationship may involve multiple purchases during a month
- Regular suppliers, such as landlords or utility providers
- Occasional suppliers from which purchases are made on a one-off or occasional basis.

This whole process is sometimes called 'procure to pay' since the payment normally follows ordering, delivery and invoicing. This is an area in which the benefits of shifting to digital payments are compelling, although with more dependencies than with processes like salary payments because:

- the payee (supplier in this case) may have strong preferences as to how they are paid, and smaller businesses may be less able to influence the processes of larger suppliers;
- the process is closely linked into the wider accounting process which may start with procurement which takes effort to change inside the payer and payee; and
- often the accounting system requires additional information to be able to reconcile since amounts may vary from expected for many reasons.

As with other applications, there is therefore a need to understand the proposition for both payer and payee.

Making the shift to digital payments in this area can be complex. However, there are certain trends which are making it easier over time:

- the spread of mobile payments especially for smaller businesses places digital payment tools in the hands of smaller businesses which may not have had access to them before;
- initiatives are underway in various places including US and Europe to try to standardize the information fields sent with invoice payments, making it easier to automate.

Keep reading introductory information or skip ahead to the steps for understanding your options.

Quick Access

Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Canadian regulators and business associations have been particularly active in measuring payments and setting goals for the shift to digital payments in the B2B space. Click here to see some of their findings.

Shifting payments to suppliers

Evidence from Canada and elsewhere

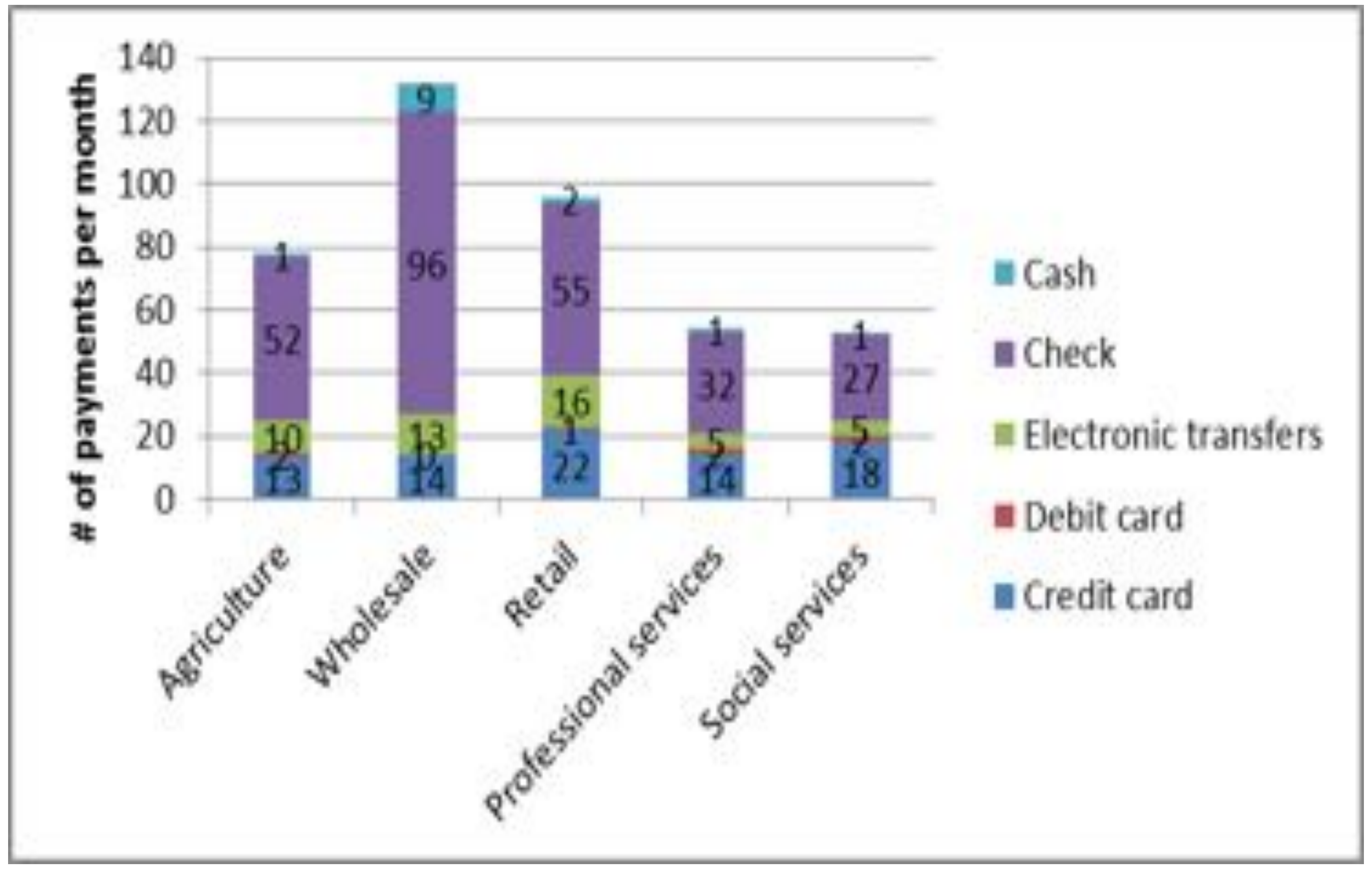
Know all this already? Move on to steps

In many countries, most of these payments by most businesses, especially small and medium businesses, are still done largely using checks.

For example, the figure shows how Canadian SMEs in a range of sectors make between 50 and 130 payments to suppliers each month, and that the dominant instrument used by far is the check, followed by credit card as a distant second. Canadian regulators and business associations have been particularly active in measuring payments and setting goals for the shift to digital payments in the B2B space. For example, a recent paper, by Global Solution Networks, about Canadian firms argues that businesses should jump on the bandwagon of digital payments as younger consumers are more comfortable paying in those ways. The implication is that those younger consumers will shortly be businesspeople and suppliers, too.

BTCA's 2014 surveys of SMEs in Bogota, Manila and Lagos (which had fewer than 25 employees) found that they were making between 35 and 300 payments to their main suppliers per annum, and less than 20% of these payments were electronic.

Fig. 8. Payments per month made by Canadian SMEs to their suppliers by type of payment instrument



Source: CFIB (2011) Table A10

Shifting payments to suppliers

Know all this already? Move on to steps

Good practices for procure-to-pay

A study by Visa of a range of US businesses which were considered to follow best practice showed that the following practices with respect to procure-to-pay applied inside these companies:

1. Proactive senior management sponsorship
2. Collaboration to ensure communication and enforcement of policies and procedures
3. Progressive migration to automating the entire technology platform
4. Aggressive strategic sourcing to enhance relationships
5. Comprehensive data aggregation and reporting to support management and enable continuous improvement of P to P functions

Businesses of all sizes will have to evaluate carefully their options to transition electronically. In procure – to-pay, as in other payment use cases, the benefits of digitizing only the payments may be small (but still positive) in relation to the larger benefits which may come from digitizing the invoicing process as a whole.

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Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers:

Typical procure-to-pay process

Know all this already? Move on to steps

As always, the payment component (step 5 below) is only one part of the larger process, which can be handled in different degrees of formality and automation depending on the size and scale of the business.

1. Set up of supplier profile	Requests bank details and sends enrollment agreement	Sends bank details and signed agreement
2. Order	Sends purchase order	Receives purchase order
3. Delivery	Receives goods	Sends goods
4. Invoicing	Receives invoice and raises payable	Issues invoice and raises receivable
5. Payment	Prepares and makes payment; issues remittance advice	Receives payment; receives advice
6. Accounting & reconciliation	Updates payables; reconciles with bank account	Updates receivables; reconciles with bank account

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Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers:

Know all this already? Move on to steps

Typical procure-to-pay process

As always, the payment component (step 5 below) is only one part of the larger process, which can be handled in different degrees of formality and automation depending on the size and scale of the business.

Fig. 9. Procure-to-pay process

	Payer *(client)*	**Payee** *(supplier)*
1. Set up of supplier profile	Requests bank details and sends enrollment agreement	Sends bank details and signed agreement
2. Order	Sends purchase order	Receives purchase order
3. Delivery	Receives goods	Sends goods
4. Invoicing	Receives invoice and raises payable	Issues invoice and raises receivable
5. Payment	Prepares and makes payment; issues remittance advice	Receives payment; receives advice
6. Accounting & reconciliation	Updates payables; reconciles with bank account	Updates receivables; reconciles with bank account

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Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers

Options for automating your entire invoicing process

"Electronic Invoice Presentment and Payment (EIPP) stands to become one of the major developments in the area of corporate payments and financial supply chain over the next decade." (Denecker & Helms 2010)

The invoice presentment and payment function is one of the processes in the overall B2B procure-to-pay process chain above. Businesses in different countries have made different progress at automating this process, although few as fast as they had hoped according to McKinsey's payment experts. European countries have probably made the most progress, although the percentage of all invoices handled electronically was still below 10% in 2007, with only the Nordic countries above this threshold.

There are several approaches to addressing the need for standardization in how invoice and payment information is exchanged between companies:

An industry-wide standards approach seeks to set standards for the information fields in invoices so that they can be recognized across systems. After assessing the benefits and options, the EU has proposed to use a common standard, based on the UN/CEFACT standard developed for invoices. The US currently has at least two different standards linked to different payment systems (EPN's STP820 and NACHA's EBIDS). This approach requires banks and major industries in a country to come to agreement around the right standards.

A platform approach sets up an e-procurement hub at which buyers and suppliers register to provide and exchange payment and other information relating to their procurement throughout the full cycle. Since it is unlikely that any one national platform will emerge, this approach may involve linking existing procurement hubs so that they can exchange information across networks of hubs.

For further reading on this issue, see the full article by consultants Denecker & Helms of McKinsey Inc.
Who will drive electronification: Banks or technology providers?

Quick Access

Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers: Step 1

See how Phicorp approaches this step

Determine your drivers

A decision to shift payments to suppliers involves costs and risks, as well as benefits for a business and its suppliers. The issue is not only whether to shift, but how to shift. To answer this question requires first clarifying your objectives. You can use a table like the one below to prioritize and rank them. The process of clarifying these is likely to involve a discussion with other stakeholders and may require an iteration across departments before getting to final sign off.

Business toolkit sheet #11. Drivers for suppliers

MOTIVATIONS	Rating Priority
Reduce costs	
Better cash flow management	
Minimize loss due to fraud, misappropriation, failures in payment process or other risks	
Satisfy needs of suppliers	
Keep up with competitors	
Corporate social responsibility	
Comply with regulation or other rules, such as a cap on check amounts	
Other	

Remember to consider the possible tradeoffs!
For example, there may be tradeoffs between minimizing your own costs and the needs of suppliers or minimizing fraud and risk.

Note: you can rank using a scale like High, Medium, Low or else assign a % to each row

How can payments to suppliers demonstrate our corporate social responsibility?
Your country's government might have goals or a strategy to promote financial inclusion or the growth of micro or small businesses. Making payments to suppliers in your value chains may also entail helping them get access to formal financial services or other support from financial providers.

Shifting payments to suppliers: Step 2

Note: supplied interactively or via Business Toolkit download #12

Identify your stakeholders

The process of shifting has implications within a business as well as for its suppliers. These parties need to be identified early on in your decision process, together with the roles that they need to play in the decision process. The table below can help identify typical role players upfront. Sometimes, the process of options will lead to others being added to the list. In each case, the process requires approaching the identified stakeholder at the appropriate stage of the process. Eventually, you will have to fill in specific names for the process.

Business toolkit sheet #12. Supplier stakeholders

Common Payment Stakeholders	Role	When/ how to engage them in the process
INTERNAL	**Example**	
CEO /CFO	Ultimate approval	Usually at the outset (Step 1) to establish the drivers and set parameters
Finance & accounting	Reviewer	Depends on their role — they may drive this process or be part of the team hence involved throughout
Risk and audit	Reviewer	At least when considering risks (Step 5)
EXTERNAL		
Suppliers	Client	This depends on how well you already understand their financial services needs — see next page
Financial regulators	Approver or endorser	Approval required if your options lead you to
Payment providers	Service provider	While you will only appoint service providers later, after you have reached your decision, you will likely engage with some as you investigate options
Other (Write In)		

Quick Access

Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers: Step 2

Know all this already? Move on to steps

Value proposition for payers and payees

There are slightly different issues to consider depending on which side of the payment transaction you sit. However, it is important to understand both sides since you may have to make the proposition to your suppliers to shift.

Fig. 10. Value proposition for payers and payees

	Payer *(firm)*	**Payee** *(supplier)*
Cost savings	• Operational cost savings, based on reduction of staff time, materials used, fees paid, greater efficiency. Estimated at €10-25 (US$13-32) per invoice for European firms by one source, 88% by another, and 25-46% for Filipino firms in a 2014 BTCA case study. • May enable taking advantage of early payment discounts. Regular, prompt payment may also enable greater access to credit from suppliers.	You can save costs, through reduction of staff time, materials used, fees paid, greater efficiency. Estimated at €7-10 (US$9-13) per invoice
Improved cash flow management	• You can better control your cash flow by tighter control over timing of payment. • This will be weighed against your desire to pay regularly and promptly vs. timing payments to cash flow, though this could entail reputational costs.	You can reduce the time to receiving payment (from 30-40 days to 10)
Improved fraud management and control	• You have better control over expenditure than with paper instruments requiring physically present signatories	You will have controls over funds received into your account than on checks which require depositing
Efficient reconciliation	• You can reconcile your bank account more easily.	With the right remittance information on payment, it is easier to allocate and process remittances into your accounting system
Better supplier relationships	• Results from overall more responsive, managed process	

Quick Access

Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers: Step 3

Note: supplied interactively or via Business Toolkit download #13

Compile a baseline profile

It is important to capture at least some simple initial data from your current system about your suppliers and how you pay them today since that will inform your investigation of further options at the next steps. Compiling a simple data sheet like the one below will help.

Business toolkit sheet #13. Supplier payment profile

Name of business		
Date of this assessment		
1. Average number of supplier payments made per month		
(a) Of these: the number of suppliers paid regularly (at least once a month)		
2. Across all your suppliers by type:	Regular suppliers	Other suppliers
(a) Number paid by digital payments		
(a) Average value of monthly payments in each category		

Remember: you don't have to shift all payment types at once!
The nature and requirements of different payments, such as to employees for salaries or petty cash, or to governments, may make them easier or harder to shift than payments to suppliers. Your financial institution will be able to help you determine if shifting multiple payment streams at once can allow you to eliminate redundant costs of shifting other payment streams in the future.

Quick Access

Phicorp case study

Questions for:

Suppliers
Banks
Automated Invoice providers

Shifting payments to suppliers: Step 3

See how Phicorp approaches this step

Compile a baseline profile

Suppliers | Banks | Automated invoice providers

In the previous step, you read about the value proposition for suppliers in changing the way they get paid. Here you'll learn how to dig a little deeper for your particular suppliers. To do this, it will help to divide your suppliers into a few categories: some are big companies, some are probably small-time operations; some are familiar with electronic payments, others less so. Below is a list of questions you can ask your suppliers to begin to segment them:

i. Do you currently accept electronic payments on your invoices?

ii. If so, what types do you accept and which of these do you prefer?

iii. If not, would you be open to receiving digital payments from us?

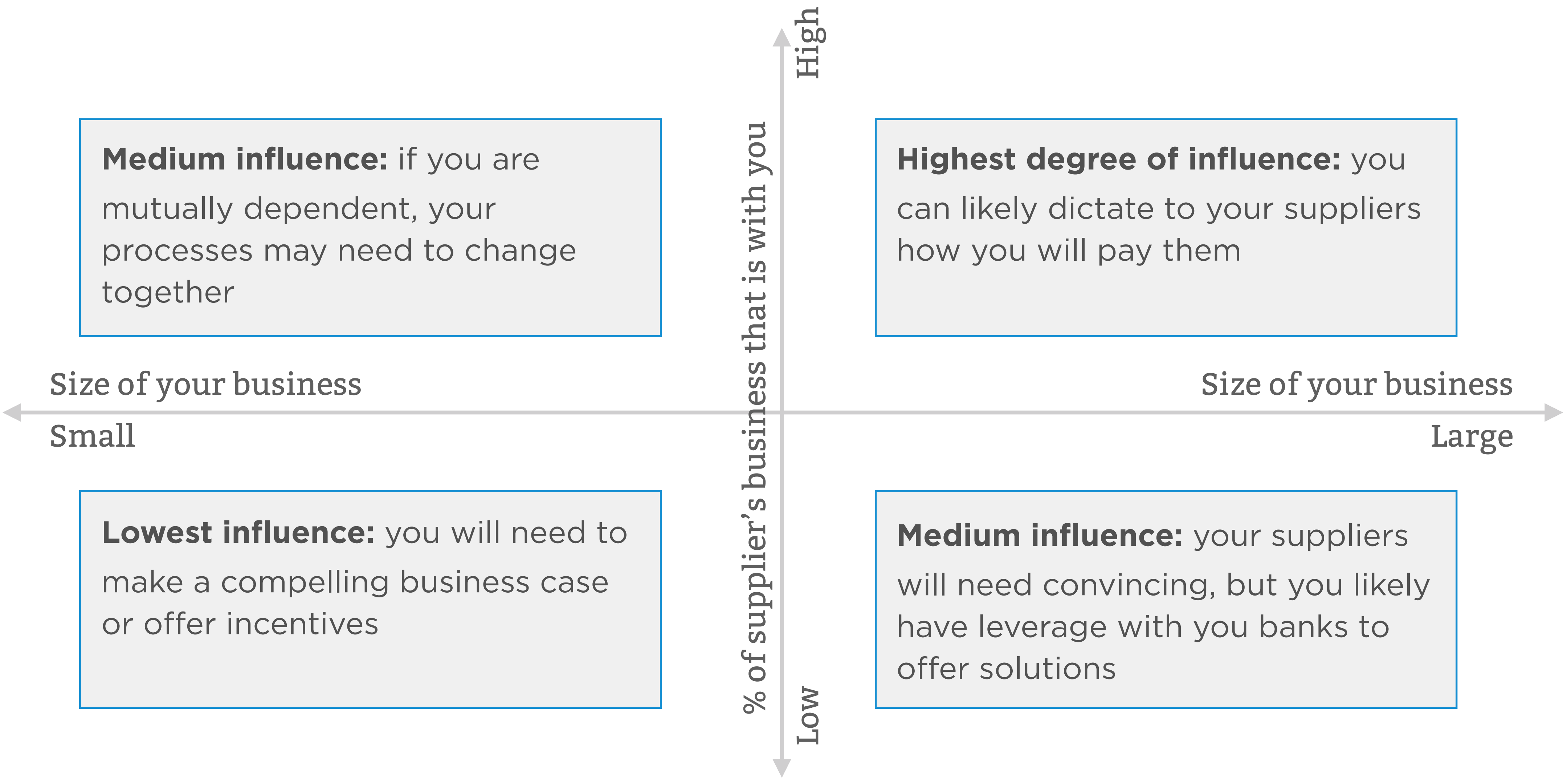
iv. Can you explain your reservations?

v. Do you offer (or would you offer) incentives for your clients to pay digitally?

One thing to keep in mind when you're thinking of shifting how you pay your suppliers is that digital payments are tied to the formal economy, and some suppliers may prefer to remain informal. Especially small and medium enterprises face real costs entering the formal economy — they may have to seek government licenses, and likely have to pay additional taxes — in exchange for the benefits of accessing formal financial services and government benefits. So a small supplier considering whether to accept digital payments is also considering how formal to become. Large businesses may need to offer some incentives to get small, informal businesses to change the way they operate.

Influence matrix

The degree of influence you have over each of your suppliers depends on two criteria: the size of your business, and the supplier's dependence on you. Once you have segmented your suppliers, put them into a matrix like the one below payments and helping them access other financial services.



Some of the incentives you can explore with your suppliers are paying them more quickly if they accept digital payments and helping them access other financial services. The range of these incentives may also depend on your bank.

Shifting payments to suppliers: Step 3

Note: supplied interactively or via Business Toolkit download #14

Compile a baseline profile of your targeted supplier segments

Match this profile to your drivers

So where do the largest volumes and values of non-digital payments to suppliers currently sit? Considering this profile against the drivers you have identified earlier alongside the degree of influence you have will guide the process of deciding where to focus your attention. For example, if your priority is cutting the time it takes for your suppliers to get paid (to improve your cash flow management), then targeting the highest value suppliers may make sense. If, however, your goal is to demonstrate corporate social responsibility, you may want to start with suppliers that are micro or small businesses.

Business toolkit sheet #14. Supplier type prioritization

Type of supplier	Current payment volume	Current payment value	Degree of influence

Quick Access

Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers: Step 3

Investigate your options: Banks

See how Phicorp approaches this step

Suppliers Banks Automated invoice providers

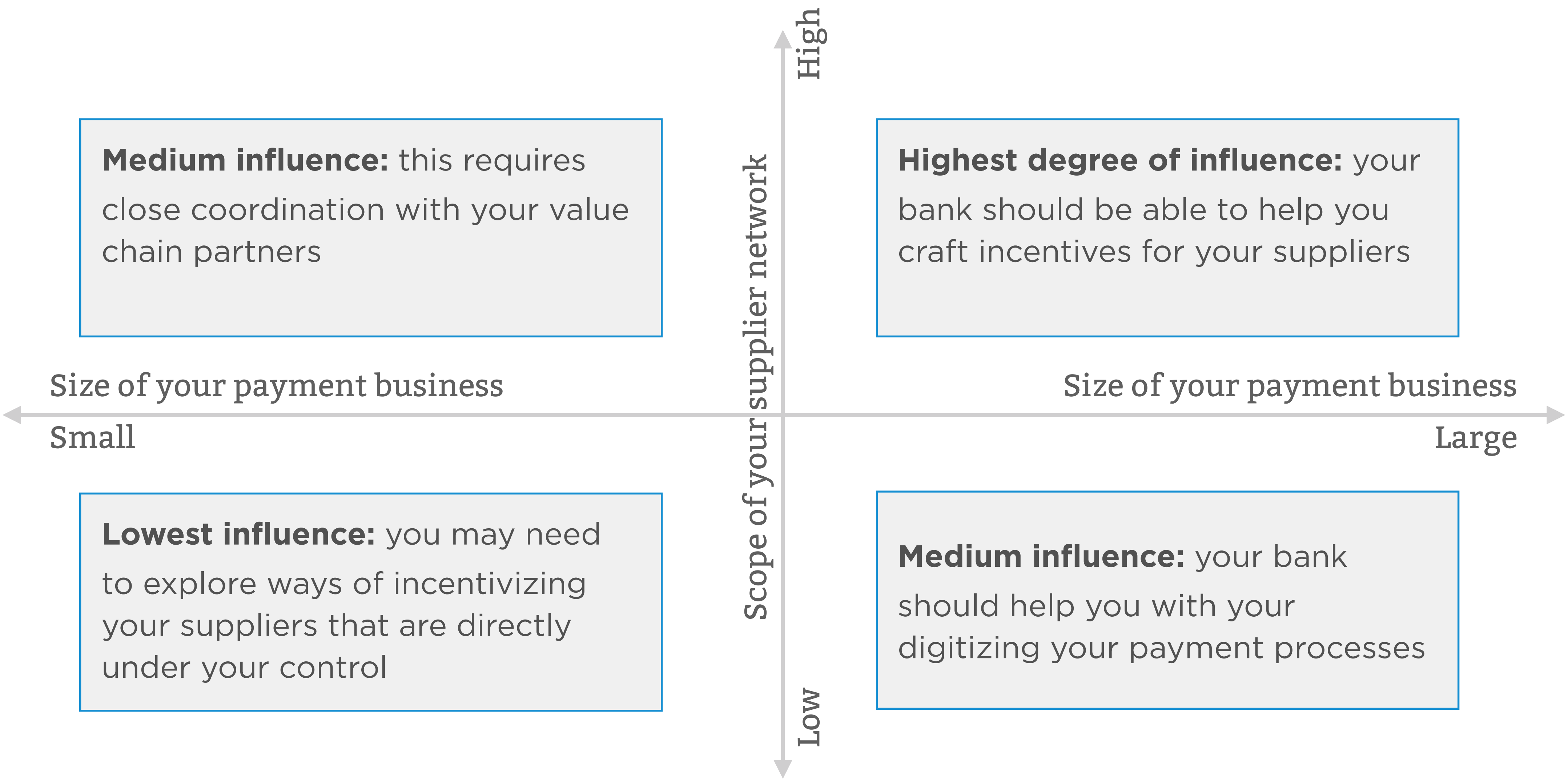
Your bank may be a real partner in helping you shift to pay your suppliers electronically. However, it may also have incentives for maintaining the current processes. An important step is to enquire of your bank about the cost and reliability of its digital offerings, and if necessary, also asking competitor banks. Normally, banks would offer payment services such as supplier payments to corporate clients via their corporate internet banking service. This is usually similar in function to personal internet banking payment options but has additional security controls built in as a result of the larger amounts at stake.

Ask these questions to the cash management or commercial internet banking staff member at your bank or others:

i. What services do you offer for paying my suppliers electronically?
ii. How do you charge for payments — to set up and thereafter: e.g. a fixed fee per cycle and/or single fee?
iii. Please give me a copy of the agreement which I would have to sign
   a. Can you describe the circumstances under which I will be held responsible when a payment is not made?
   b. What is the bank's obligation if it makes payments later than the agreed date or credits the incorrect accounts?
iii. Can you explain your capability to deliver additional remittance information to suppliers?
   a. What formats do you offer?
   b. What choices do I have?
   c. Can you show me examples?
iv. Is it possible to try out the service for a limited time? Do you offer pre-testing functions on new payee profiles?
v. What controls are available over access to the account?
vi. What assistance can you provide to my unbanked suppliers?
   a. Will you send staff to selected suppliers to provide account opening services? If so, on what basis?
   b. Will you help them register with government agencies if necessary?

Influence matrix

The degree of influence you have over your bank or another bank depends on the payment terms you can offer (the amount of float or the number of transactions you can promise) and the scope of your network (if you can bring other important pieces of your value chain to the same bank).



Shifting payments to suppliers: Step 3

Investigate your options: Automated invoice providers

Suppliers Banks Automated invoice providers

You may be able to handle the invoicing and accounting functions in-house. This may require directly integrating your accounting system with your payment system. If you are automating your entire procure to pay process to move to electronic bill presentment and payment, you may need some external help from IT consultants to ensure that the process is smooth.

Another option is outsourcing all or part of the back-end process. In larger, more developed markets, a range of suppliers has emerged which offer services to automate even particular small parts of the process such as scanning paper invoices to enter a digitized process. Where these services do not yet exist, you may have fewer options to automate your whole invoice process but it still may be worth shifting parts.

You can ask the questions below of automated invoice providers in your market:

i. Which parts of the procure to pay process do you handle?
   a. Which are most popular among your clients in this country?
ii. Can you provide me with references of current clients in our industry or of our size whom you serve?
   a. Do you offer local support? If so, on what time response basis?
ii. How often do you update your software/ service to keep up with changes in tax or industry practice?
iii. How does the timing of payments work i.e. from our given settlement date on an invoice, when will you notify us of the funding required and when do we have to pay you?
iv. In your standard agreement, in what circumstances may we suffer loss and what forms of recourse do we have if you do not make the payments on time as specified?
v. How do you charge for your service?
   a. Initial costs?
   b. Regular fixed costs?
   c. Costs per supplier per period?

Quick Access

Phicorp case study

Questions for:

Suppliers
Banks
Automated Invoice providers

Shifting payments to suppliers: Step 3

Overcoming the barriers

In summary, as you assess options, you may also become aware of barriers in the way. The table below lists common barriers facing firms wishing to make electronic payments, and how you may go about addressing each. These are drawn from a large survey of Canadian SMEs undertaken in 2011.

Fig. 11. Supplier payment barriers for consideration

Potential barrier	How to address it
1. Other party is not set up to accept electronic	Segment your suppliers by size and type: larger firms and certain sectors are more likely to be ready to adopt
2. Do not want to change business processes	This is why identification and buy in is important: to extract real benefits, there may be a need for re-engineering your payables process and this will affect existing staff and procedures, leading to fears of disruption.
3. Concerned with on line security	Discuss your concerns with your bank—their knowledge of the specific risks of digital payments and their measures to mitigate them should give you comfort; if, not, you should meet with other providers to see if there are general issues
4. Electronic payments are not common in my sector	As for #1 above, find out in which sectors firms are more likely to already receive electronic payments—for example, firms in e-commerce, travel & entertainment and export-import may be more likely.

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Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Example of shifting payments to suppliers: Step 4

See how Phicorp approaches this step

Calculate your existing costs

In order to calculate the financial consequences of digitizing, you need to assemble a baseline sense of your current costs for the current different payment options, using the calculator contained in an attached spreadsheet. This calculator enables you, working in local currency or USD, to input your own cost and time assumptions at a basic (quick) level below, in the green cells shown below, or at a detailed level (not shown) which involves estimating the time of various processes associated with processing invoices to payment and inputting local staff costs to come up with more accurate numbers.

Business toolkit sheet #15. Calculator for supplier costs

	INVOICE CALCULATOR	UNITS		
	Currency choice: do you wish to see results in USD?			Yes
	If not, please enter currency name			
	Enter exchange rate of local currency to USD			
A	**Enter the following details:**			
	No of suppliers	Number	60	
	Total number of invoices received per month	Number	217	
	Total average value of payments to suppliers per month	Chosen currency	1,352,183	
	Of the above invoices:		Now	Target
	Number paid by check	Number	9%	3%
	Number paid by bank transfer	Number	1%	52%
	Number paid in cash	Number	90%	45%
	Do you send remittance advices separately from checks (alternative: outsource this)			No
	Do you write checks for pay manually (alternative: print checks or outsource the printing)			No

These numbers come from Spreadsheet 13. Payment profile

These are what you believe are feasible

	Assumption choices	
B1	Do you want to supply your own assumptions? (if not, the calculator will use the default)	Yes
B2	Short format (enter only key own assumptions which will be used instead of defaults)	
	Bank charge per check processed	0.5
	Bank charge per EFT processed	0.25
	Bank monthly charge for EFT service if any	50
	Monthly employment cost per AP clerk	1000
	Cost to mail a check	0.3

Quick Access

Phicorp case study

Questions for:

Suppliers
Banks
Automated Invoice providers

Shifting payments to suppliers: Step 4

Estimate setup costs of options

Another important cost category to consider is the setup costs of each option since a eventual recommendation to proceed will likely mean incurring these costs upfront. You will not need a detailed quote at this stage, but rather an estimate which sets an upper bound on what you expect to need.

Type	Nature of costs involved	Factors influencing the level
Internal staff resources	You may not have to 'budget' for these since there is no external cost but it would be important to consider at least the nature and level of staff required to move ahead	The complexity and scale of the option
Technical support to design	You may need help from skilled experts in particular areas for feasibility study and for detailed project planning	The complexity and scale of the option
Technical support to implement	You may need outsourced help to manage implementation if internal resources are not available or adequate	The complexity and scale of the option
IT costs	Interfaces to existing systems; new systems built or bought	Whether it involves interface
Communications costs	Costs of mailings or personal messages to suppliers (if outsourced)	How many suppliers you have; how intensive the communication

Quick Access

Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers: Step 5

Note: supplied interactively or via Business Toolkit download #18

Assess the risks

At this stage, you do not yet have the information required for a detailed risk audit of each option, nor do you need it—that should follow once you move to implementation and have processes and procedures to evaluate. For now, you should seek to test to which risks each option set is most vulnerable. Below, some standard vulnerabilities are listed so that you can consider how vulnerable each option is to risk. This will likely affect your recommendations; since, depending on your drivers and institutional risk appetite, you may prefer a less risky option which offers less instead of a risky option which offers more but is more prone to failure.

Business toolkit sheet #15. Calculator for supplier costs

	Potential vulnerabilities	Answer	What you can do
1	Have you tested the willingness of at least your major suppliers to receive digital payments?		Talk to your suppliers about their needs and preferences.
2	Have you reviewed your payment policy to ensure that the new payment approach takes advantage of discounts for early payment where appropriate?		Talk to your bank to see if your account qualifies you to offer specialized services to your suppliers.
3	Have you considered how your proposed approach will interface with your existing accounting system and what changes, if any, are needed?		Consult with your accounting staff, outside IT vendors, and possibly automated invoice providers.
4	Have you identified new control risks resulting from the shift?		Talk to your peers in business associations or other groups.
5	Others you identify?		

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Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Shifting payments to suppliers: Step 6

Note: supplied interactively or via Business Toolkit download #19

Recommend

Now that you have costed your options and considered the potential risks, the final step is to bring all this together into a recommendation of how to proceed. This means returning to the drivers identified at the start and assessing the extent to which each option will achieve each objective.

Some businesses may wish to evaluate options on a more qualitative basis; certainly not all factors can be reduced to numbers alone. However, one way to go about this is to assign a score against each objective to measure the extent the option is likely to fulfill the objective, using a table like that below. This can then be the basis of recommending which option to pursue.

Keep in mind that opinions within your business may be divided on the merits of shifting your payments. As with any change in business processes, there are likely to be losers, even when the business as a whole sees gains in efficiency, speed, recordkeeping, fraud, etc. Bringing all the stakeholders on board with the change is essential. Some departments may be threatened if they are asked to undergo training, or if some of their functions are outsourced to payment service providers. Where digitization threatens jobs, this may be particularly hard to do, so it is a key component of the cost/benefit analysis.

Business toolkit sheet #19. Supplier option scoring tool

		Weighting	OPTION 1	OPTION 2	OPTION 3
A	Reduce costs				
B	Better cash flow management				
C	Minimize loss due to fraud and robbery				
D	Satisfy needs of suppliers				
E	Keep up with competitors				
F	Corporate social responsibility				
G	Comply withÂ regulation or other rules, such as a cap on check amounts				
	Scoring	100%			

What if you don't have any feasible options at this stage?

It is possible that, having come this far, you have not been able to define any feasible option sets. The structured process recommended in this toolkit tries to reduce the risk of that by proposing a quick analysis in Part 2 before investing more time and effort.

However, if the options look limited or risky, you may want to:

- Recommend that the case be revisited within 12 months, if it seems that important changes are underway in the ecosystem; or even later, if little is happening.
- Propose the legal changes necessary before you can start the journey so that the responsible ministry can weigh the probability of making the changes.
- Propose how a re-weighting of criteria might change the picture: for example, you may not be able to reduce costs but you can make it easier to comply which should carry benefits into the future for revenue, even if they are hard to quantify today.

Shifting payments to suppliers

Where to from here?

Congratulations! You have reached the end of **Framing the Case: Module 2 on shifting payments to suppliers**

So, if you have applied these steps, you will have now completed a thorough analysis of the case to shift your payments to suppliers towards digital payments.

In a world which is slowly but surely going digital as discussed in Section 1 of this toolkit, The Better than Cash Alliance hopes that you have identified at least one feasible option which stands a good chance of meeting your objectives. Once this option has secured the necessary approvals and endorsements, you will have to enter into **subsequent stages of analysis** which are important but not in the scope of this toolkit:

- A thorough **feasibility study,** which would include detailed costing, leading to
- A **full proposal;**

And once that is approved:

- The development of an **implementation plan,** which would include procuring all the support you may need.

Do you need help in your process?
BTCA's Technical Assistance Fund may be able to help you with funding to secure technical support as you develop your case to shift and then your subsequent stages— contact TAF.

We would like to hear your experience of undertaking this analysis so that we can improve it and also to encourage ongoing peer learning— please let us know.

Quick Access

Phicorp case study

Questions for:

Suppliers

Banks

Automated Invoice providers

Example for Module 2: Supplier Payments

Phicorp in Ecosystemia

This example is based on a composite profile of the data and experiences of a typical entity faced with the decision of whether and if so how to digitize in the target geographies of lower and middle income countries.

Please refer to the Excel file title "Phicorp suppliers" as you work through this example.

An Applied Example : Phicorp's payments to its suppliers

The Republic of Ecosystemia is a lower middle income country with a diverse population of around 60 million citizens at the latest census. It is estimated that around 40% of its adults are banked: in the cities, people are relatively well serviced by banks and other financial providers, but just over half the population still live in rural areas, some of them remote, with infrastructure challenges. The proportion of smart phones with internet access is around 20% of population (mainly in the cities where bandwidth is good, but this expected to rise fast over the next five years. Financial inclusion is a general policy goal of the government there, alongside job creation and poverty reduction.

The payment ecosystem is at stage 2 of the 4 stages identified in the quick diagnosis– i.e. there are central bank clearing houses for debits and credits but not widely used or promoted outside of particular cases (e.g. salary payments). Checks are widely used by businesses; cash commonly for purchases. Mobile money exists quite widely, but tends to be for niche personal applications, not for business or larger payments.

In this context, Phicorp is a large producer and distributor of dairy products in a competitive market with 2 other large national firms. Phicorp has a head office, from which it contracts with various equipment vendors, and several regional collection centers, which pay small- and large-scale farms for their milk.

As part of its effort to digitize payments, the CFO has asked the accounting staff to assess whether, and if so how, to shift payments to suppliers.

Keep reading the Phicorp case study, or use the link at the bottom right to jump back to the explanation of the steps.

Example: Shifting Supplier Payments: Step 1

Note: PhiCorp suppliers download

Determine your drivers

The Phicorp Finance Manager has identified its drivers to digitize supplier payments and weighted each one as follows:

Phicorp suppliers example #1. Drivers

Motivations	Rating Priority
Reduce costs	40%
Better cash flow management	25%
Minimize loss due to fraud, misappropriation, failures in payment process or other risks	10%
Satisfy needs of suppliers	15%
Keep up with competitors	
Corporate social responsibility	10%
Comply with if regulation or other rules, such as a cap on check amounts	
Other (write in)	
TOTAL	100%

A note on Phicorp's choices:

Phicorp is clearly trying to cut costs and manage their cash flow better. They have some concerns that they are being double-billed by certain suppliers, but they don't have a good way to track that. As a minor factor, weighted 10% under the category of CSR, their marketing team would also like be able to promote the company's relationship with small farmers in their value chain to investors potential.

Shifting payments to suppliers: Step 2

Identify your stakeholders

Phicorp has identified its key stakeholders for this digitization project as below:

Note: PhiCorp suppliers download #2

Phicorp suppliers #2. Stakeholders

Common Payment Stakeholders	Role	When/ how to engage them in the process
INTERNAL		
CFO	Ultimate approval	Will need to manage relationships and interests across departments.
Finance & accounting	Leading the analysis	While the team tasked with leading the analysis is all on board, some staff members who deal with check processing may feel threatened. Need to make sure they feel informed throughout the process.
Risk and audit	Reviewer	At least when considering risks (Step 5)
Collection center leadership	Endorser	Front-line staff who are not in the head office: but who need to understand their processes and relationships with suppliers early on; may need to offer incentives to get them on board.
EXTERNAL		
Suppliers	Client	Need to segment suppliers. With less influence, may need to engage early.

A note on internal process at Phicorp:

Even though the accounting staff seems to have a clear mandate from the CFO to investigate digital payments, their ability to actually implement changes will be severely limited if they don't seek out wider engagement – and if they don't have the authority of the CFO to back them up when needed.

Shifting payments to suppliers: Step 3

Compile a baseline profile

Phicorp has compiled the information below on its payments to suppliers:

Note: PhiCorp suppliers download #3

Phicorp suppliers #3. Profile

	Number of suppliers	Average number of payments per year per supplier	Average value per payment $	Total number of payments per year	Total value of payments per year $
Head office contracts					
Factory equipment	2	12	25,100	24	602,400
Transportation	1	52	1900	52	98,800
Security	1	12	15000	12	180,000
Office supplies	4	10	1000	40	40,000
Maintenance contractors	2	2	7500	4	30,000
Collection center contracts				0	0
Large farms	5	26	95,000	130	12,350,000
Small farms	45	52	1250	2340	2,925,000
TOTALS	**60**			**2602**	**16,226,200**
Per month				217	1,352,183

A note on internal process at Phicorp:

Phicorp has a variety of types of contractors. While the highest value is to large-scale farmers, the highest volume is to small farms. Both these kinds of contracts are managed at the collection center level, which makes engaging (and possibly incentivizing) the managers at those centers especially important.

Shifting payments to suppliers: Step 3

Compile a baseline profile

Phicorp is currently paying its suppliers in these ways:

Phicorp suppliers #3. Profile (continued)

		Current means of payment					
	Number of suppliers	Cash		Check		Bank transfer	
Home office contracts		%	Value	%	Value	%	Value
Factory equipment	2		—	50%	301,200	50%%	301,200
Transportation	1		—	100%	98,800		—
Security	1	0%	—	100%	180,000		—
Office supplies	4	0%	—	100%	40,000		—
Maintenance contractors	2		—	100%	30,000		—
Collection center contracts			—		—		—
Large farms	5		—	80%	—	20%%	2,470,000
Small farms	45	100%	2,925,000		—		
TOTALS	**60**	**2340**	**2,925,000**	**224**	**10,530,000**	**38**	**2,771,200**
Per month		90%	18%	9%	65%	1%	17%

Note: [PhiCorp suppliers download #3]

Current means of payment

This analysis, which took some time to track down, reveals that most payments to suppliers are done by cash and checks, all delivered in person. Only the major equipment dealers and some large farms receive payments digitally at present.

Phicorp has accessed recent national survey data from the central bank. It shows that 40% of the adult population has a bank account. Over half of small and medium-sized businesses have a bank account, but mostly they are using their owner's account; just 15% have a corporate bank account. It uses this to inform its strategy for smaller suppliers.

Shifting payments to suppliers: Step 3

Investigate your options: Your suppliers

Suppliers Banks Automated invoice providers

Note: PhiCorp suppliers download #3

Influence matrix

After talking with their suppliers, Phicorp's accounting staff categorized the supplier segments into the matrix below:

Phicorp's influence over its suppliers:

Most of the farms that supply Phicorp have exclusive contracts that make them largely dependent on Phicorp. The equipment dealers have a limited market, since there are only a few large dairy companies in the country. The other suppliers are much less specialized and could be more resistant to pressure to change their business practices.

Shifting payments to suppliers: Step 3

Note: PhiCorp suppliers download #4

Compile a baseline profile of your targeted segments

Phicorp Suppliers Prioritization

	Current payment volume	Current payment value	Degree of influence
Home office contracts			
Factory equipment	Low	Medium	High
Transportation	Low	Medium	Medium
Security	Low	Low	Low
Office supplies	Low	Low	Low
Maintenance contractors	Low	Low	Low
Collection center contracts			
Large farms	Medium	High	High
Small farms	High	High	High

What does this suggest about Phicorp's priority segments?

Phicorp's two primary drivers for shifting its payments to suppliers were to reduce its costs and to improve its cash flow management. These objectives will be influenced by the number of payments and the value of payments. In addition, PhiCorp introduces its assessment of the degree of influence over its suppliers from here.

From the table to the left, it seems that the two highest priority groups are the large and small farms, in which its influence is high.

Large farms have consistent payments of relatively predictable amounts, and most of them already have bank accounts. Small farms represent the greatest number of payments per year, but many of them are informal businesses that will need incentives to change the way they are paid. PhiCorp may need help from its bank to provide them with accounts.

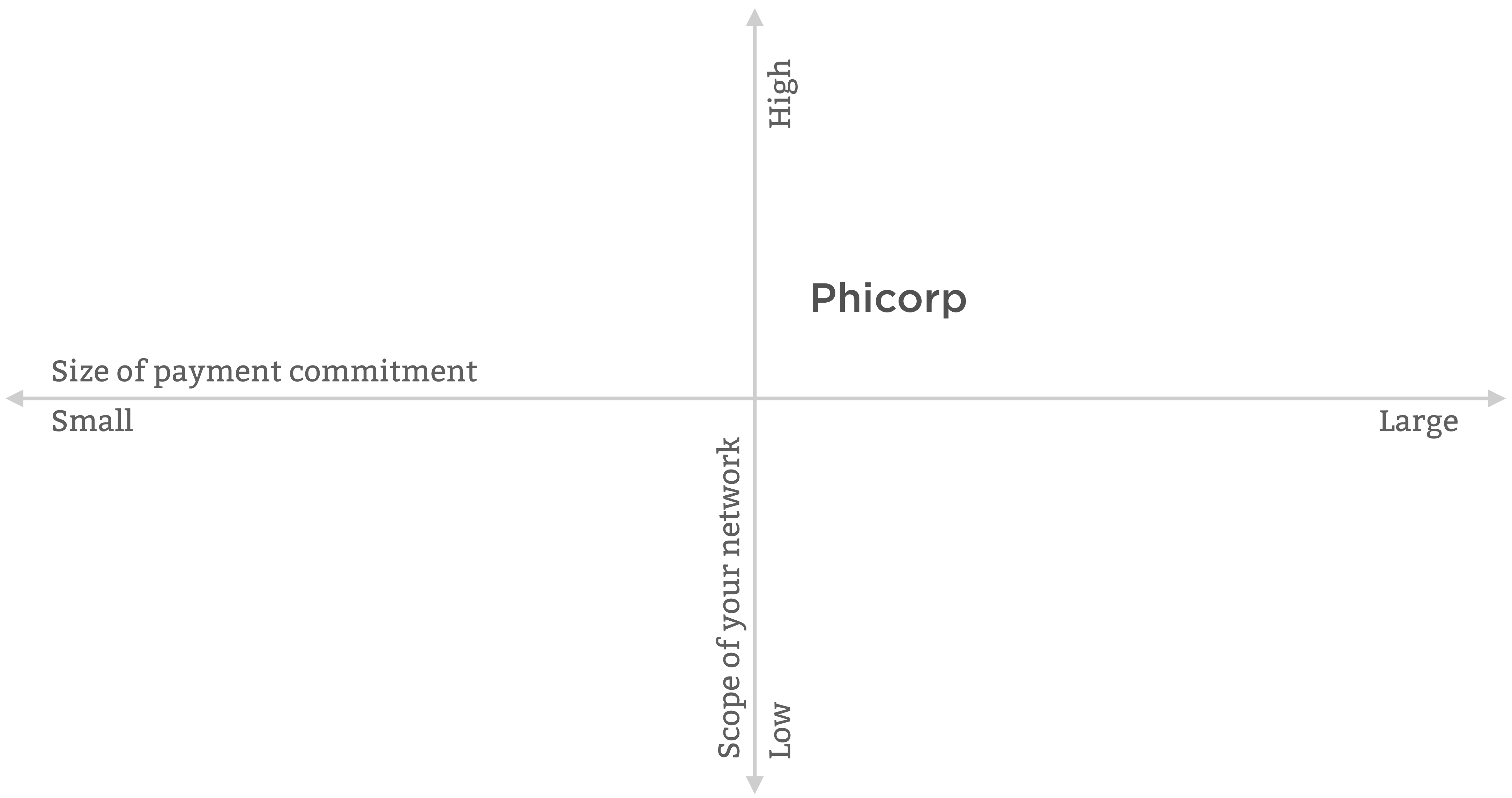
Shifting payments to suppliers: Step 3

Investigate your options: Banks

Suppliers Banks Automated invoice providers

Influence matrix

After talking with the company's bank and some other banks, Phicorp's accounting staff made the matrix below:



Phicorp's influence over its bank:

Phicorp's ability to commit a large amount of float depends on whether or not its small farm suppliers can shift to using bank accounts, since now Phicorp has to have a lot of cash on hand at its collection centers to make these payments. If these could be digitized, though, Phicorp could guarantee not only a higher value of float, but also a high volume of transactions.

The suppliers in Phicorp's value chain may not be valuable to Phicorp's bank, since transaction volumes will likely be low and small farmers are unlikely to keep high balances. But Phicorp's own customers (not covered in this toolkit), especially large grocery store chains, would be highly attractive target clients for Phicorp's bank.

Based on the steps so far, Phicorp plans to pursue two options:

1. Encourage large farms that already have bank accounts to accept digital payments, using early payment as an incentive
2. Pilot programs with small farms to help them register as formal businesses and get bank accounts

Shifting payments to suppliers: Step 3

Targets for the digital shift

Note: PhiCorp suppliers download #5

Phicorp suppliers #5. Future profile

	Targeted future--within 12 months					
	Cash		Check		Bank transfer	
Home office contracts	%	Value	%	Value	%	Value
Factory equipment		–	0%	–	100%	602,400
Transportation		–	75%	74,100	25%	24,700
Security		–	75%	135,000	25%	45,000
Office supplies		–	75%	30,000	25%	10,000
Maintenance contractors		–	75%	22,500	25%	7,500
Collection center contracts		–		–		–
Large farms		–	0%	–	100%	12,350,000
Small farms	50%	1,462,500		–	50%	1,462,500
TOTALS	**1170**	**1,462,500**	**81**	**261,600**	**1351**	**14,502,100**
Per month	45%	9%	3%	2%	52%	89%

What does this suggest about Phicorp's priority segments?

The task team sets the targets shown alongside for the shift on the basis that:

- Large farmers are all shifted to digital within a year
- 50% of small farmers are shifted to open bank accounts with PhiCorp's bank and will receive digital payments within a year
- Other categories of suppliers are shifted more gradually (25% within a year) because of having less influence.

As a result of this, 52% of payments by number, but 89% by value, will have shifted to digital within a year.

Shifting payments to suppliers: Step 4

Note: Business Toolkit download #6

Calculate your existing costs

Phicorp uses the invoice calculator to assess the cost of transitioning as planned, using the same numbers of suppliers and invoices as before. Using the basic assumptions, it can save at least 27% p.a. on its current cost of processing. However, what is not fully considered in the calculator is the reduced risk of cash robbery: PhiCorp has to hold around $112,000 in cash at any time in supply centers to meet weekly cash payments to suppliers. In recent years, it has suffered on average 2 robberies per year of a portion of this amount, averaging some $75,000 in losses. Since the cash balances required to be held fall by half to $56,000 following the shift, even if the incidence of robberies stays the same, the amount at risk will fall, reducing substantially the overall costs by half i.e. $37,500 p.a.

Phicorp suppliers #6. Cost calculation outcomes

Based on the assumptions used, by moving to your target payment approach,	BEFORE		AFTER	
You stand to reduce your annual invoice related costs from	15,939 USD	to	11,584	USD
Or per supplier invoice processed:	6.13 USD	to	4.45	USD
This translates to a potential annual saving of:	**4,355 USD**	or	-27%	of current costs
NOTE: this excludes reduction of losses due to cash robbery, estimated at an additional	37,500 USD			

Notes on Phicorp's costing exercise:

The costs above are meant to illustrate ongoing costs before and after the shift. Set-up costs may be significant, especially when it comes to equipment and training for automating invoicing processes, though you may save money as well if you need less staff. Note also that not all of these payments may be able to be shifted immediately; some suppliers may resist change for a long time hence the modest targets. Finally, cost savings were the primary – though not the only – driver for Phicorp and it seems that it can indeed save costs. However, even if this costing exercise had shown digital payments to be less cost efficient, Phicorp may have had other compelling reasons for changing the way it pays its suppliers.

Shifting payments to suppliers: Step 5

Note: PhiCorp suppliers download #6

Assess risks

The Phicorp team has been through the vulnerability checklist as indicated below.

Phicorp salaries #5. Risks

	Potential vulnerabilities	Answer	What we have done
1	Have you tested the willingness of at least your major suppliers to receive digital payments?	YES	Talked to main suppliers about their needs and preferences.
2	Have you reviewed your payment policy to ensure that the new payment approach takes advantage of discounts for early payment where appropriate?	YES	Noted in supplier profiles
3	Have you considered how your proposed approach will interface with your existing accounting system and what changes, if any, are needed?	YES	Consulted with accounting staff and ERP vendor
4	Have you identified new control risks resulting from the shift?	NOT YET	This will be done in conjunction with internal and external auditors as a separate exercise going forward
5			

Shifting payments to suppliers

Note: PhiCorp suppliers download #8

Recommendation

Having assessed the risks of shifting, the task team is able to present its recommendation to the CFO, consider the extent to which the proposal meets the original drivers outlined earlier:

At present, our payments to suppliers are 1% digital by volume and 17% by value. By focusing on high value suppliers where we have influence, we recommend that PhiCorp shift these suppliers to a digital process of invoicing and payment such that **52% of all supplier payments, and 89% by value will be digital within a year.** This is possible using existing bank transfer products, although we will require external support on automating our invoice processing process.

In addition, increasing numbers of our small farmers, from whom we buy weekly in cash at present, are becoming users of mobile money products in rural areas. Because of the growing availability of these products, we believe that we can transition at least 50% of small farmers to setting up accounts into which we can pay them electronically within a year. This shift will require concerted effort from our collection center staff who work with the farmers, supported by our bank which is willing to provide accounts; collection staff are likely to support this change since it will reduce the risk to which they are exposed of robbery while carrying cash at present. This additional focus will also help us support the CSR/financial inclusion objective set.

Phicorp suppliers #8. Cost calculation outcomes

Our Scorecard

MOTIVATIONS	Rating Priority	Likely achievement	Assessment
Reduce costs	40%	HIGH	At least by 27% p.a. is possible
Better cash flow management	25%	HIGH	Eliminating checks especially will enable better management of our bank balances on large payments
Minimize loss	10%	HIGH	Reduce risk of robbery
Satisfy needs of suppliers	15%	MEDIUM-HIGH	The large suppliers will likely welcome quicker payment; we will have to persuade smaller farmers though
Corporate social responsibility	10%	MEDIUM-HIGH	Many small farmers are not financially included; this will lead to at least half becoming included

Congratulations!

You have reached the end of the main content sections.

Go on to the next section

General Resources

This section provides a compendium of useful resources to which you can refer back:

- a **resource center** with links to other documents, videos and organizations
- a set of **Frequently Asked Questions** from businesses with answers which link back to relevant parts of the toolkit
- a **glossary** which describes common payment instruments and their characteristics.

Resource Center

Missing a useful resource? Please let us know

Surveys of trends in business payments in different countries

USA: Association of Finance Professionals: conducts a regular survey of its members who are in treasury and finance positions in business of different sizes. Latest was in 2013.

USA: The Remittance Coalition at Federal Reserve Bank of Minnesota: has conducted a survey in 2012 of 660 businesses from large (>$500m turnover) to small (up to $49.9m).

Canada: As part of the Canadian Payment system task force, the umbrella body representing Canadian Small Businesses conducted a survey of its members in 2011.

Canada: Walid Hejazi, Moving to Electronic Payments: implications for small and medium sized businesses, Global Solution Networks.

Kenya: Kendall, Jake; Lyon, Ben and Higgins, Dylan (2012), "Mobile Money Usage Patterns of Kenyan Small and Medium Enterprises", Innovations (MIT Press) Vol. 7 Issue 2.

General information for businesses on shifting

NACHA's site for US businesses and individuals.

Remittance Coalition (US) has developed material to use with suppliers.

Specific issues: EIPP

Olivier Denecker & Jarrett Helms (2010), "Who will drive electronification: Banks or technology providers?" McKinsey on Payments.

Jaap Jan Nienhuis & Charles Bryant, E-invoicing 2010 European Guide.

Cohen, Rochelle (2013), EDI Basics.

Specific issues: SME finance

IFC's SME Finance Forum

Good practices

Visa Global (2008), Procure to Pay and Commercial Card best practices.

Salary FAQ

Your question not answered? Please let us know

Questions	Answer
Is it ever worth making digital salary payments if my payroll process itself remains manual?	Certainly it may be, depending on your situation, for a range of reasons such as simply reducing the risk of losing cash held on the premises in a high crime environment.
Will my employees qualify to open bank accounts?	This will obviously depend on the bank's eligibility requirements, which may vary by type of account. But most larger banks offer basic accounts which may be opened with low balance and which do not require extensive identity documentation. Most banks will however require some form of photographic identity to open an account. Where the identity requirements are stricter, you may want to explore more limited-functionality accounts such as prepaid.
When should my target for the percentage of employees paid electronically be anything less than 100%?	Some employees may work and live in environments—such rural remote locations—where there is little additional financial infrastructure available to them, for example to withdraw cash or even have a local merchant accept payment by card. In these cases, to pay these employees electronically, may impose high costs on them of traveling to the nearest place at which they receive and use their salary. These cases need to be identified and handled carefully so as not to transfer your costs onto them. However, for most businesses with employees living and working in cities and towns today, the target should likely be close to 100%.
What can I do if employees do not want to open bank accounts?	Testing the attitudes of unbanked employees towards receiving an account is an important part of the process set out. Your options will vary depending on the reason for their reluctance: if it is simply lack of understanding, then there may be a need to set up sessions with the bank present at which to demonstrate how an account works; if it is lack of trust in banks because of a history of failure, then it may require more assurances (for example, explaining the concept of deposit insurance if it exists).

Payments to suppliers FAQ

Your question not answered? Please let us know

Questions	Answer
Can one bank handle all my invoice payments?	The answer depends on what you mean—if it is about your bank's capacity to handle your volume or value of digital payments, you will have to seek assurances from the bank itself. If it is about capacity to transfer to accounts at any other bank in the country, this will depend on your country's payment system and how your bank fits into it—again part of the questions to ask them. In many countries, this is a standard feature with all batch EFT credits to bank accounts. It may not be the case where suppliers are using newer options such as some mobile payments which do not yet interface to the banking system fully or at all.
How should I go about investigating whether to shift to EIPP?	Having read the general material here, you may need to approach your auditors or specialized consultants in your country for more specific advice about the state of play and about what services are available and supported locally.
What if my supplier refuses to receive digital payments?	Having read the general material here, you may need to alf your persuasion alone will not work to shift a particular supplier even after you have tried to address their questions and concerns, then you might also seek advice from their industry body, if one exists, or else speak to other customers of that supplier to see if the case for change is better made together. But if the supplier matters to you more than your business matters to them, then your position is weak. You may have to focus on others and wait this one out...

Digital Payments Glossary

The world of digital or e-payments has terms which may be unfamiliar to a reader from outside of this world. This page helps you categorize different types.

Payments are made using payment instruments. Cash, for example, is a payment instrument. So too are checks. However, when it comes to digital payments, it can be confusing because of the range of different terms used for similar services, sometimes even within the same country!

In this section, we provide definitions based on the functionality of the main categories of payment instrument, together with the common terms used. A key first step is understanding which instruments are even available, and on what basis, in your country.

To help understand the main differences in categories which affect the functioning of payment instruments, here are two important distinctions:

- Whether they are real time or not i.e. whether the recipient receives confirmation that he has received funds after transmission within seconds of when the sender makes the payment, or whether it may take hours or even days for this to happen—this matters since the timing affects the ability to confirm and may affect cost; and
- Who initiates the payment transaction: whether the payer 'pushes' the money by entering the details of the recipient and authorizing the payment; or the opposite process, where a recipient, such as a merchant, initiates the process to 'pull' the funds from the account of the payer, based on some defined process, such as swiping the payer's card at a point of sale terminal for a card transaction. This matters since it affects the risks of the transaction to both parties—for example, how it can be reversed or disputed by a payer or payee.

These two distinctions form the axes of the Figure alongside, creating spaces in which the current common payment instruments are shown.

Examples of digital payments:

Push or pull		Real time? Yes	Real time? No
	Push	RTGS Mobile money Real Time Transfers	EFT credits Wire transfers
	Pull	Card payments	Direct debits Checks

Further reading on digital payments:

If you want more technical definitions, then download the complete glossary of payment terms developed by the international standard setting body for payments among central banks, the Committee on Payment and Settlement Systems at the Bank for International Settlements.

Digital Payments Glossary

Common digital payment instrument categories

Credit transfers: (which may also be called internet or wire transfers, or EFT credits, or ACH credits or stop orders, SMS banking, mobile banking): "a payment order … made for the purpose of placing funds at the disposal of the beneficiary. Both the payment instructions and the funds described therein move from the bank of the payer/originator to the bank of the beneficiary…" (CPSS)

Within this category, one can distinguish between:

- Batch ACH payments: when the payment instruction is delivered (whether singly or in bulk) in a file which is processed with a lag so that the credit to the receiver only happens after an interval, typically overnight although it may be longer in some cases such as international wire transfers.
- Real time transfer payments: this feature is often offered for payments between parties with accounts at the same financial institution; and central banks often operate a special payment system for high value transactions mainly between banks although it can sometimes be used for larger value transactions too; although it is rarer for real time transfers to be offered across financial institutions.

Direct debits: pre-authorized debit on the payer's bank account initiated by the payee. (CPSS). Direct debits allow the payer to authorize in advance the payment order, which is then presented (electronically) by the payee to her bank at the right time for payment. If the payer's bank is different, then the payee's bank will have to present the order to the payer's bank in order for them to make the transfer. There is usually a lag between presenting the order and receiving the funds. Debits are therefore a pull instrument.

Card payments: card payments are payments involving plastic cards which are often (although not always) branded with the names of the large international card associations such as MasterCard or Visa, as well as the issuing financial institution. These payments usually involve the payer presenting his card at a device, such as a point of sale machine or an ATM, and entering a PIN number to authorize a payment transaction via that device. There are various different types of cards, which are subject to different rule sets as to how they work and how the parties are charged:

- Credit: in which the funds from which the payment is made from a credit account which must be repaid afterwards;
- Debit: in which the funds belong to the payer and are contained in a linked account at a financial institution which may take a variety of forms;
- Pre-paid: similar to debit in that the account is already funded by the account holder, but often with a more limited functionality.

These cards are also typically available to businesses as well as individuals through issuing banks.

Further reading on digital payments:

See World Bank, A practical Guide for Retail Payment Stocktaking

Comparing instrument characteristics

Users are generally looking for some combination of these characteristics in payment instruments. Here's how they may stack up

Characteristic	Definition	Cash	Check	Card	ACH Batch Credit	Real Time Transfer	Direct Debit
Acceptance	How widely other parties are able to receive payments this way	Universal	Depends on country	Larger merchants especially in sectors like T&E	Depends on scheme	Requires that recipient have bank account and supply routing details to payer	Requires that payer have bank account and supply routing details to payee
Time to debit payer	How long before funds are taken out	Instant	Depends on when and where presented	Effectively instant	When processed	Instant	Within a defined period of presentation
Time to credit payee	How long before recipient has access	Instant	Depends on when and where presented	Depends on rules—typically next day	Depends—typically at next day	Instant	After cleared
Cost to use	The fees and charges	No fees but other costs	Depends on bank—typically charged	Credit card—usually free to payer; debit card—often some charge to payer	Depends on bulk and agreement with bank	Depends—may even be free for on-us	Depends on bank—may be charge to both sides
Risk of fraud	Extent to which payer or payee may suffer loss	No fees but other costs	Can be high: Carried by receiver	Credit card—usually free to payer; debit card—often some charge to payer	Low depending on authorization controls	Low depending on authorization controls	Moderate depending on controls
Flexibility	Extent to which payer or payee may suffer loss	No	Post dating but subject to risk	Yes	Yes—depending on internet	Yes—depending on provider	Yes—can issue recurring and specific date
Information sent with the payment?	Ability to send additional information with the payment e.g. payer or payee account number	No	On check	Depends on scheme	Possible but may not be standard	Possible but may not be standard	Possible because initiated by payee

strong | weak | unclear

Payments Glossary

This table provides common definitions of terms you will find in the toolkit

A term missing? Please let us know

Term	Definition
Authentication Process	The methods used to verify the origin of a message or to verify the identity of a participant connected to a system and to confirm that a message has not been modified or replaced in transit. (BIS)
Digital Payments	(usage in this toolkit) A transfer of value using a payment instrument which is at least initiated in digital format. See further discussion in this toolkit here
E-payment/electronic payment	See digital payment
Financial Inclusion	The delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. Different countries have adopted more specific definitions and measures.
Interoperability	A situation in which payment instruments belonging to a given scheme may be used in other countries and in systems installed by other schemes. Interoperability requires technical compatibility between systems, but can only take effect where commercial agreements have been concluded between the schemes concerned. (CPSS)
Mobile wallet	A term often used to denote an account linked to a mobile phone (often by mobile number) in which digital value is stored; in some places, it is similar or equivalent to a bank-issued account with a mobile interface; however, in others, it is issued by non-banks.
Payment ecosystem	A term used to mean the payers, payees and infrastructure, and the relationships between them which shape the choice and nature of payment instruments available in a country
Payment grid	The table of different payment types formed by different payer-payee combinations—see more here

Further definitions related to payments

If you want more definitions, then download the complete glossary of payment terms developed by the international standard setting body for payments among central banks, the Committee on Payment and Settlement Systems at the Bank for International Settlements, from which some of the above definitions are excerpted.

Payments Glossary

A term missing? Please let us know

This table provides common definitions of terms you will find in the toolkit

Term	Definition
Payment instrument	Any instrument enabling the holder/user to transfer funds. (CPSS). For examples, of main categories, see here
Payment (transaction) device	A device that uses the payment instrument and information from the recipient to complete a transaction. Examples include: ATM, Point of sale device, PC, mobile phone
Payment account	The account, usually with a regulated financial institution, which is used to make or receive an digital payment
Paypoint	The place at which a client or recipient can obtain or deposit cash; could be a branch, or ATM or agent or special purpose site.
Token (in payment)	The non-sensitive substitute (like a one-time or special use number) for sensitive data (like a bank account number) in a payment transaction.
Payroll card	A particular type of pre-paid card which is sometimes offered as a salary payment solution. It allows the employee to withdraw cash using conventional channels such as ATMs after the salary is credited.
ERP software	Enterprise Resource Planning Software—usually referring to a suite of applications used to manage a business's MIS needs

Further definitions related to payments

If you want more definitions, then download the complete glossary of payment terms developed by the international standard setting body for payments among central banks, the Committee on Payment and Settlement Systems at the Bank for International Settlements, from which some of the above definitions are excerpted.

Acronyms

This table provides common acronyms you will find in the toolkit

A term missing? Please let us know

Acronym	Meaning
ACH	Automated Clearing House
EIBP	Electronic Invoicing and Bill Presentment
PSP	Payment Service Provider
EDI	Electronic Data Interchange
SWIFT	Society for Worldwide Interbank Financial Telecommunication
MNO	Mobile Network Operator

Acronym	Meaning
POS	Point of Sale (Machine)
KYC	Know Your Customer
UMIC, LMIC, LIC	World Bank country classification—Upper Middle Income Country, Lower Middle Income Country, Low Income Country
ATM	Automated teller machine/ cash machine
NACHA	US body which makes rules for the ACH