

EXECUTIVE SUMMARY

The Future of Supply Chains **Why Companies Are Digitizing Payments**

JUNE 2018

BETTER THAN CASH
ALLIANCE



Foreword



About 30 percent of the world's adults struggle to get by without the basic financial services they need to protect themselves against hardship and invest in their futures. **Financial inclusion seeks to unlock economic opportunity for all, especially the poor, by expanding access to these catalytic financial services.**

In the past few years, digital payments have proven to be an effective tool to drive financial inclusion, enabling hundreds of millions of people to make transactions faster, cheaper, and more safely. Not only can digital payments create incentives for people to open an account, they can also reduce the problem of account dormancy by offering new applications that customers will actively use. For example, an increasing number of innovative digital payments solutions are making it possible for individuals to afford and access services such as clean water and electricity for the first time.

Governments in developing and emerging countries have made important moves to foster digital payments. They are investing in vital infrastructure such as payment systems and connectivity, and they are digitizing their own payments, including wages and social transfers. That said, further action is needed to truly scale up progress.

A growing group of companies are realizing how digitizing payments can have positive effects on their business and on people's lives. Key private-sector actors in retail, consumer goods, garment, and agribusiness can play a crucial role in supporting financial inclusion by digitizing their salary and supply chain payments. Currently about 230 million financially excluded people still receive their wages in cash, and 235 million unbanked adults in developing countries receive cash for their agricultural products.

The 2017 Global Findex data shows us that more than half a billion adults gained an account since 2014. But several groups such as women, farmers, and small- and medium-sized enterprises remain critically underserved. I have found in my own work that a diverse range of major companies recognize that financial inclusion can improve the performance of their businesses. And they are ready to take steps that can expand financial inclusion. **We need more companies to step forward in similar ways – not for the sake of CSR but because this makes business sense for everyone involved.**

This paper provides interesting examples of powerful partnerships that have succeeded in digitizing supply chain payments. I hope that these insights and evidence will help digital payments gather force and deliver the benefits of financial inclusion to many, many more people.

H.M. QUEEN MÁXIMA OF THE NETHERLANDS

United Nations Secretary-General's Special Advocate for
Inclusive Finance for Development (UNSGSA)

CEO Voices

1



While governments adopted the Sustainable Development Goals, they alone cannot deliver on them. **Global businesses, like ours, now have a huge opportunity to harness the power of digital payments to drive financial inclusion.** At Unilever, we've seen first-hand how digital payments can empower individuals, micro and small businesses, and communities in the world's most marginalized settings. Ultimately that strengthens our own business, and inspires our people beyond measure.

PAUL POLMAN, CEO UNILEVER



Sixty-five percent of people employed in H&M group's supply chain are women, many of them with limited access to financial services. **By promoting digital payment of wages, we also promote better working conditions for women** and equipping them with tools to build a better life for them and their families.

KARL-JOHAN PERSSON, CEO H&M



Having our suppliers pay garment workers digitally is delivering huge benefits to our business, our employees, and our partners. **Digital payments bring improved financial security and safety for employees, efficiency gains for our suppliers, and greater transparency for the industry.** We've seen how setting new best practices can transform people's lives as well as business outcomes.

ART PECK, CEO GAP INC.



By integrating digital payments into everyday operations for small business owners, **Grupo Bimbo has made real strides in supporting the growth of 'mom and pop' stores and driving inclusive growth for entrepreneurs and their families across Mexico.** The impact for our business, our supply chain, and our communities has been vast and we see how the possibilities continue to grow with access to digital tools.

DANIEL SERVITJE, CEO GRUPO BIMBO

Executive Summary

The journey from cash to digital payments is gathering pace around the world. Forward-thinking businesses have played a key role in generating this momentum.

Businesses are still hampered by **the exclusionary, inefficient, unsafe, and opaque shortcomings of cash.**

As a result of digitizing payments, many companies have accrued very real benefits for themselves, their employees, suppliers, distributors, and in many instances, the communities they work in. There is reason for optimism as the case for digitization in businesses becomes more compelling every day.

Despite the clear benefits, the global business community remains at the beginning of its digitization journey. **Businesses of all sizes around the world are still hampered by the exclusionary, inefficient, unsafe, and opaque shortcomings of cash.**

The dividends of digitization remain out of sight for too many enterprises, and hence out of reach. It is clear that more action, more collaboration, and more innovation are urgently needed.

The next stage in the world's journey to move away from cash will require payment digitization to become more widespread, and for corporate supply chains to harness its full benefits.

These include more efficiency and higher productivity, increased revenues and lower costs, greater transparency and security, and stronger business relationships that drive more economic opportunity. By realizing these benefits, companies are championing the Sustainable Development Goals, while generating new data for unbanked workers and small business owners.

This report draws on the experience of nearly 40 companies and organizations¹ – in the agribusiness, fast moving consumer goods (FMCG), and apparel industries – along with financial institutions, think tanks, and donor agencies. It sheds light on six recent experiences from global brands and local companies digitizing supply chain payments across Bangladesh, India, Mexico, Kenya, and Uganda. Taken together, these diverse perspectives illustrate the pivotal role businesses can and must play in an economy's larger digitization efforts and how they will benefit.

The term digital payment is generally understood to mean a transfer of value from one payment account to another using a digital device (such as a mobile phone or computer) and electronic communications channel (such as mobile wireless data). This includes payments made with electronic bank transfers, mobile money, and payment cards (e.g., credit, debit, prepaid).

The **Benefits** of Digitizing Payments for Companies

IMPROVED EFFICIENCY



- Reduced transaction costs
- Higher productivity
- Better cash and business management

INCREASED REVENUE



- Growth of suppliers/distributors through access to capital
- Data analytics for business development
- New business opportunities



GREATER TRANSPARENCY AND SECURITY



- Transparent and traceable transactions
- Better fraud detection
- Higher personal security

STRONGER BUSINESS RELATIONSHIPS



- Suppliers/Distributors: increased loyalty
- Employees/Workers: reduced turnover
- Consumers: better products
- Government: strategic partner

DIGITAL PAYMENTS CONTRIBUTE TO THE SDGs

Financial
inclusion

Women's economic
participation

Decent work &
inclusive growth



SUSTAINABLE
DEVELOPMENT GOALS

* The Responsible Digital Payments Guidelines by the Better Than Cash Alliance promote the confidentiality and security of client data.

For example:

- In India, **Gap Inc.'s** efforts led to roughly 95 percent of factory workers being paid digitally. Over time, factories also experienced a 15-20 percent general reduction in worker attrition and turnover on average.
- In Kenya, small retailers in **Unilever's** Jaza Duka (“fill up your store”) program grew sales by 20 percent in the first six months of accessing digital working capital loans, which were based on retailers' digital purchasing history.
- In Bangladesh, apparel companies participating in **BSR's HERfinance program**² reported a 53 percent savings in time for the admin and finance teams of their suppliers in the first year of implementation.
- In Uganda, mobile payments helped **McLeod Russel Uganda** (MRUL), an affiliate of the world's largest tea production company, increase transparency and started to eliminate payments to “ghost” workers.
- In Mexico, card payments and digital services such as mobile phone airtime recharge enabled small retailers in **Grupo Bimbo's** network to increase sales by 20-30 percent.

However, these successes must be viewed against the broader global landscape of access to financial services for workers, farmers, and small businesses as part of global value chains.

Far too many people and small businesses around the world remain financially excluded. While strides have been made in digitizing payments, there remains much work to be done and many benefits are still unrealized.

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- An estimated 1.7 billion adults remain unbanked globally, despite the fact that two-thirds own a mobile phone.³
- Supply chain payments worth trillions of dollars – around \$6.3 trillion in payments from retailers to their suppliers alone⁴ – are still being made in cash.
- Across developing countries, nearly two-thirds of wage earners in the private sector, around 230 million people, receive their salaries in cash.⁵
- In the agricultural sector, 235 million unbanked adults in developing countries are still paid in cash.⁶
- Of the estimated 180 million micro and small merchants in developing countries, just 10 percent are digitized.⁷



Experience from companies digitizing payments outline three necessary building blocks to establish and scale a successful program of digitization. These building blocks are interrelated and to a degree interdependent, but do not need to be implemented in a linear sequence:



1

How to undertake digitization internally, notably by mapping the hidden costs of cash of a company's supply chain, understanding the business case for digitization and identifying champions;



2

How to create a value proposition of digitization for suppliers, distributors, and other intermediaries along the supply chain, recognizing that many businesses do not have direct contact to large sections of the unbanked population; and



3

How to collaborate in building an ecosystem, working with other businesses, development partners, financial service providers, governments, and other stakeholders, when businesses alone cannot complete the transition from cash to digital payments.

A successful transition requires collaboration among a variety of stakeholders in pursuit of an inclusive and responsible digital payments ecosystem. Businesses, financial institutions, and governments all have a vital role to play to create a robust ecosystem in which people can seamlessly transact through efficient and well-functioning Cash-In-and-Cash-Out (CICO) agents and networks, offering increasing opportunities to use money digitally and reducing the need to convert electronic money into cash. This is key to realizing the full benefits of digitization for businesses and their stakeholders. Encouragingly, highly effective coalitions are emerging among leading players to deliver this impact.

Building Blocks for Success



BUILD the internal value proposition

RECOMMENDATIONS

- **Map** where cash is used in your business
- **Quantify** the cost of cash and new opportunities
- **Integrate** into existing roles and programs
- **Identify** champions, align teams and incentives
- **Leverage** partners and their expertise



ENGAGE and create value for supply chain partners

RECOMMENDATIONS

- **Determine** the pain points that will drive supply chain partners to digitize
- **Bundle** value-added services with payments to create incentives
- **Incorporate** digital payments into existing initiatives for partners
- **Build** accountability
- **Start small** to test and increase the value of your offering



CONTRIBUTE to local market environment

RECOMMENDATIONS

- **Work** with partners to address market constraints
- **Leverage** your existing relationships with banks, MNOs, and fintech
- **Develop solutions** with your partners to encourage usage
- **Start** with early adopters and leverage their influence
- **Invest** in user experience to encourage long-term habits

CASE STUDIES BEHIND KEY FINDINGS

Case studies available on
www.betterthancash.org



FAST-MOVING CONSUMER GOODS



READY-MADE GARMENTS



AGRICULTURE

We would like to thank all the contributors from the following organizations who made this report possible:

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CGAP	H&M	PepsiCo	Unilever
Citi Inclusive Finance	Hindustan Unilever	Pymont Consulting Ltd.	VF Corporation
Danone	Kheyti	RAFLL Mastercard Foundation	Visa Inc.
Diageo	Marks & Spencer	Smart Money	World Economic Forum
Eko Financial Services	Mastercard	Tata Consultancy Services	
FINO Paytech	Mobile Money Africa (Eezee Money)		
	Morgan Stanley, Supply Chain Finance		

Methodology

This study builds on the extensive knowledge and research in the field of digital payments, and its role in furthering financial inclusion. The review of existing literature has been complemented by conversations with more than 40 organizations in the sector, including global development agencies, philanthropic foundations, private sector businesses, financial service providers, and technology providers. The study also draws upon the experience of companies that have attempted digitization in three sectors – Fast-Moving Consumer Goods (FMCG), readymade garments, and agriculture. The experience of six companies in these sectors has been captured through case studies, which have been developed in consultation with the company teams and are based on the data collected by them.

The data presented in this study is self-reported by participating companies and is not based on review of source documents by the project team. Dalberg and the Better Than Cash Alliance are not responsible for the accuracy of the data reported in this study.

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The Better Than Cash Alliance Business Series

Our business series seeks to highlight specific examples of shifts from cash to digital payments by companies in their supply chains. Each report and case study aims to provide insights for business executives and wider audience on the factors that have helped or hindered the digitization process, and also present key results and benefits of the transition away from cash. We hope that readers will be able to adapt the lessons from these cases to their own contexts and local conditions.

Endnotes

1. Please see the full list of organizations interviewed at the end of the report.
2. A multi-stakeholder partnership involving seven apparel companies (H&M, Marks & Spencer, Target, Li & Fung, Lindex, Debenhams, and Fast Retailing), Business for Social Responsibility (BSR) and the Bill & Melinda Gates Foundation.
3. World Bank Global Findex 2017 Data.
4. World Bank, "Cash vs. Electronic Payments in Small Retailing," 2016.
5. World Bank Global Findex 2017 Data.
6. Ibid
7. World Bank, "Cash vs. Electronic Payments in Small Retailing," 2016; Dalberg, "Small Merchants, Big Opportunity: The Forgotten Path to Financial Inclusion," 2016.

WWW.BETTERTHANCASH.ORG

About The Better Than Cash Alliance

The Better Than Cash Alliance is a partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth. Based at the United Nations, the Alliance has over 60 members, works closely with other global organizations, and is an implementing partner for the G20 Global Partnership for Financial Inclusion.

BILL & MELINDA
GATES foundation

Citi Foundation



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