



► Research Brief

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Digital wages for decent work in Indonesia A rapid assessment

Key points

- Indonesia has made significant progress towards responsible digital wage payments. The government of Indonesia has supported the development of digital infrastructure and has promoted an enabling regulatory environment for digital financial services, consumer protection and financial literacy.
- Workers who still receive their wages in cash recognize the benefits of transitioning to digital wage payments. Among the challenges, workers report insufficient accessibility, security and high fees.
- Enterprises prefer to pay wages digitally if the conditions are conducive. Relevant factors affecting their transition are size, frequency of wage payments, use of cash for transactions with consumers, workers' resistance and digital infrastructure.
- Financial service providers seek to develop better tailored products, notably payroll services. But services to smaller enterprises and workers could be improved in terms of fees, transaction costs and access to financial infrastructure.

Introduction

When implemented responsibly¹, digital wage payments – through bank accounts, mobile money wallets or prepaid cards – can benefit workers and enterprises and contribute to public policy aims. Digital wages can promote efficiency, growth, transparency, improved working conditions and access to services and markets. The transition also has the potential to allow workers, particularly the most vulnerable, to have greater control over their wages and access formal financial services. However, the transition from cash to responsible digital wages brings challenges for enterprises, workers, regulators and the financial sector, including limitations in

financial infrastructure and the need for enterprises and workers to adopt new systems and tools.

The ILO's Global Centre on Digital Wages for Decent Work and the Institute for Economic and Social Research carried out a rapid assessment to analyse the potential for responsible digital wage payments in Indonesia, with a focus on small and medium-sized enterprises (SMEs) in the garment and retail sectors. The assessment combined desk review, interviews with key stakeholders, and data collection from survey with enterprises and focal group discussions with workers in the two sectors. Key stakeholders included government institutions, financial and payroll service providers, and employers' and workers'

¹ Responsible digital payment payments adhere to UN Principles for Responsible Digital Payments and respect workers' rights in accordance with national laws and regulations and internationally recognized human rights, including fundamental principles and rights at work and relevant international labour standards. For more information on responsible digital wage payments, see the [ILO Brief on Promoting Responsible Digital Wage Payments](#).

organizations. Data were collected and analysed from 21 enterprises (12 in the garment sector and nine in the retail sector) and 110 workers (55 per cent women).

Geographically, the workers interviewed were in West Java (42 per cent), Banten (31 per cent), West Sumatra (11 per cent), South Sulawesi (11 per cent) and East Java or Jakarta (4 per cent).

This assessment is the first dedicated to exploring the prospects for responsible digital wage payments in Indonesia. Given the limited size of the sample, the assessment does not exhaust the issue or fully represents the current state of digital wage payments for the whole of Indonesia, but it presents different points of view and provides insights to inform efforts for the responsible digital transformation of wage payments in the country.

Key findings

Indonesia has made significant progress towards the promotion of responsible digital wage payments

Digital transformation is a policy priority for the Government of Indonesia. Although explicit reference to responsible digital wage payments has not featured prominently in policy dialogue, significant progress has been made towards promoting them. Initiatives by the Presidency, legislative bodies, the Government, the Coordinating Ministry for Economic Affairs, the Ministry of Manpower, Bank Indonesia, the Financial Services Authority (OJK), the Ministry of Communication and Information, among others, have contributed to such progress. The promotion of responsible digital wage payments represents the confluence of multiple policy priorities concerning wage payments, digital payments, consumer protection, financial inclusion, financial literacy and digital financial innovation.

 There is encouragement from the government, including the President's commitment to launch a digital transformation. The President asked each province to have a team to accelerate and expand the digitization of regional finance.

► Representative, Bank Indonesia

Addressing infrastructure deficits has been a priority for the Government. To improve the infrastructure for digital connectivity, especially in the frontier, outermost, underdeveloped areas, prominent initiatives include the Palapa Ring Project and the SATRIA Multifunction Satellite Project. The Government joined the UN based Better than Cash Alliance in 2017, reflecting its commitment to promoting responsible digital payments. The Indonesia Payment System Blueprint 2025 seeks to provide a conducive ecosystem for the development of digital economy and finance in the country. Other relevant initiatives by Bank Indonesia include the Integrated Payment Interface, the National Payment Gateway (Gerbang Pembayaran Nasional) and the Quick Response Code Indonesian Standard (QRIS) to support the Indonesian retail payment system. Given the lack of bank branches in many rural regions and high transaction costs, the Government has embraced the agency banking model, *Laku Pandai*, to promote financial inclusion. In response to the COVID-19 pandemic, the digitalization acceleration and expansion programme, implemented by regional governments in collaboration with the task forces of the Regional Digitalization Acceleration and Expansion Teams formed by Bank Indonesia, has contributed to the digital transformation of regional and local government transactions.

Responsible digital wage payments contribute to financial inclusion and decent work

Greater attention to the specificity of wage payments can further accelerate the digital transformation of payments in Indonesia and the advancement of fair and decent wages in a way that benefits workers, enterprises, the government and society at large. In 2022, about 42.3 million men and 20.6 million women were wage earners in Indonesia, 35 per cent of whom were in rural areas.² Around the world, receiving wage payments digitally is often a reason to open a bank account. According to the World Bank, in 2021, about one in six persons above the age of 15 in Indonesia had opened their first financial institution account to receive a wage payment and a

² ILO, 2023, ILOSTAT, based on the National Labour Force Survey 2022.

similar share had done so to receive money from the government.³ In response to the COVID-19 pandemic, the Ministry of Manpower sought to ensure the digital payment of wage subsidy allowances through state-owned banks to workers who received less than the applicable minimum wage, using data from the Social Security Agency to identify eligible workers. It has also developed a digital employment ecosystem, *Siapkerja*, integrated with various services for workers and employers. According to the Ministry, *Siapkerja* will enable greater pay transparency, so that workers know better what they should be paid and the underlying data can inform Ministry analysis and interventions.

The legal and policy framework foundations for promoting responsible digital wage payments in the country are already in place. Government Regulation No. 36 of 2021 provides that wages may be paid to workers through banks, in which case they must be cashable by the workers on the agreed date of payment. As digital payments, responsible digital wage payments in Indonesia should align with relevant consumer protection provisions. The seven consumer protection principles specified in Bank Indonesia Regulation No. 22/20/PBI/2020 concerning Bank Indonesia Consumer Protection are particularly relevant (Box 1).

► **Box 1: Bank Indonesia Consumer Protection Principles**

- Equity and fair treatment
- Disclosure and transparency
- Education and literacy
- Accountable business conduct
- Protection of consumer assets against misuse
- Protection of consumer data and/or information
- Effective complaint handling and resolution

Source: Bank Indonesia Regulation No. 22/20/PBI/2020.

The OJK also contributes to the protection of consumers through the regulation of digital financial services and the promotion of financial literacy. According to the OJK's 2019

National Survey on Financial Literacy and Inclusion, the financial literacy index in Indonesia was 38 per cent⁴. Financial education is an important tool to enable the adoption and effective use of digital wage payments and associated financial services. The OJK has established the National Strategy on Indonesian Financial Literacy 2021 – 2025, which coordinates initiatives to enhance the use of appropriate financial products and services in Indonesia.

Workers recognize the benefits of digital wage payments but often lack the opportunity and capacity to enjoy them

Based on the interviews, many workers who receive their wages in cash would be interested in transitioning to digital wage payments. The reasons include ease of use, safety and facilitation of saving. However, employers do not often allow workers to choose their wage payment method. Furthermore, workers who prefer receiving their wages in cash often do not have a savings account and find it difficult to pay their regular expenses digitally where vendors are not equipped for digital transactions. Moreover, many workers are concerned about the inconvenience related to limited accessibility of cash machines, limited internet access, technical problems, data fraud and security issues, associated costs and fees. Others are concerned that they have insufficient digital and financial literacy.

From my perspective, digital payment of wages is more secure and effective than cash payment. Nevertheless, I am worried about paying a hefty bank administration fee.

► Woman worker paid in cash, retail

Workers also face challenges to fully benefit from financial services. Few of the interviewed workers have savings or loans with banks or microfinance institutions. The most significant source of loans are family, relatives and friends. In terms of daily transactions, most workers report paying for expenses using cash. Even workers who receive digital wage payments expressed doubts on how to use financial services, notably on access to bank accounts using mobile phones, data confidentiality and savings. However, they

³ Demirgüç-Kunt et al. 2022.

⁴ Otoritas Jasa Keuangan (OJK), 2019. *National Strategy on Indonesian Financial Literacy (SNLK) 2021 – 2025*.

consider it easier to save a proportion of their salaries when paid digitally.

► I am satisfied with digital payment because it makes it easier to save money. If money is available in cash, there are other possibilities for spending on unnecessary needs.

► Woman worker paid digitally, retail

A key decent work deficit that deserves greater attention is the lack of an adequate payslip for large numbers of workers. Government Regulation No. 36 of 2021 requires employers to provide proof of wage payment containing details of wages received by the workers at the time of the payment of wages. Among the 110 workers interviewed, however, close to half did not receive any payslip, most of whom also did not have a written contract. For most workers receiving a payslip, the payslip was handwritten. Payslips are a key wage protection measure, irrespective of how wages are paid. Where wage payments are in cash, the introduction of adequate payslips can be an important enabling factor for digitization. It supports the formalization of the payroll process and of the employment relationship and the evidence it generates also improves the ability of enterprises and workers to access financial services. The transition to digital wage payments enables the opportunity to generate and access itemized payslips online.

For workers' organizations, the benefits include transparency, which potentially provides a guarantee against wage theft and the facilitation of payment of union dues, which could be deducted automatically from the pay of unionized workers. Despite recognizing the benefits, Indonesian workers' organizations have not actively advocated for responsible digital wage payments. In recent times, they have focused instead on minimizing the pandemic's impact on workers' jobs, such as the furlough and layoff and increasing the minimum wage so that employed workers have decent living standards. In general, workers' organizations support the payment of wages in a way that ensures workers' satisfaction.

► Civil servants still get paid in cash sometimes, even though they should be paid via bank transfers. But if they are working in areas with a lack of infrastructure, it is difficult to pay digital wages.

► Ministry of Manpower, Indonesia

Increased capacity and motivation of workers to receive their wages digitally may therefore necessitate supporting them to open an account and develop their digital and financial literacy and ensuring that the available infrastructure and financial services enable workers to access and spend their wages easily, safely, reliably and in an affordable manner.

Employers typically prefer to pay wages digitally, but encounter some challenges

Among the 21 enterprises interviewed, most only use cash as their wage payment method and others pay wages both in cash and digitally. A smaller portion had already transitioned to digital wage payments. According to the employers' organizations interviewed,⁵ enterprises that pay their workers in cash are often in remote areas lacking adequate digital and financial infrastructure or are too small for the transition to digital wage payments to be of interest to them. The interviews with enterprises suggest that those with less than 10 workers often pay their workers in cash. For the owner of a retail business with six workers, for example, the calculation and disbursement of wages in cash takes less than an hour. In contrast, an enterprise with 30 workers could spend more than 16 hours, spread over two days, to process wage payments in cash.

► We realized that our company wasted quite a lot of time calculating wages in cash. Therefore, we are transitioning to digital wage payment because it helps the company's performance effectiveness.

► Woman businessowner, garment

⁵ The employers' organizations interviewed are: Indonesian Employers Association (Asosiasi Pengusaha Indonesia (APINDO)), Indonesian Retail Merchants Association (Asosiasi Pengusaha Ritel Indonesia (APRINDO)), and Indonesian Association of Hotel and Restaurant (Perhimpunan Hotel dan Restoran Indonesia (PHRI)) DKI Jakarta.

In addition to the size of the enterprise, important considerations from an employer's perspective include the frequency of wage payment, the means through which the enterprise receives payments and reluctance from workers. Thus, enterprises that pay workers once a week are charged four times the transaction fees, which are higher if workers have accounts in banks other than that of the enterprise or business owner. For enterprises that pay workers daily, transaction costs make digital wage payments prohibitive.



As per my business condition currently, I do not think that implementing digital wages would be cheaper than the cash method. However, I think it would be more time efficient.

► Businessowners, retail

In terms of payments received by enterprises, enterprises that handle large amounts of cash are more likely to prefer to pay wages in cash. In contrast, a business where consumers pay digitally will likely pay their workers digitally as they do not have sufficient cash on hand to pay the wages. In the absence of conducive infrastructure, inclusive financial services and adequate digital and financial literacy for workers, workers' reluctance may affect employers' decision to switch toward digital wage payments.

Financial providers already offer payroll services but need to better tailor them to smaller enterprises and to workers needs

Financial service providers, including banks and electronic money providers, are seeking to better respond to the needs of SMEs and their workers in adopting wage digitization. In the case of SMEs, there are initiatives regarding their digital onboarding that may be supportive of the transition to digital wage payments, as detailed in Box 2.

Banks have several payroll services that SMEs can use and some have developed e-payroll solutions tailored to their wage payment needs. Electronic money providers also offer transfer services that SMEs could use to pay wages. Bank services related to wage payment include those of payroll and internet banking. In an interview, a financial service provider suggested that businesses with lower than five workers may find it easier and faster to pay

wages using the internet or mobile banking without using the payroll service.



Digitalization will simplify the transaction process, monitor and even provide assistance [for micro, small and medium-sized enterprises]. Banks must be at the forefront of the digitalization of transactions.

► Representative of a commercial bank

Enterprises that register for the payroll service provide the bank with information on workers and wages due and update the database monthly before payday. The payroll service provider may offer training and technical assistance to support the transition and different types of services to enterprises varying in terms of extent of digitization. Services may vary from a completely in-person assistance to the use of online applications for the credit of workers' wages.

From the workers' perspective, the payroll service usually requires them to have an account at the employer's bank, but it may allow them to receive wages at another bank, although there may be a higher transaction fee. Banks' requirement on minimum balance and fees related to account administration and transactions may hinder adoption by workers, particularly among low-paid women workers. For instance, one of the biggest private banks in Indonesia requires a minimum balance of IDR 500,000 (US\$33) to maintain their account, which is considered quite large since, in some cases, it is roughly equal to 25 per cent of the salary. In addition, costs related to physically accessing cash-out points, such as transportation fees and parking fees, as well as the time required to do so, are also obstacles to address.



We need the digital human resource (HR) platform to manage workers as an enabler for transitioning fully to digital wage. Reasonable arrangements regarding employee data are necessary before fully transitioning to digital wages payment.

► Representative of a payroll service provider

Even if there are financial service providers that offer electronic money (e-money) alternatives for wage payments, the regulatory environment is currently discouraging. Government Regulation No. 36 of 2021 does

not refer to the payment of wages via e-money. Bank Indonesia Regulation No. 20/6/PBI/2018 concerning Electronic Money sets out the maximum limit of the value of the e-money deposited at a level that is inferior to the wage received by most workers. There are also transaction fees to top-up e-money via banks and withdrawal and transfer charges varying across platforms.

► Box 2: Digital onboarding of SMEs in Indonesia

The digital onboarding of SMEs is a key aspect of their transition from cash to digital wage payments, which requires support from governments and tailored solutions from financial service providers.

Bank Indonesia has launched several initiatives to accelerate the digitization of payments by SMEs:

- UMKM Go Digital focuses on supporting SMEs onboarding on e-commerce platforms.
- UMKM Go Export assists SMEs in meeting the digital requirements of export markets.
- QRIS enables SMEs to offer digital payment methods to consumers using QR-codes.
- BI-FAST permits faster, easier and safer transactions using consumers' phone numbers as an alternative to account numbers. Consumers are charged a maximum of US\$0.18 by financial providers per transaction.

Financial service providers have been relevant actors in the promotion of QRIS and BI-FAST as a more economical solution to SMEs. According to Bank Indonesia, QRIS had been adopted by 13 million SMEs by 2021.

Conclusion

As the findings of the assessment suggest, there is a need for social dialogue with representatives of government institutions, employers' and workers' organizations and

other stakeholders, including from financial service providers, on how to promote responsible digital wage payments at different levels. Particular attention should be given to sectors where women are more represented, such as garment and retail, as well as considerations regarding the specific challenges of SMEs alongside the transition from cash to responsible digital wage payments.

For enterprises, there are relevant challenges depending on size, frequency of payments and use of cash in other financial transactions, but the transition to digital wages may prove more effective and less time consuming. Enterprises should be supported in understanding the benefits of the transition and the steps towards wage digitization. A crucial aspect noted in the assessment is the adequate use of payslips and its role in the formalization of the wage payment process.

Financial service providers should seek to better tailor their services to smaller enterprises and be more attentive to workers' needs, notably low paid and women workers. For smaller enterprises, providers should move towards payroll services that simplify the wage payment process and that offer alternative methods to different HR management models and capacities. For workers, providers should seek to develop services and products with more attractive fees.

Workers, enterprises and financial service providers would benefit from continuing government support in infrastructure development and regulation. The government should continue its efforts to build a conducive environment, addressing issues of digital infrastructure, consumer protection and financial literacy. Regulation on mobile money could promote digital wage payments through higher payment ceilings and lower transaction fees. Particular attention should be given to policies that strengthen the digital onboarding of SMEs, such as QRIS and BI-FAST, since they may be important instruments for the transition from cash to digital wage payments.

This brief is based on the rapid assessment on digital wages for decent work in Indonesia, conducted by a research team from the Institute for Economic and Social Research (LPEM-FEB UI) consisting of Jahen Fachrul Rezki, Faradina Alifia Maizar, Sulistiadi Dono Iskandar, Hamdan Bintara, Nia Kurnia Sholihah, Lovina Aisha Malika Putri, with technical inputs from Valerie Breda, Mansour Omeira, Tedy Gunawan, Umar Arief and Andrej Slivnik.

The ILO's Global Centre on Digital Wages for Decent Work promotes the transition to responsible digital wage payments through multi-country interventions, research, knowledge management and advocacy. The Global Centre is an initiative of the ILO's Social Finance Programme.

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