

Payment facilities underpin scaling of Africa's digital platforms

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Digital platforms, also known as multi-sided marketplaces, are seamlessly matching customers to suppliers of goods and services in e-commerce and other emerging industries, thereby creating new pathways for individuals to participate in the digital economy. At the heart of the [rapid rise of Africa's digital platforms](#) are the payment methods and channels that facilitate and settle end-to-end transactions. As a result of the COVID-19 crisis, digitisation of economic transactions and the supporting payment mechanisms are prioritised as consumers, workers and MSMEs aim for contactless payment.

Platforms are enabled by different payment methods through various points of interaction i.e. payment channels or gateways (predominantly digital in nature). These payment services are usually the first layer of financial services offered by digital platforms: Buyers want delivery of goods upon completion of payment, but sellers are only willing to deliver after payment has been confirmed. To address this, platforms have introduced payment services that allow instant and irrevocable payments at delivery and/or reclaims by buyers and that are fully integrated into the platform ecosystem¹, thereby building trust between the different sides of the platform network.

In this short note, we discuss the role of payments along the maturity cycle of digital platforms, and we highlight key trends emerging in the payment services being offered by digital platforms. This is based on a systematic review² of [365 unique digital platforms](#) that operate across eight African countries.

As digital platforms mature, how do payment facilities add value to platform ecosystems and users alike?

Linking to established and trusted payment instruments forms a crucial part of a digital platform's start-up and growth phases. The role of payments across the lifecycle of digital platforms can be explored through three stages of platform development: start-up, growth and maturity.

In the start-up phase, platforms seek to attract a stable pool of users, making payment facilities a key supporting pillar in ensuring convenience, security and certainty around value flows within the platform network. For digital platforms entering a market, existing payment infrastructure and the overall level of digital preparedness of an economy are key factors that direct the choice of digital payment methods to be provided to the network. For example, markets such as South Africa and Kenya rank considerably higher in terms of their relative digital payment readiness³, which could

1 B2B payment instruments and channels enable value chain digitalisation upon which digital ecosystems, including digital platforms, depend.

2 Between September 2019 and January 2020, insight2impact undertook a systematic review to identify and characterize the operations of multi-sided digital platforms across Ghana, Kenya, Nigeria, Rwanda, South Africa, Tanzania, Uganda and Zambia. Data was primarily collected through desktop research and, where data was not readily available through a desktop scan, email and/or telephonic surveys of platforms.

3 CTI. (2019). [Digital Money Index 2019](#).

have contributed to these countries having experienced the highest growth in new digital platforms being launched in 2019⁴.

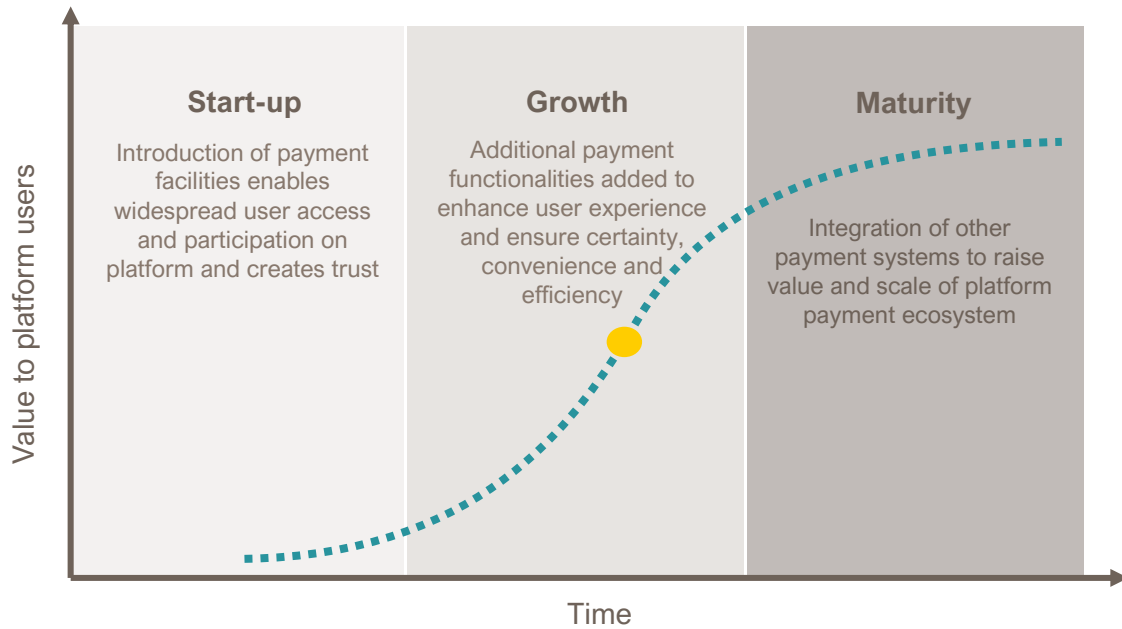


Figure 1: Role of payments in adding value to digital platforms' network participants over time

Source: *insight2impact, BIS (2019)*

As digital platforms grow and mature, payment services are continually refined to meet the needs of platform workers, enterprises and consumers. During their growth phase, many digital platforms develop transactional account management solutions (including escrow facilities) and linkages to payment gateways, which facilitate more frictionless access to income-generating opportunities for workers and MSMEs (providers) operating on these platforms. These payment facilities often better enable providers of goods and services to receive revenue from customers, and through these transactional account solutions they are also able to more effectively manage and pay for their day-to-day operational expenses and needs. A recent analysis⁵ of large-scale global digital platforms (also known as “BigTech” firms) showed that these technological actors both develop payment services in collaboration with existing financial institutions to add value to their networks, as well as launch proprietary payment systems in competition with existing banking entities. Go-Jek, an e-hailing platform operating in South-East Asia is an example of a BigTech firm in the emerging market space which launched its own payment product called GoPay. By 2019, this digital wallet arm of the Go-Jek business [reportedly](#)⁶ accounted for more than 30% of all electronic money transactions in Indonesia, supported by strong network effects of the platform and enabling many unbanked e-hailing drivers to join the broader financial system.

Over time, digital platforms typically incorporate additional payment channels into their offering, thereby creating further value within the network through a larger variety of payment methods and channels being available to platform users. Our research highlighted that the payment

4 Johnson, C., Bester, H., Janse van Vuuren, P. and Dunn, M. (2020). [Africa's digital platforms: Overview of emerging trends in the market.](#)

5 BIS. (2019). [Big tech in finance: opportunities and risks.](#)

6 Wardhani, D.A. (2019). [Shaping the Future of Payment with GO-PAY.](#)

methods that consumers can use on Africa’s digital platforms outnumber those available to platform workers and suppliers, for receiving income. A possible reason for this is that certain payment methods would be unsuitable for use in particular cases, e.g. it would be unsuitable for a platform worker to use a card payment method to receive revenue earned by crediting their account, where there is no original debit transaction.

Digital payments on the rise in Africa’s platform ecosystem: What does the data tell us?

As the scale and influence of digital platforms continue to grow in Africa, it is worth considering how the payment landscape has similarly evolved to create sustainable and value-adding ecosystems. Table 1 provides an overview of the payment methods and channels we reviewed in a systematic scan of 365 digital platforms across Africa⁷. The payment methods refer to those that platforms accept as a means for consumers and providers⁸/suppliers to make and receive payments for goods and/or services.

Description	
Payment method	
Cash	Cash on delivery
Card	Credit and debit card payment mechanisms
Bank transfer	Electric fund transfer (EFT) and direct bank transfers
E-money	E-money refers to any type of electronic stored value that serves as an alternative to cash. Alternative to cash to making payments as a prepaid bearer instrument.
Cryptocurrency	Any distributed ledger application
Payment channel	
Mobile payments	Mobile payments refer to payment services operated under financial regulation and performed from a mobile device. Mobile device here is either a smartphone or a feature phone.
Digital wallet	Digital wallets are a software-based system that facilitates secure payment for goods and services, and an online equivalent of a physical wallet. Digital wallets largely eliminate the need to carry a physical wallet and are allowing many consumers and providers in emerging markets to participate more fully in their economies. Digital wallets come in many forms and, with advancements in technology, can fulfil a range of payment-related functions on digital platforms. For example, Google Pay’s wallet electronically links user payment instruments, such as credit or debit card numbers or loyalty cards, to make transactions easier and more convenient. Little Cab being an e-hailing platform, introduced a wallet that requires funds, in this case mobile money, to be loaded prior to any transaction. These virtual funds can then be used to pay for rides or for drivers to pay for fuel. Finally, a digital wallet can be installed on a mobile phone as an application and allows users to pay, often using Near Field Communication (NFC) technology by tapping a terminal or scanning a QR code.

Table 1: Description of payment services accepted by digital platforms in Africa⁵

⁷ Ghana, Kenya, Nigeria, Rwanda, South Africa, Tanzania, Uganda and Zambia

⁸ “Providers” refers to suppliers of goods and services on the digital platform.

In this section, we present four key insights emerging from our payment data on Africa's digital platforms.

1. E-money, facilitated through mobile payment channels, growing in importance for platforms. In Africa, as access to mobile devices becomes more widespread⁹, there is a growing case to be made for the use of mobile payment channels to enable greater participation in the digital platform economy. In 2019, mobile payment channels were present on more than half of the digital platforms operating across our eight focus countries, a 17% increase year-on-year. In East Africa in particular, we've found that mobile payment channels continue to feature strongly on digital platforms. This is likely due to the region's standing as a mobile-money hub: The East African region has the highest per capita number of registered and active mobile money accounts, volume of mobile money transactions and agent networks¹⁰.

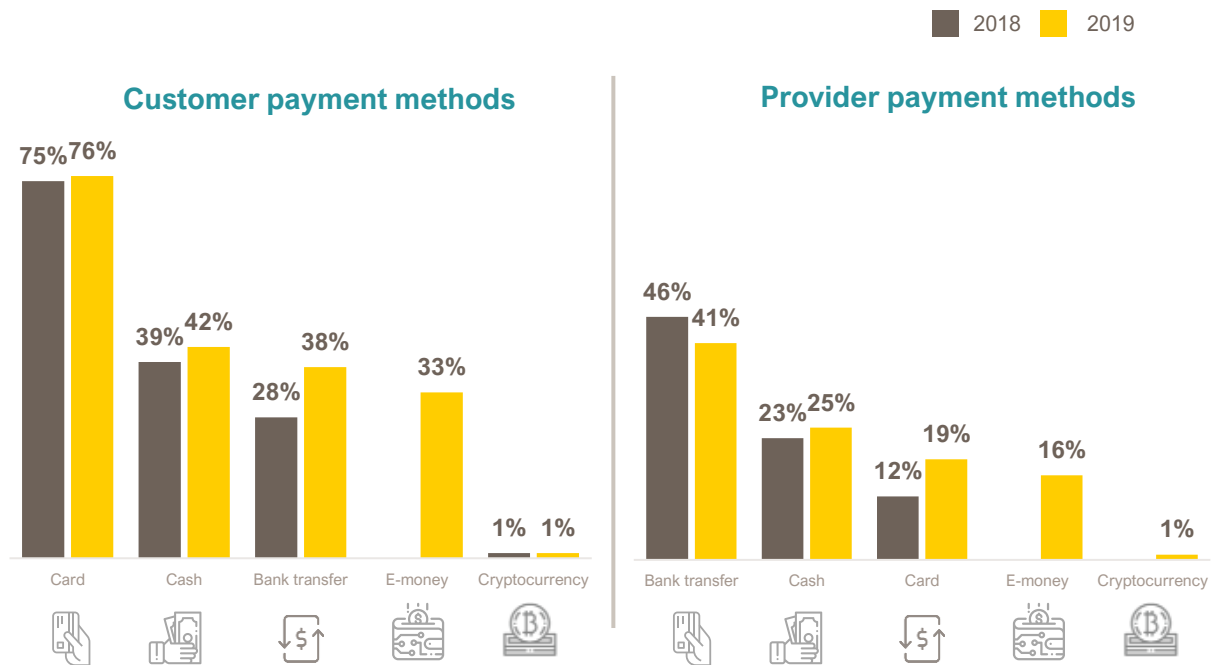


Figure 2: Proportion of Africa's digital platforms accepting different types of payment methods

Note: "E-money" data relates primarily to mobile money channels

⁹ African Business. (2019). [The Enormous Potential of Fintech](#)

¹⁰ The Paypers. (2019). [East Africa – the heart of mobile money. What is next?](#)

2. Platforms increasingly turning to digital wallets as alternative payment channel. Digital wallets are moving from an emerging innovation to a progressively important piece of the payment infrastructure of platform ecosystems. Digital wallets can be used both from a computer or through a mobile device which has likely contributed to the growth in mobile payments. South Africa and Nigeria, digital wallets (also referred to as e-wallets) accounted for 17% and 9% of P2B e-commerce sales in 2019, respectively. This is much lower than in China, where digital wallets [accounted for half of China’s e-commerce sales](#), but still much further ahead than Brazil (see Figure 3).

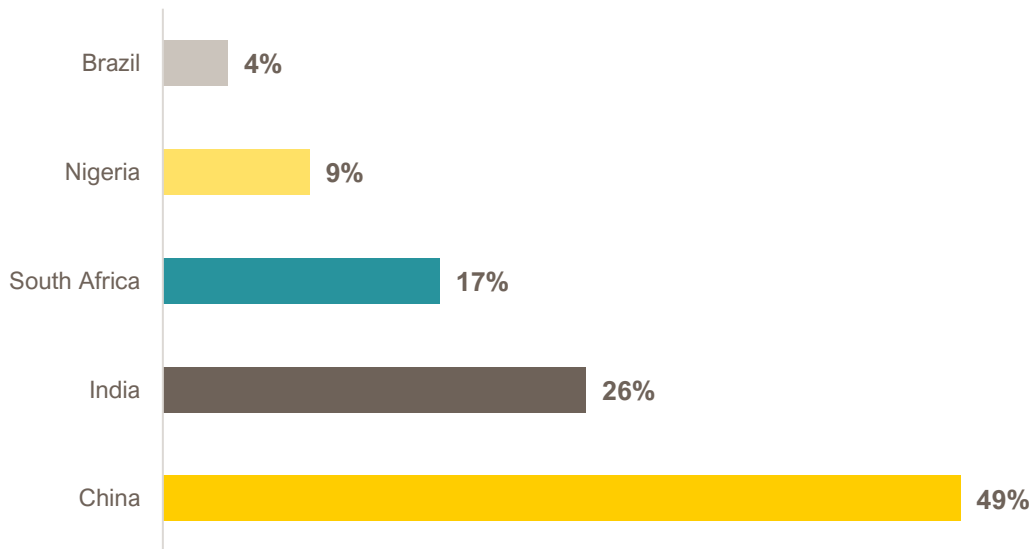


Figure 3: Proportion (%) of e-commerce sales settled through digital wallets, for selected countries

Source: PPRO and Amadeus (2019)

Our data shows that the share of Africa’s digital platforms accepting payments by consumers¹¹ through digital wallets increased year-on-year for both consumers and providers.

For consumers 35% of platforms made this channel available, nearly five times more than in 2018, while for providers, 20% of platforms accepted payments through digital wallets, three times higher than in 2018. In Africa, digital platforms appear to be realising the value of digital wallets for both sides of their user pool, and this positive trend can be observed across different platform types. Rental-type platforms had the highest proportion (22%) offering/ accepting digital wallets, but we also found that freelance, logistics and e-hailing platforms are increasingly accepting digital wallet payments (see Figure 4), signalling relevant use cases for digital wallets in settling lower-value and higher-frequency platform transactions.

¹¹ “Consumers” refers to buyers of goods and services on the digital platform

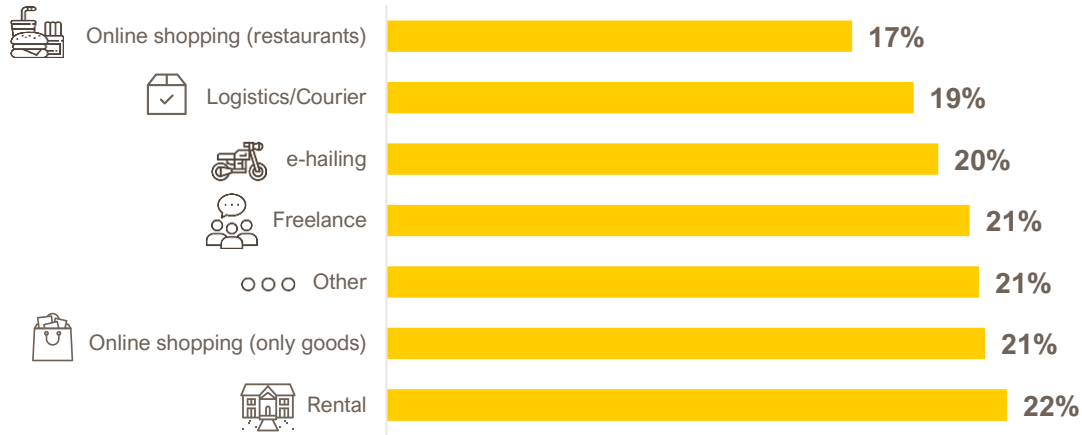


Figure 4: Proportion (%) of Africa's digital platforms offering digital wallets, by platform type

Source: *insight2impact (2020)*

Moreover, in regions where there is a lack of payment service providers (PSPs) and payment gateways, platforms can develop their own proprietary digital wallets to overcome payment barriers. For example, closed-loop¹² wallets such as JumiaPay (which is linked to e-commerce activities) offer users an alternative, self-contained payment option that enables them to easily transact¹³ on digital platforms. That said, we think a major shortcoming of closed-loop wallets is a lack of interoperability for users: Users typically need to sign up for a number of different wallets to engage on various platforms.

- Platform escrow¹⁴ services a trust-building tool.** In our systematic review of Africa's digital platforms, we observed that 8% of all platforms in operation offered an escrow service in 2019. By platform type, freelance platforms had the highest proportion (15%) offering escrow services in 2019 (see Figure 5). Where platform work is conducted through stages of a work assignment with associated payment tranches on satisfactory delivery, escrow services have an important role to play in providing certainty in the disbursement of funds and fostering trust in payments on these platforms. For example, iBuild (a freelance platform operating in the construction sector in Kenya) offers escrow services to users to support them in overcoming self-reported challenges around late/no payments¹⁵.

12 A closed wallet is made to be used exclusively for the purchases on a particular platform or ecosystem. You cannot withdraw the money stored in the wallet, but the value will not expire. Usually closed wallets give loyalty rewards and discounts coupons that can be claimed and used through their platform. An example is the Afridelivery wallet.

13 The use of closed-loop wallets by platforms would still likely rely on a partnership with a payment gateway to aggregate their payments.

14 Escrow payment mechanisms allow a buyer to submit a payment into a secure account on the platform which, after verification, sends a notification to the seller that funds have been secured 'in escrow'. The seller is then authorised to send the goods or complete the services and once these have been verified and the buyer is satisfied with the goods/services, the funds are released to the seller.

15 We conducted a survey with Kenyan contractors and building material suppliers who are using iBuild (N = 55). Just over 80% of surveyed contractors and suppliers cited payment challenges as risk events they experienced while conducting business in 2019.



Figure 5: Proportion (%) of Africa's digital platforms offering digital escrow services by platform type.

Source: *insight2impact (2020)*

4. Traditional payment methods were still widely accepted by digital platforms in 2019.

While emerging trends underline the growing importance of alternative digital payment methods to the evolution of the platform ecosystem, in 2019 conventional forms of payment such as card and bank transfers were still widely accepted by Africa's digital platforms – see Figure 2. Cash remained a dominant payment option across many economies in Africa during 2019, but as physical distancing related to the COVID-19 crisis persists in early 2020, the use of digital wallets and other digital payment methods may become more popular. Takealot, a major e-commerce and online shopping platform based in South Africa, for instance, announced that cash payments would remain inactive¹⁶ on the platform as part of its “Contactless Delivery” process that seeks to promote digital payment methods and limit physical contact between consumers and delivery agents. Similarly, Jumia – a leading e-commerce platform operating in Nigeria and broader Africa – introduced the option for consumers to select contactless delivery, which allows for only digital payment methods such as mobile money¹⁷.

The technology required to underpin fast, transparent and cost-effective payment methods and channels already exists. The real challenge for digital platforms is expanding access and usage across Africa's 54 countries. The usage of digital payment methods may play a role here, and will be crucial if our intention is to advance the growth of more inclusive digital economies in Africa.

Moreover, given ongoing uncertainty around the COVID-19 pandemic and the risks associated with the use of cash and cheques, a number of online retailers and e-commerce players are already seeking to bolster the use of digital payment channel options. This is already playing out in Rwanda, where from the 1st June all e-hailing motorcycles operating in Kigali will use only cashless payment platforms when charging their clients. To date, digital platforms have been working to rapidly refine their payment services to enable as much continuity as possible in day-to-day transactions, and this may prove to be significant in ensuring that people be able to generate income and pay for essential goods and services as the crisis continues to unfold. It remains to be seen whether these measures signal the beginning of a systemic shift towards the increasing use of digital payments in Africa's platform ecosystem, or if this shift only last for as long as the crisis response requires it?

¹⁶ Takealot. (2020). [Takealot.com Lockdown Update](#).

¹⁷ Jumia. (2020). [Jumia implements “Contactless” Delivery and “Cashless” Payments in response to the COVID-19 in Africa](#).

How to find us

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