

Community Digitalisation



The State of the Digital Payments Ecosystem in South African Townships

A study conducted in Tembisa and Hammanskraal

Despite the risk, cash remains the payment option of choice in township communities. In this summary guide of the report on Community Digitalisation: The State of the Digital Payments Ecosystems in South African Townships (a study of Hammanskraal and Tembisa), we share the key insights and recommendations based on the findings from the research conducted in 2022.

Contents

Overview	4
• Background	4
• Methodology	5
• Study objectives	5
South African township context	6
• The township context, the state of digitalisation in townships and why it matters	6
• The state of digitalisation in South African townships	7
Insights from the research	9
• The cash economy	9
• Perceptions and use of the banking sector	14
• Perception and use of non-banking financial services	16
• Business formality and digitalisation	16
Conclusion	18



Although eight out of ten South African adults have a bank account, cash remains the primary form of payment in the South African economy. People and businesses are vulnerable to theft, payment errors, and the high transaction costs associated with cash. Since there are no digital records of how and where money is received and spent, the use of cash has an impact on South Africans' ability to budget, match up expenses, plan, and for businesses to secure financing.

FinMark Trust, in partnership with the World Bank, the Bill & Melinda Gates Foundation, and G2Px, conducted research on the state of the digital payments ecosystem in Tembisa and Hammanskraal to better understand the barriers to digitalisation in township economies. This report provides the South African context, key insights on the state of the digital payments ecosystem in South African townships and recommendations aimed at increasing the use of digital payments within these communities.

Background

Digitalisation has the potential to fundamentally transform local economies. The numerous advantages of digital payments include increased convenience through transaction speed, efficiency, and increased transparency and security. According to the Centre for Strategic and International Studies (CSIS), digitalisation enabled 700 million people in developing countries to gain access to formal financial services between 2011 and 2014, with 62% of adults having a bank or mobile phone account.

With South Africa named the most unequal country by the World Bank in 2019, compounded by the effects of Covid-19 on the local economy, digitalisation particularly in South African townships is one way for the country to address some of the triple challenges the country faces. Despite significant progress in South Africa's financial inclusion agenda, large segments of the township community remain underbanked. Although many have a bank account, people generally manage their finances using cash or alternative financial services such as cash send services and retail money markets.

Digitalisation can make a significant difference in South African lives by leveraging technology to improve access, efficiency, cost-effectiveness and security, particularly in financial transactions. There are several options currently available in the market, but there is still a low uptake of digital solutions in communities. The study conducted aims to examine what people in townships believe about technology and money to improve the understanding of why there has been a resistance move towards the use of digital payments.

Methodology

The research was conducted using a combination of primary research and secondary research methods. The primary research was based on a survey of 350 respondents conducted in two South African townships (Hammanskraal and Tembisa) both of which are in the Gauteng province. Following the survey, a subset of survey respondents was assigned to six different user segments: adult males (ages 24+), adult females (24+), young adults (ages 16 – 24), SASSA grant recipients, and formal and informal MSMEs to gain deeper insights about their digital payment views and behaviours. Key informant interviews (KIIs) were also conducted to gather the perspectives of community leaders and stakeholders.

The secondary research entailed a desktop review of publicly available literature and data on the township economy and the state of digitalisation.

Study objectives

Given the critical role that digitalisation can play in improving South African lives, this report investigates underserved communities' digital payment needs, attitudes, and barriers to inform how role-players can support digitalisation efforts in South African townships.

These key insights will be used to outline the opportunities and potential for using digitalisation to support local economic development.

South African Township Context

The township context, the state of digitalisation in townships and why it matters

Townships are a spatial concept in South Africa that refers to settlements built through the democratic government's housing subsidy scheme, known as the Reconstruction and Development Programme (RDP). It includes shacks that have sprouted up on previously developed land (particularly in the backyards of RDP houses).

South Africa has 532 African, Asian and Coloured townships, with a combined land area larger than Johannesburg and Durban, the country's two largest cities. The Western Cape has the most township residents (8.9 million), followed by Gauteng (3.2 million).

Due to the high unemployment rate and the lack of opportunities, nearly 60% of township communities are unemployed, even though 38% of the country's working-age citizens live there. As a result of the high unemployment levels, township residents rely on social grants and remittances from friends and family to get by each month. These remittances are frequently received through channels like Shoprite Money Market and banks' cardless cash send services like FNB's e-wallet and Capitec's cash send, while social grants are received through SASSA cards or personal bank accounts.

In addition, the United Nations estimates that as of 2020, nearly 3 million immigrants have settled in South African townships. Since many foreigners are unable to secure formal employment due to a lack of proper documentation, South Africa's high unemployment rate, and institutional responses to migrants, they pursue entrepreneurial ventures where they live.

Most township businesses are driven by necessity and are unable to expand beyond a single storefront or small-scale operation. They typically operate informally and generate low financial and employment returns.

Townships have a high concentration of economic activity near transportation hubs like taxi ranks and grocery stores. Spaza shops, tuck shops, fast food outlets, shebeens, hawkers, backroom rentals, mechanics, panel beaters, childcare services, barbers and hair salons are examples of the types of businesses that operate in townships. These businesses play an important role in the South African economy and contribute to a significant share of the total number of MSMEs. According to the 2021 FinScope survey, there were approximately 1,1 million township MSMEs in 2020, employing 5.6 million people and contributing 27% to GDP.

The majority of township businesses are unregistered, unbanked and rely solely on cash for various reasons, including a reluctance to formalise because of perceived cost and paperwork. Research has also shown that the lower-income market prefers cash as a payment method because it is immediate and easy to use. It is also accepted almost everywhere and has no apparent hidden fees, enabling more effective micro-budgeting for households to keep track of every cent. Despite the increased security risk associated with carrying cash and/or visiting ATMs, cash is generally more trusted.

The state of digitalisation in South African townships

Although access to digital devices has become easier in South Africa, residents face digital and financial illiteracy. Despite having more than 91% smartphone penetration, some residents lack the digital and financial skills and confidence to make digital payments or use other digital financial services.

Township merchants have historically been overlooked by bank-led point of sale (POS) solutions, and as a result, digital payment acceptance has been limited. With the introduction of new, lower-cost alternatives to the market, digital payment acceptance is improving. Several innovative mobile POS solutions have recently entered the market, offering solutions tailored to micro and small merchants. However, there is still significant room to improve access to, and adoption of, these and other solutions in townships.

Generally, the infrastructure required to support a digital payments ecosystem is in place and, mobile network coverage and internet penetration in South Africa are relatively high. Residents, however, face high data costs, unstable connectivity, inconsistent electricity and limited access to fibre networks. All these factors make it challenging to access the internet and use digital financial services. Despite ongoing investments in expanding the electricity network, universal electricity is also inconsistent. In 2019, 94% of the urban population and only 67% of the rural population had access to electricity.

South Africa has a well-developed financial system as well as an interoperable national switch that supports most electronic payments, although it is not yet fully interoperable and real-time low-value payments are expensive for consumers. The payments industry is working to expand real-time inter-banking to accommodate low-value real-time payment services. The South African government is also working to digitise the national ID¹, which could lead to increased digital financial inclusion and access to other services in the country.

South African Township Context

The primary goal of digital inclusion is to ensure that all South Africans can connect to and participate in the digital economy through affordable access and reliable digital infrastructure. For all citizens to participate in the digital economy, digital connectivity must be accessible, affordable, and impactful. However, for a digital payments ecosystem to function properly, widespread internet connectivity and digital device ownership are required. This must be accompanied by digital payment infrastructure and other support networks that foster the use of digital technologies. The table below lists these prerequisites.

Table 1:
The preconditions to accessing the digital payments ecosystem²

Access to digital devices	Enabling digital infrastructure	Support networks
<ul style="list-style-type: none"> • Access to smartphones • Access to merchant point-of-sale (POS) devices • Access to laptops and computers³ 	<ul style="list-style-type: none"> • Mobile network coverage • Affordable and quality internet connection • Access to electricity • An efficient and safe digital payments system • A digital identity system 	<ul style="list-style-type: none"> • Government support <ul style="list-style-type: none"> • Digital inclusion strategy • Innovation funding • Other support networks: <ul style="list-style-type: none"> • Incubators and accelerators • Digital literacy programmes • Multi-stakeholder collaboration

Insights from the research

The cash economy

Despite the potential advantages of digital payments, cash remains king in township economies. According to the 2020 FinScope survey, of the 1.1 million township MSMEs operating in SA townships, 66% operate informally and on a cash basis. The inability to make or receive payments through digital channels creates a series of issues, such as higher transaction costs, security concerns, corruption and wealth inequality. Low digital payment acceptance in townships combined with negative perceptions and attitudes toward formal financial services, has a significant impact on digital payment adoption.

The majority of township businesses are informal, unbanked and cash based.

Unwillingness to pay the tax associated with formalisation and South African regulations associated with registering a business, such as perceived burdensome documentation requirements or stringent rules for opening a bank account, often prevent new businesses from operating formally. According to the 2021 FinScope survey, only 35% of township enterprises are formally registered, and they do not generally provide goods or services that reach larger markets or create quality jobs.

The lower-income market has a strong preference for, and reliance on, cash.

Cash was ranked as the top payment method in township markets in a 2021 study of over 1,000 respondents⁴. The cost of cash is also less visible, such as the increased security risks of carrying cash or the cost of travelling to access cash at ATMs.

Those who receive their income through bank transfers are often forced to withdraw some of it to spend it in the community.

Due to the entrenchment of cash usage in the township economy, it is nearly impossible to get by with just a card, as the township retail economy is made up of vendors and spaza shops, the majority of whom do not accept digital payments. To use the community's goods and services, one must always have cash on hand.



The lower-income market has a strong preference for cash.



Barriers to banking

- The cost to acquire POS devices
- Bank fees for digital transactions
- Business will need to close while merchant visits a bank
- Unregistered businesses struggle to get a bank account

Merchants remain unbanked

Barriers to formalisation

- Merchants fear that registration will have tax implications
- Businesses need to close while merchant visits offices to register
- The perceived administrative burden to register business
- For immigrants, the administrative burden may be further limited by required documentation

The Merchants

There is no incentive for merchants to provide digital payments

The Consumers

The ubiquity of cash is reinforced in communities

- Many workers are paid in cash
- Community merchants do not accept digital payments
- There are limited or no cash withdrawal points in the community
- Travelling to the bank or ATM costs time and money so people withdraw all of their cash at once to avoid more trips

Communities avoid storing funds digitally

Even SASSA recipients, who receive grants digitally, transact in cash

- SASSA recipients fear that their unused SASSA card balance will be reclaimed so they withdraw the full amount.

Insights from the research



Digital payment solutions must compete with the perceived benefits of cash.



For community members, the costs of cash include transportation, higher-than-normal withdrawal fees through unofficial channels, and the risk of theft/loss.

ATMs and bank branches are typically located a distance away from residential areas in peri-urban areas like Hammanskraal. As a result, taking taxis to ATMs and branches to constantly deposit or withdraw money is a costly and time-consuming process for community members. Additionally, the few merchants in the township who have POS devices offer customers the ability to withdraw money from their spaza shops. This service is provided at a cost of ZAR 10 (USD 0.68) per ZAR 100 (USD 6.76) withdrawn, which is expensive for the majority of the community when compared to the cost of an ATM withdrawal of ZAR 8 (USD 0.54) per ZAR 1,000 (USD 67.6). As a result, community members tend to always keep some cash on hand to avoid these indirect withdrawal charges. This is also the reason people withdraw relatively large sums of money from ATMs and then operate in cash for the rest of the time.

The South African government digitised the social grant payment process in recognition of these benefits and challenges.

The introduction of the SASSA card, through which beneficiaries can receive their grants and transact, was a significant step toward digitising payments in low-income communities. However, studies have revealed that recipients merely use their SASSA cards as a mailbox to receive their social grants as they commonly withdraw their money on the day it is received to transact in cash rather than digitally⁵.

Any digital payment solution must be able to compete with the perceived benefits of cash to take root and thrive in township communities.

Cash is immediate for most consumers, simple to use and understand, accepted almost everywhere, has no obvious hidden fees, and can generally be trusted. Additionally, using cash does not require internet access, cellular data or Wi-Fi, or digital literacy. There are some costs associated with cash, such as the high security risk of carrying cash or the transportation costs associated with accessing cash at ATMs or retailers. While these costs are often carried by the consumer, they are not always directly attributed to cash.

From a merchant perspective, cash is convenient for unbanked merchants, some of whom tend to be migrants who face challenges when trying to open bank accounts.

There is also a perception among business owners that formalising business operations and introducing digital payment solutions may subject one to paying taxes and excessive fees,

The fact that merchants only accept cash as a form of payment is one of the main factors that influence the use of cash in the two communities.

One respondent indicated that having the ability to use his bank card to pay for bread at a nearby spaza would make him feel more secure using it. This shows that customers are often compelled to pay using cash because local businesses do not accept other forms of payment. Despite their willingness to use digital payment solutions, many retailers admitted that they were unaware of the various digital payment options, their fee structures, and whether they would be eligible or not to access and use those services.

Beneficiaries are still aware of the 'Net1 scandal' that occurred in 2017.

Net1, a financial services provider, and its subsidiary Cash Paymaster Services (CPS) were awarded a single mandate to distribute social grant payments through digital channels in 2012. Net1 then sold grant recipients other private financial services such as loans, funeral policies, and mobile airtime through a network of subsidiaries. CPS was able to deduct payments for these products from grant recipients' accounts before they reached their accounts, as well as ensure that debit orders due to Net1 group members were prioritised. Illegal and fraudulent deductions were discovered, and customers' recourse was extremely difficult due to the control of a single provider.

Consumers also prefer cash for its convenience and lack of explicit charges.

Respondents are concerned about losing money to digital fraud as well as having money taken out of their accounts for bank fees, which are frequently high relative to the low-income levels in these communities. Participants across all groups expressed reluctance to leave money in their bank accounts because there is no guarantee that they will find the same amount of money there when they need to spend it.



Trust in banks is impacted by perceptions of high bank fees.



Insights from the research

Perceptions and use of the banking sector

The levels of trust that the community has regarding financial institutions are negatively impacted by perceptions of high bank fees.

When it comes to formal institutions, there is a general lack of trust and suspicion among community members. Many people believe that banks “take your money” and that they are unreliable because of the fees they charge customers. This perception may be caused by a lack of knowledge about bank fees connected to the kind of account they are opening.

The fact that bank representatives do not fully explain products to community members contributes to their mistrust.

Members of the community expressed a lack of knowledge about various savings and investment products, with many reporting that bank agents often assist them in a hurry and only explain basic concepts of debit card and app usage without providing details about the various savings and investment products. According to one respondent, ‘bank agents only show you how to use the app’. Some respondents also reported that when they opened bank accounts, the various types of bank accounts and fee structures were not properly explained to them.

Stories of alleged bank fraud circulate in communities, eroding trust in financial institutions.

Moreover, there have been several reports of unexplained disappearances of funds allegedly under the care of banks that have spread throughout the communities. In one FGD, a participant shared that a community member went insane after his lobola money went missing from a bank. These are the kinds of stories that circulate in the communities and have a negative impact on people’s perceptions of financial institutions.

When it comes to using digital devices many are technologically illiterate.

Some respondents do not use bank apps because they do not understand how to use them and do not have compatible phones. Young adults (16–24) are, however, more aware of digital banking products as a result of television commercials and billboards but have little experience using them.

There is a general belief, that low-value purchases are expensive.

Cash is used to pay for small-value items such as airtime, electricity, and so on. This is done because most community vendors do not accept card payments and customers are discouraged from using their cards for transactions below a certain amount. Spaza shop owners sometimes tell customers that they can only swipe for transactions over ZAR 20.00 (USD 1.38). As a result, respondents prefer

to withdraw all their income as soon as they receive it and keep it in cash because it allows them to transact more easily.

Technical issues such as connectivity issues, PIN failure, and so on may restrict the adoption of digital payment solutions by people of all ages.

The sporadic use of bank cards, has resulted in users forgetting their PINs. This is also an issue for the young adult demographic, who have expressed the need for new cards when their PIN codes stop working.

Cash is seen as easier to budget with and track spending because there are no explicit charges associated with its use.

In addition to being perceived as unaffordable, respondents frequently perceive bank charges as unclear and inconsistent, making it difficult for households to plan their expenditures with certainty. Withdrawing the cash immediately offers them certainty and allows them to budget down to the last cent without fear of bank fees unexpectedly reducing their funds. Many participants complained that bank charges were not clearly explained when they opened their accounts and that they did not understand the reasons for the various fees that were deducted.

Concerns about cybercrime and fraud also limit the use of digital payment methods.

The communities’ low levels of financial and digital literacy make them a target for opportunistic criminals. While digital financial services eliminate some of the risks associated with cash usage, they also introduce new risks that merchants may be unprepared to detect and mitigate.

“

Technical issues such as connectivity and PIN failure may restrict the adoption of digital payment solutions.

”

Insights from the research

Perceptions and use of non-banking financial services

When compared to traditional financial institutions, attitudes toward mobile network operators (MNOs) and fintech are more negative.

Residents in both communities are sceptical of MNOs' ability to provide secure financial services. One respondent's view on MNOs was 'their business is (mobile) networks, not finances', while another asked 'what if someone wants to send me money but sends money to the wrong number?'. These views are primarily based on consumers' current experiences with their mobile network operators, with many users dissatisfied due to MNOs' frequent and unexplained deductions of airtime. Again, a perceived lack of transparency undermines trust in formal institutions.

This perspective is exacerbated by residents' lack of familiarity with various fintech providers and their products.

Within the communities, there is limited understanding of fintech like Mukuru or Mama Money. Although some may have seen them on TV or billboards, very few have interacted with them or know someone who has. This lack of familiarity makes consumers more hesitant to try new products or services, particularly financial services. Advocacy among members of the community would be a significant driver of digital adoption.

Business formality and digitalisation

Informal survivalist businesses have a limited digital presence.

According to interviews with the township businesses, the main barriers to formalisation are a lack of knowledge about registration processes and an unwillingness to pay the tax associated with formalisation. This lack of formalisation not only prevents these businesses from accessing resources that can help them grow but also slows the adoption of digital payments.

In the absence of digital alternatives for unbanked foreign MSMEs, the informal sector's use of cash payments for stock purchases is likely to persist.

Migrant MSMEs from various sectors of the township economy make up the informal MSME sector. Many migrant merchants were found to be unbanked because of KYC issues, specifically the challenges they face when attempting to open bank accounts.

Alternative digital solutions for unbanked merchants and consumers, particularly those from other countries, are scarce.

Some foreign informal merchants operating in townships would like a POS device from a bank but

do not meet the requirements due to insufficient documentation. Those who do qualify believe the fee for POS devices provided by banks is too costly. Foreign consumers and merchants in possession of asylum permits face difficulties opening bank accounts in South Africa, as they are often required to produce proof of employment in addition to their asylum permits, which many do not have.

Fear of being taxed adds to the reluctance to formalise operations and eventually adopt digital payments.

MSMEs understand formalising business operations can be the first step in establishing a digital and financial footprint for their companies, allowing them to access credit and business training opportunities. However, merchants believe that this digital and financial footprint could be a dual-edged sword because MSMEs may be required to pay taxes that they believe are excessive.

MSMEs face cash flow issues because of digital payment options.

Most digital payment options have a lag between when the money is purchased and when it reflects in the merchant's bank account. For MSMEs, this causes cash flow issues and uncertainty. One respondent said, 'if a customer pays me on Friday, instead of money reflecting on Monday, I would want it to reflect on the same day'.

The current digital payment options are not intended for small, survivalist township businesses.

Most digital payment options have complex pricing structures, high merchant fees and few incentives for small business owners to abandon cash. Merchants believed that to cover the high transaction costs, they would have to pass the cost on to customers in the form of higher prices for goods and services, risking their competitiveness. Merchants are concerned about whether their low-value business and low turnover qualify them for a POS device from a financial institution.

“

Fear of tax prevents formalisation and digital adoption.

”

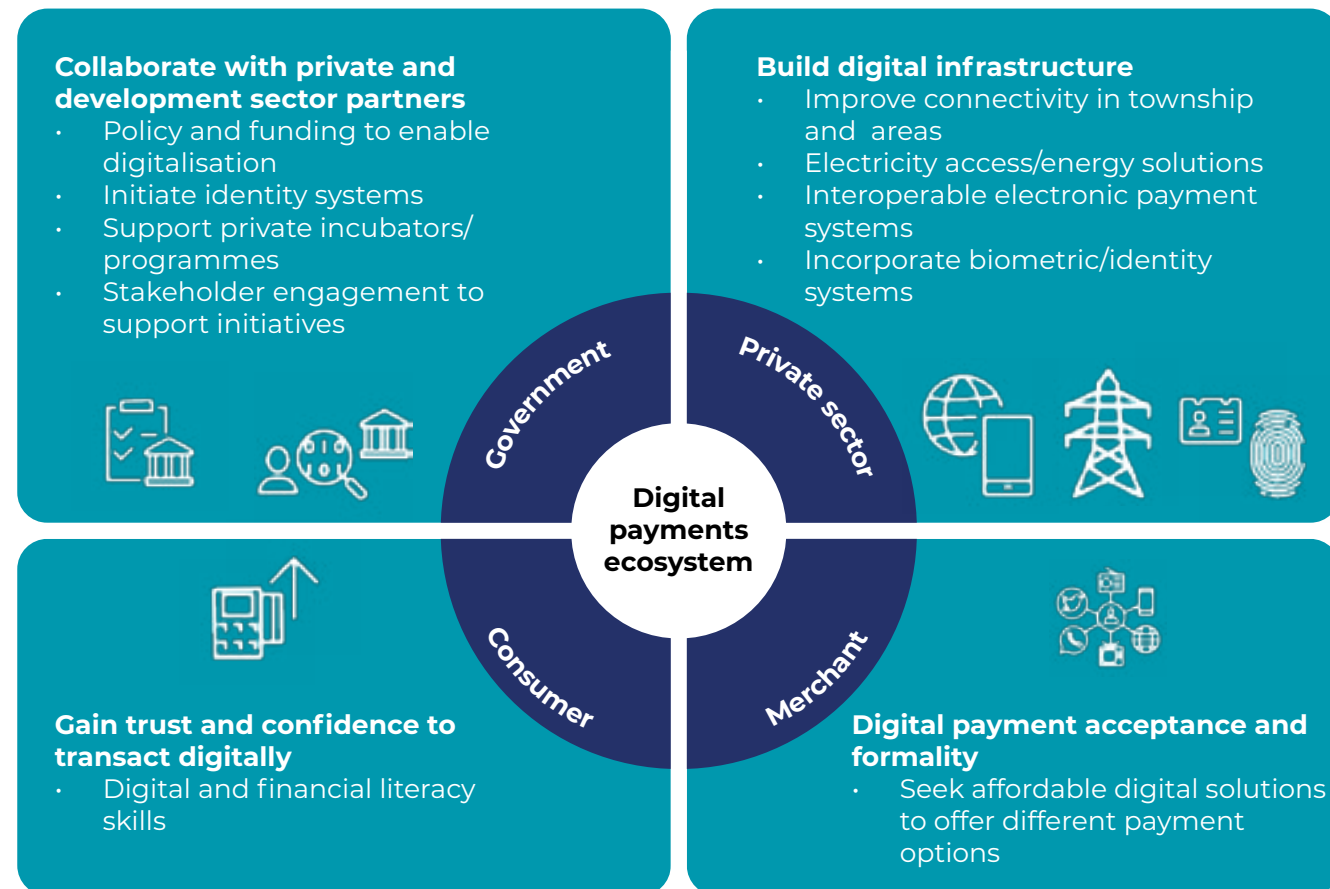
End notes

- 1 The World Bank, Achieving Effective Financial Inclusion In South Africa: A Payments Perspective, 2018 — available [here](#).
- 2 The preconditions for digital payments ecosystem are high level and developed by Genesis Analytics for this particular study.
- 3 According to FinScope MSME South Africa 2020, only 14% of MSMEs in South Africa use computers or laptops.
- 4 Chitimira & Ncube, Legislative and other Selected Challenges Affecting Financial Inclusion for The Poor and Low-Income Earners in South Africa, Journal Of African Law, 2020 — available [here](#).
- 5 The World Bank, Achieving Effective Financial Inclusion In South Africa: A Payments Perspective, 2018 — available [here](#).

Conclusion

The report on the state of the digital payments ecosystem in South African Townships - Tembisa and Hammanskraal is summarised in this pocket guide. The full report contains all of the study's findings and recommendations for best practices in stakeholder coordination and actions to drive an inclusive digital payments ecosystem.

Based on the findings, several measures may be implemented to increase the use of digital payments in South African townships. Recommendations have been grouped into four categories below.



For more information

Contact:

+27 (0) 11 315 9197
info@finmark.org.za
www.finmark.org.za

Sanofi House, Second Floor,
44 on Grand Central Office Park,
2 Bond Street, Grand Central Extension 1,
Midrand 1632
South Africa

