

Cash payments still rule informal trade

According to Mastercard research, around 96% of transactions are still conducted in cash among South Africa's 1.5 million informal enterprises, despite strong interest in digital and card payments by consumers.



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More than 51% of South Africa's informal enterprises have encountered strong customer interest in paying by card, yet around 90% of them continue to run as cash-only businesses. This is according to *Insights into the Informal Economy Report*, a Mastercard study released at the company's Digital Indaba in Cape Town last week.

Despite rural and township residents using cards for 60% of their transactions at formal retailers, only 4% of transactions are card-based at informal retailers. This is due to these small traders not offering card or mobile acceptance.

"Card acceptance is highly attractive for informal traders and is an important next step to increase revenue, but lack of access to formal banking tools and understanding of available payment options limits their opportunity for growth," says Gabriël Swanepoel, vice president of product development and innovation at Mastercard South Africa.

Conducted by Genesis Analytics on behalf of Mastercard, the study looks at understanding trends in payment instrument usage – from cash to card – and estimates the opportunity for cash displacement in the informal sector.

Exposed to the costs and risks of cash

South Africa has around 1.5 million informal enterprises generating turnover of around R75 billion a year. Absorbing 12% of the country's labour force, they provide a valuable source of employment and income for some of the country's most financially vulnerable.

Ninety-six percent of transactions at informal retailers are still concluded using cash, exposing them to high cash handling and transaction costs, lost sales when customers don't have cash or exact change to pay, and the threat of crime.

The study identified six major reasons that cash still rules the informal economy:

- The perceived costs of accepting mobile and digital payments
- A lack of knowledge and awareness about the solutions available for card acceptance and the benefits of going cashless
- Lack of formal banking facilities
- A belief that cash makes it simpler to budget accurately when handling small amounts of money
- Evasion of tax payments
- A relatively high percentage (45%) of consumers receive salary payments in cash

In addition, misconceptions persist about the high cost of card usage, particularly for low-value payments, and some consumers remain reluctant to use cards for small transactions.



Mastercard-Spazapp collaboration brings cashless payments to informal retailers

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Smartphones to unlock digital acceptance in informal sector

The use of smartphones amongst informal enterprises and their customers was found to be relatively high, driven by the decline in the cost of smartphones and the strong demand for digital messaging services and social media platforms. Fifty-nine percent of merchants and 69% of consumers interviewed have smartphones. Yet none of the merchants in the sample were using smartphone-based card acceptance solutions.

When asked if they would consider using these solutions, they expressed great interest if the economics made sense. Twenty-two percent said they would be interested in using a QR-code solution, 44% said they would be interested in mobile payments apps, and 40% said they would be interested in a point of sale (POS) or mobile POS card acceptance solution.

The study finds that merchants who introduced card acceptance reported an average increase in turnover of 50%, while those that introduced mobile payment acceptance via Quick Response (QR) codes saw their revenues climb by 10%.

Educating merchants about the benefits of digital and card payments as well as the low-cost options available for digital payments acceptance are central to shifting billions of rand in transactions from cash to digital channels.

“The latest wave of mobile and digital innovations will help grow financial inclusion among informal merchants that play a critical role in South Africa’s economy,” says Swanepoel. “Together with partners like Spazapp and iKhokha, we are working to significantly boost card payment and card acceptance at micro, small and medium enterprises in informal settlements.”