

How the COVID-19 crisis may affect electronic payments in Africa

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The COVID-19 pandemic is a global health crisis and a global humanitarian blight. In Africa, thousands of lives have been lost, and our initial estimates suggest that one-third of the working population could either lose their jobs or have their salary reduced as lockdowns, curfews, border closures, and shutdowns continue. A level of disruption is likely to continue until a vaccine is developed or a cure is found.

The crisis is also changing the way people live and work, consume, and pay their bills. While consumer spending is down around the world, how and where consumers choose to spend their money has shifted, with people gravitating toward digital channels, products, and services across categories.¹ At the same time, there has been a surge towards digital payments and away from cash—which the World Health Organization flagged as a possible conduit for the spread of the coronavirus.²

In Africa, this means not just safer, cashless payments to facilitate social distancing during the pandemic—but in the longer-term a shift towards financial inclusion that could help get economies back on track faster after the crisis.

In this article we analyze how COVID-19 is reshaping the market outlook for payments in Africa and how African banks and non-bank players are responding. Many are adapting their operating models and products to help lower barriers to mobile banking and payments and bring more people into the cashless economy. We also highlight additional opportunities for governments, development organizations, and the private sector to work together to speed up digital adoption to support public health in the short term and strengthen the African payments landscape for long-term sustainability.

Beyond the immediate concerns of securing the health and safety of Africa's citizens, a key focus for governments and their partners now is to find a way back to growth and restore businesses and incomes in the wake of the crisis. The African payments industry has a key role to play in this effort.

COVID-19's impact on African economies will be significant

The first case of coronavirus was confirmed in Africa on February 14, 2020, and since then the virus has spread to over 53 countries in Africa with approximately 54,000 confirmed cases as of May 8. The effects of this world-changing crisis on the continent are significant. In addition to the human cost, a slowdown in overall economic growth is already being felt. To understand and quantify the potential impact that the pandemic will have on the African economy and payments industry, we have modeled multiple scenarios—each depicting varying degrees of severity—and will be investigating the two most likely scenarios based on a survey of more than 2000+ business leaders (Exhibit 1). It is important to note that these scenarios are not the same as base-case or worst-case scenarios, and that as the virus continues and the effectiveness of public health measures evolve, the likelihood of these scenarios could also evolve. From this analysis, our modelled scenarios show a potential drop of between four and nine percentage points of Africa's 2020 baseline GDP growth to between 0.2 and -5.2 percent from the original 2020 baseline of 3.9 percent GDP growth. The implication is that Africa's economies could experience a loss of between \$90 billion and \$200 billion of GDP growth, with the impacts on countries varying according to each scenario—for example, in the worst-case scenarios, GDP growth could drop three, three, and six percentage points in South Africa, Kenya, and Nigeria respectively.³

The scenarios show the contraction in Africa's economy being driven by the supply-chain disruptions, border closures, and lockdown protocols instituted to stem the outbreak, which are putting pressure on foreign-currency reserves because of a decline in remittances, tourism, and global oil demand, and on small and medium-size enterprises (SMEs) and informal sectors (the backbone of the African economy). Many governments are using different kinds of stimulus packages to support vulnerable populations and businesses and to counter some of the worst effects of COVID-19 lockdowns on their economies.

1 <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/a-global-view-of-how-consumer-behavior-is-changing-amid-covid-19>

2 <https://www.telegraph.co.uk/news/2020/03/02/exclusive-dirty-banknotes-may-spreading-coronavirus-world-health/>

3 South Africa: decline from 1% to -2%; Kenya: decline from 5% to 2%; Nigeria: decline from 3% to -3%.

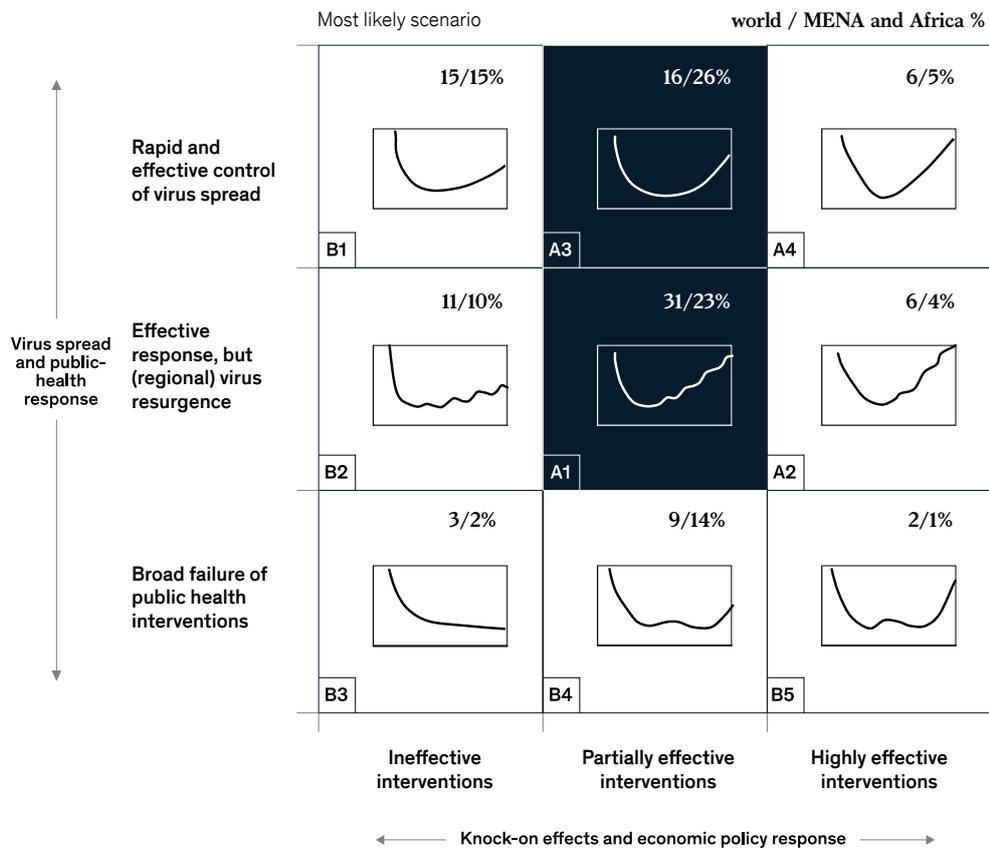
At the same time, the pandemic is driving significant changes in consumer behavior that are likely to persist long after COVID-19. Online transactions are growing as many businesses seeking continuity during the lockdown work to increase their presence online and boost sales through digital channels.⁴As the virus proliferates

across the continent, lockdowns are mandated, banks are forced to temporarily close their branches, and hygienic interaction is espoused, the transition from cash to digital or cashless transactions such as contactless payments, card, and wallet-based forms of payment has accelerated.

Exhibit 1

Executive expectations about the shape of coronavirus crisis in the world, MENA and Africa

Survey of 2,079 global executives (199 in MENA and Africa); % of respondents



Source: "In the tunnel: Executive expectations about the shape of the coronavirus crisis"; available online at <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights-in-the-tunnel-executive-expectations-about-the-shape-of-the-coronavirus-crisis>; McKinsey survey of global executives, April 2–April 10, 2020, N=2,079

The changing market outlook could accelerate growth in Africa’s payments industry

The African electronics payments industry generated approximately \$19.3 billion in revenues in 2019, of which approximately \$10 billion was from domestic electronic payments (excluding remittances and cross-border payments). As we define it, *electronic payments* includes card transactions (debit, credit, and ATM withdrawals),

e-commerce payments, point-of-sale (POS) transactions, digital-banking payments and transfers, mobile money, as well as remittances and cross-border transactions.⁵ Players in the payment market are primarily payment service providers, payment gateways, and card companies; however, banks are integral to the payment industry.

4 <https://www.businesslive.co.za/redzone/news-insights/2020-04-08-the-digital-trends-brands-should-activate-during-the-covid-19-pandemic/>

5 McKinsey Global Payments Analysis.

The payments market is intrinsically linked to the performance of the underlying economy and economic structures. The main drivers for revenue and number and value of transactions in the electronics payments industry are: internet and mobile-phone penetration; the prevalence of account ownership—either at a traditional bank or mobile money; private consumption expenditure; and the degree to which the population is urbanized.

These drivers link the payment industry to broader economic activity. Thus, there is an expectation that the impact of COVID-19 on the payments sector will be lower revenues in the short term, in line with our expectations of GDP contraction. We expect the pandemic to have a dual impact on payments: the pandemic could significantly accelerate the pace of migration of business and consumers to alternative payments methods, setting up the industry for increased growth coming out of the crisis; in the immediate term. However, the significant drop in overall economic activity, job losses, and disruption to household incomes and businesses, points to an overall contraction in payments revenues. We now look closely at each of the main factors:

1. A reduction in economic activity across all major industries (all of which are intrinsically linked to the payments industry) as result of lockdowns (Exhibit 2). The level of impact may be determined by the severity of the lockdown and the transition to e-commerce, especially for services deemed to be essential. The economic impact across Africa is exacerbated by the fact that a number of African countries are commodity exporters; with commodity markets declining along with lockdowns in a large number of countries including Egypt, Nigeria, South Africa, and Kenya. Retail transactions are expected to decline accordingly.

2. A probable decline in cross-border transactions and remittances with the

closure of borders of countries like Nigeria, South Africa, and Ghana disrupting travel and tourism and supply chains, and necessitating consumption of local goods. According to the World Bank, remittance flows to sub-Saharan Africa are expected to fall by 23.1 percent in 2020. Most African countries are also facing a serious shortfall in hard currency, which is putting pressure on local African currencies and further depressing cross-border interactions.

3. A potential migration from cash transactions to cashless or digital transactions influenced by physical distancing.⁶ Although the initial reflex at the beginning of the crisis was to withdraw cash⁷, the McKinsey Banking Consumer Sentiment Survey finds that customers want to execute more electronic payments during the crisis. Kenya and Ghana may have further increases in mobile money, mobile wallet, and bank-to-wallet transactions. In Nigeria, Egypt, and South Africa, an increase in account-to-account transfer and e-commerce sales is expected as major cities have been on lockdown; though a decrease in card transactions (ATM and POS) is expected. The Egyptian government raised the limit for electronic payments to encourage the exclusive use of digital payments.⁸ One online payment platform in South Africa noted a 35 to 40 percent increase in transactions as well as an increase in the number of retailers requesting online payment systems to manage the increased demand from customers.⁹

4. An increase in the use of digital-payment platforms by African governments to disseminate stimulus funds to assuage the economic impact of the COVID-19 crisis while deepening financial inclusion outside the traditional bank establishment. For example, the government in Togo launched Novissi, a cash transfer program that disburses social welfare payments through mobile channels.¹⁰

6 World Economic Forum <https://www.weforum.org/agenda/2020/04/coronavirus-set-to-spur-mobile-money-growth-in-w-africa> (accessed May 5th 2020)

7 Reuters <https://www.reuters.com/article/us-health-coronavirus-egypt-banks/egypts-banks-told-to-limit-withdrawals-and-deposits-idUSKBN21G0UI> (accessed May 18th 2020)

8 Egyptian State Information Service website <https://www.sis.gov.eg/Story/144167?lang=en-us> (accessed May 5th 2020)

9 IT Web <https://www.itweb.co.za/content/j5alrMOaya2MpYQk> (accessed May 4th 2020)

10 Novissi Website <https://novissi.gouv.tg/> (accessed May 4th 2020)

Ripple effects throughout the payment industry are likely

	Demand	Supply chain	Key drivers of disruption	Disruption level		
				Low	Medium	High
Advanced industry and automotive			Acute decline in global demand; existing vulnerabilities and trade tensions amplified; supply chain and production disrupted			
Electronics and consumer durables			Manufacturers facing up to 80% labor shortages; delivery bottlenecks in complex global supply chains			
Hospitality and tourism			Tourism at a standstill as lockdowns and closure of borders across the continent have been implemented			
Luxury retail			Labor-intensive segments of the apparel supply chain have also been affected by worldwide lockdowns, resulting in a shortage in retail stocks across the continent			
Airlines			Travel restrictions, border closures and social distancing have led to flight cancellations. Ticket refunds by major African airlines in February – March 2020 are up by 75% compared to February – March 2019			
Events			Sporting, cultural, and political events canceled or postponed			
Hotels, restaurants, and catering			Online food-delivery spike; dine-in restaurants and cafés adversely affected by lockdowns			
E-commerce (non-travel retail)			Cross-border e-commerce stalled; surge in online shopping			

Impact on payments

- Maximum payment-volume decline in airlines; hospitality and tourism; electronics and consumer durables; luxury retail; hotels, restaurants, and catering; and events
- Refund transactions expected to increase in airlines and in hospitality and tourism
- Growth in non-travel e-commerce, remote ordering, and low-value contactless payments
- Supply-side uncertainty, factory closures, and trade barriers affect B2B cross-border flows

Source: African Union; IHS Market; McKinsey Global Institute Analysis; Press reports

5. A decrease in the fees for payment services

driven by payments players and governments suppressing fees due to the COVID-19 crisis, which could drive up volumes of transactions and possibly increase the absolute size of the African payments market. In Nigeria, PAGA waived fees for merchants, allowing merchants to accept payments with no additional costs to customers.

The combined impact of these five factors will be determined by the severity of the COVID-19 crisis, both globally and on the continent, and by the effectiveness of public health measures to contain the pandemic.

The scenarios presented here are not projections of the future, but can help inform decision-makers as they navigate the crisis. Our preliminary analysis

finds that payments revenue in Africa could decline by 10 to 13 percent in 2020, relative to the 2019 baseline, with a potential revenue loss of between \$1.8 billion and \$2.6 billion.

In the most optimistic scenario (A3 “virus contained”), we assume that the outbreak is contained both globally and in Africa; Asia experiences a continued recovery from the pandemic, and a gradual economic restart. In Africa, most countries experience isolated cases or small cluster outbreaks—but, with carefully managed restrictions and a strong response, no widespread outbreak. Under this scenario, Africa-wide GDP would be nearly flat at 0.2 percent of growth, which we find would result in a decline in electronic payments revenues of approximately \$1.84 billion, approximately 10 percent lower than the 2019 baseline of \$19.3 billion. In the worst case scenario (A1 “muted recovery”), we assume a resurgent global outbreak, and widespread outbreak in Africa, while Europe and the United States continue to face significant outbreaks, and China and East Asian countries face a surge of re-infection. In this scenario, there are significant outbreaks in most major African economies, leading to a serious economic downturn.

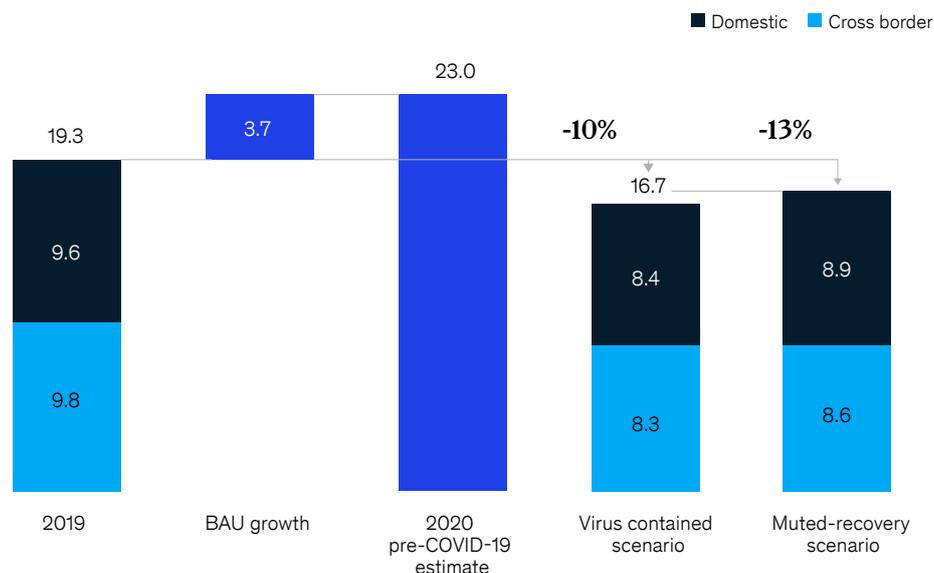
Under this scenario, we find that Africa could experience its first recession in more than 20 years and that Africa-wide GDP could contract by 5.2 percent in 2020, which could result in electronic payments revenues declining by approximately 13 to 15 percent, translating to a potential loss of \$2.6 billion.

The drop would likely be driven by a contraction in household consumption of as much as 40 percent, job losses and disruptions that could impact nearly a third (150 million) of the 450 million jobs in Africa, including 100 million of the 300 million informal sector jobs. This contraction, however, could be slightly tempered by an increase in the number of digital transactions caused by restrictions on movement and migration to cashless transactions for hygiene purposes. Remittances and cross-border payments would see greater declines (11 to 19 percent) than domestic payments (7 to 12 percent), as supply chains and global travel and tourism are disrupted, while domestic interventions may have little effect on remittances.

Exhibit 3

Slowdown in economic growth expected to shave \$1.8-2.6bn off revenue from electronic payments, a decline in excess of 10% from 2019 levels

Africa electronic payment revenues
USD Billions



Source: McKinsey Global Payments Maps, Worldometer, McKinsey Global Institute and Oxford economics macroeconomic scenario modeling

Innovation in payments should be one component of the industry's response to the crisis

In response to the COVID-19 crisis and government measures to contain the spread of the virus (lockdowns, for example), banking and non-banking firms across the global payments industry are adapting their operating model and offerings to ensure business continuity and minimize customer disruption. There are four main actions we have observed (Exhibit 3):

Promoting awareness of digital payments

Companies are making use of a range of communication platforms including websites, social media, traditional media, and text messaging, to educate customers about digital payments. For SMEs, Paystack provided information along with mechanisms and tools for businesses to quickly transition online.¹¹ Several payments companies and banks across Africa have reduced or waived transaction fees and are raising awareness about the different options for digital payments. In one example, Ghana's central bank announced that all mobile phone subscribers could open a mobile wallet and transfer up to 1,000 cedis (\$170) daily without providing additional documentation.¹² Similar education campaigns are taking place across the world—banks DBS and Standard Chartered in Singapore, for example, are sharing the vast array of digital options available with their customers.^{13,14}

Providing relief to customers during the crisis

Across the continent, governments, banks, and non-bank payment companies are taking measures to encourage digital payments and ultimately reduce the burden of the COVID-19 crisis on private individuals and SMEs while promoting safe practices to minimize

the spread of the virus. In Egypt, the central bank instructed other banks to cancel fees on transfers and e-payments. In Kenya, banks have waived numerous fees including fees on digital transactions, intrabank transfer fees, bank-to-wallet fees, and transaction fees for payments for utilities, fuel, and shopping. These relief measures are also seen outside the continent. The Bank of Ireland and AIB in Ireland, for example, waived contactless card fees to minimize the use of cash.¹⁵

Partnering with other industries

To expand the use of digital payments and minimize non-essential movement, payment organizations are forming partnerships with other industries to further enable digital payments. For example, Safaricom in Kenya has partnered with the National Social Security Fund to enable customers to make rent and service-charge payments through their M-Pesa accounts.¹⁶ Safaricom is also partnering with public-sector transport players to accept payments through M-Pesa accounts and has been deployed to more than 300 City Star Shuttle buses in Nairobi.¹⁷

Launching new products

To increase the options for payments and provide support during this disruptive time, organizations are expanding their offerings through innovation. For example, Access Bank in Nigeria introduced the Dual Transaction Service (DTS), a debit card service that also provides access to credit.¹⁸ Other payments companies across the world are also taking the opportunity to rapidly develop digital functionalities to help ensure continuity of services. The UK's PaymentSense launched a service called BiteBack, which enables restaurants to set up websites for takeaway service amidst physical-distancing protocols.¹⁹

11 <https://paystack.com/blog/operations/take-nigeria-ghana-business-online>

12 <https://www.weforum.org/agenda/2020/04/coronavirus-set-to-spur-mobile-money-growth-in-w-africa/>

13 <https://ibsintelligence.com/ibs-journal/ibs-news/dbs-rolls-out-a-suite-of-digital-relief-package-amid-covid-19/>

14 <https://av.sc.com/sg/content/docs/sg-standard-chartered-introduces-additional-relief-measures.pdf>

15 Bank of Ireland website <https://www.bankofireland.com/coronavirus-update/#panel6> (accessed May 4th 2020); Electronic Payments International website, <https://www.verdict.co.uk/electronic-payments-international/news/covid-19-irish-bank-aib-contactless-transaction-fee/> (accessed May 4th 2020)

16 <https://www.nssf.or.ke/nssf-partners-with-safaricom-on-tenant-purchase-scheme-t-p-s-payments>

17 <https://techtrendske.co.ke/coronavirus-you-can-now-pay-your-matatu-fares-through-m-pesa/>

18 Access Bank website <https://www.accessbankplc.com/Ways-To-Bank/Cards/Dual-Transaction-Service.aspx> (accessed May 4th 2020)

19 Paymentsense website <https://www.paymentsense.com/uk/biteback/> (accessed May 4th 2020)

Four ways the payment industry is responding

- Deferring loan repayments and fees
- Reducing or removing fees
- Increasing daily transaction limits
- Offering cash-back rewards for using digital channels
- Introducing incentives to shift to online services (e.g. cash back)

Providing relief to customers

Take measures to reduce the burden of the crisis on customers



Promoting awareness

Use a range of communication platforms to educate customers



- Creating resources and support channels (FAQs, forums, hotlines, etc.)
- Proactively communicating with customers through emails, social media and websites

- Launching new contactless payment methods
- Offering additional services, such as insurance, on the platform
- Increasing available financing through innovative channels

New products & innovation

Expand product offerings through innovation



Strategic partnerships

Form partnerships, public and private, to expand the scope of digital payments



- Forming partnerships to enable customers to use mobile money to pay for rent, service charges, bills and public transportation

Decisive action from governments and the payments industry can help restore business activity more swiftly

Beyond managing the ongoing health crisis, getting the economy up and running again as we emerge from lockdowns remains a critical focus. Payment operators have an important role to play in helping business activity resume in the short term while they realign their efforts to ensure an accelerated return to full activity. Essentially, this means supporting merchants and end-consumers. In addition, support from governments, as well as from development partners, will be critical to ensuring that efforts by payment operators have the desired impact.

Actions for governments to consider

Governments across Africa are promoting the use of digital payments through awareness campaigns and other initiatives. Actions seen across the continent that could be replicated include:

- Collaborate with banks and non-bank payments players to restructure transaction fees and transaction limits to encourage digital payments. Steps along these lines have recently been taken by the Kenyan, Ghanaian, and Egyptian governments.
- Promote easier access to digital-payment tools. For example, the Ghanaian government eased account-opening regulations; similar measures have been taken in Nigeria where Bank Verification Numbers are used for the opening of digital accounts.
- Explore the use of digital payments for payment of welfare grants. In Nigeria, for example, Conditional Cash Transfers could be paid to recipients digitally across the country.
- Consider effectiveness of existing capital and currency controls. Morocco's broadening of the dirham's fluctuation band to approximately 5 percent from approximately 2.5 percent is a measure that could be explored by other African fixed foreign-exchange regimes.

Actions for digital-payments players to consider

Payments players could support businesses and consumers as they deal with lockdowns and reduced economic activities, and the subsequent threats to their business continuity. Specific activities could include:

- Expand the customer base by offering sign-on incentives—such as fee waivers and discounts—to SMEs and consumers. In Asia, companies such as Alipay (China) and DBS (Singapore) are offering incentives such as cash rewards to merchants, free set-up, and marketing assistance to encourage more customers to use their digital-payment platforms.^{20,21}
- Provide resources to SMEs to support their transition to e-commerce and promote interoperability between social media apps and digital-payment platforms. For example, CaixaBank (Spain) is running a social commerce initiative that allows retailers to manage online purchases directly from their social media accounts and ensures interoperability between different payment systems. CaixaBank also launched PayGold, which lets retailers receive payments by email or text message.²²
- Partner with technology companies to provide payment-technology infrastructure to the end user. This could include repurposing ATMs to enable digital banking and payments, partnering with cellphone companies to make digital-banking-enabled phones, or partnering with fintechs to offer innovative merchant solutions.
- Providing seamless, round-the-clock customer service. Customer experience is likely to be an increasingly important source of competitive distinction for players in the space.

- Explore further ways to be socially responsible and support customers —e.g. providing platforms for government payouts or providing free marketing services to struggling SMEs. In the US, Chime tailored its fee-free overdraft service, SpotMe, to provide customers with immediate access to the \$1,200 provided by the US government's \$2 trillion stimulus package. This provides customers with access to these funds two to three weeks sooner than the estimated government payment date.²³

Actions for development organizations to consider

Development partners could support the move to digital payments in an effort to minimize the spread of COVID-19 by leveraging existing resources and networks, and building on their efforts to improve financial inclusion on the continent. Examples of activities development partners could carry include:

- Leverage relationships and branding with vulnerable populations to promote digital payments, as a means of minimizing contact through distancing, by promoting the benefits of digital payments in their information, education, and communication campaigns.
- Use content-specific expertise to develop bespoke solutions that can increase digital payment usage. For example, the United Nations Capital Development Fund, in partnership with the Better than Cash Alliance,²⁴ is using its experience in digitizing payments during the Ebola crisis to support governments and the private sector in accelerating digital payments in the COVID-19 response.

20 <https://www.finextra.com/newsarticle/35602/alipay-offers-boost-to-covid-19-hit-wuhan-merchants>

21 <https://www.dbs.com.sg/sme/covid-19-relief-measures.page>

22 <https://www.caixabank.es/empresa/negocios/socialcommerce.html>

23 <https://www.chime.com/blog/getting-americans-faster-access-to-covid-19-stimulus-payments/>

24 <https://www.uncdf.org/article/5452/covid-19>

Towards the next normal

The extent and duration of the economic impact of COVID-19 is still largely uncertain. What *does* seem certain is that life and business as we know it has changed, and will continue to change.

Consumers and merchants, banks and payment operators, as well as governments, are being pushed towards a digital focus that will likely endure beyond the immediate crisis.

In recent years, electronic payments has been one of the fastest areas of growth in financial services. The crisis may lead to an acceleration of this growth: the technology exists, and consumer and merchant understanding and adoption has significantly increased. Financial institutions need to respond to the demand.

It is likely, for example, that the increase in online shopping will persist after the crisis, especially for retailers that make significant investments to retool their business model, and if banks and payment operators continue to build omnichannel payment solutions while building infrastructure and ecosystems to operate actively in the new paradigm.

Demand for digital tools and technology that enable merchants and consumers to connect is also likely to continue to grow. The current crisis is revealing the fact that not everyone has the same level of access to new technologies and digital tools. Moving away from cash affects unbanked citizens disproportionately. Merchants without

access to digital payments are losing out as remote buying increases. People without accounts and online wallets are having to queue to receive welfare payments, putting them at greater risk of exposure to the virus.

For the countries and payments firms that manage to respond effectively, the implications will be significant. For example, businesses that provide viable options for integrated and contactless payments to both customers and merchants are likely to emerge from the crisis stronger. And investing in the conditions for or modifying existing tools such as mobile phones so that all merchants and all consumers, irrespective of finances and education, have access to e-commerce and electronic payments will help boost financial inclusion and lower costs, which will potentially help economies get back on track more quickly as they seek to find a way back to growth and restore businesses and incomes in the wake of the crisis.

The disruption of lives and livelihoods on the continent has already triggered a wave of innovation and collaboration that is reshaping the payments landscape in Africa. This momentum can continue once the pandemic has passed.

As reforms are instituted to tackle the crisis in the short term, it is also important to consider what steps could be taken now to facilitate a favorable emergence for the Africa payments industry for the benefit of providers and customers.

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