

# E-commerce in Africa: Not quite ready for take-off

Lack of bandwidth is not the only factor hampering the development of e-commerce and online business in Africa, says Peter Harvey, founder and managing director of PayGate, an online payments solution provider. Harvey adds that the continent also needs a much more sophisticated financial infrastructure.

"To make e-commerce happen you need a complex ecosystem for making and processing online payments," says Harvey. "Africa's bandwidth problem is well on the way to being solved, but the online payments system still has a long way to go."

Banks are one critical part of the ecosystem, says Harvey. "The first step in an online transaction is a person with a valid credit or debit card - so we need our issuing banks to speed up the rate at which they are rolling out cards to their customers. Debit cards are likely to dominate, because most Africans have little experience of handling credit and credit cards carry huge risks for banks.

## Accepting online payments

Next, says Harvey, the continent needs a cadre of acquiring banks that are prepared to accept online payments on behalf of their merchant customers.

"At the moment, the business case for making the necessary investments is still difficult. An acquiring bank who wants to get into e-commerce will need to buy the appropriate licences from the card associations like Visa and MasterCard, install card processing systems, hire skilled staff to manage those systems, and understand and manage its risk of being exposed to fraud."

It's a big ask, notes Harvey. "Whoever takes the lead is going to incur a cost, and it's not yet clear whether the returns will be worth it. But there is hope: The retail sector is expanding as Shoprite and others roll out their operations in the rest of Africa. As these stores start to offer point-of-sale card transactions, more cards will come into circulation and there will be more consumer demand for online shopping. Sooner or later, the balance will tip".

## An imbalance between supply and demand

Visa and MasterCard are both interested in the African market, adds Harvey, but are likewise struggling to find a business case. "It's easier to find a bank that will issue cards than one that will acquire transactions, which leads to a big imbalance between supply and demand. Tourists arrive expecting to be able to use their cards, and more and more locals want the same - but it's still hard to find merchants who will accept them."

Harvey says payment service providers (PSPs), who offer the payment gateways that link customers, merchants, banks

and the card associations, are vital connectors in the ecosystem.

"As PSPs we obviously have an interest in growing the whole network," he says. "If we do our job properly, we can play an important facilitating role that includes educating merchants, helping them to find acquiring banks and helping to manage their relationships with those banks. We have already established good relationships with banks in East and West Africa including I&M Bank in Kenya and Zenith Bank in Nigeria."

## **Exclusive agreements**

One of the big hurdles is the desire of many African banks to make exclusive agreements, Harvey adds.

"If you take Kenya as an example, even though it's one of the most advanced countries in Africa for e-commerce, MPESA is only available for one bank, over one network. If there were four or five acquiring banks and a similar number of PSPs, there'd be a lot more activity. Trying to tie people to exclusivity arrangements stifles the whole market."

Until Africa's e-commerce ecosystem reaches the point of sustainability, says Harvey, the continent is losing out.

"The merchants who can afford to put in the time and resources, register a business offshore and use banks outside Africa. That means money leaves local economies, which nobody wants. The other alternative is for smaller businesses to use payment aggregators or 'supermerchants', but they pay a premium for the service."

In the long run, concludes Harvey, the best hope for success is for governments to take the lead. "Rwanda is an excellent example of a country where there is high-level government commitment to promoting e-commerce, with strong support from the Bank of Kigali and major businesses like RwandAir. They are putting pressure on the banks where necessary, and creating the legal frameworks that are needed to provide security. Those who follow that example will be the first to reap the rewards. Africa is a billion-person market with massive growth potential."

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