

VISA

Value of Acceptance

Understanding the Digital Payment Landscape in Ethiopia





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Executive Summary

Ethiopia is experiencing a rapid acceleration towards digital transformation, fueled by the widespread adoption of digital payments among its small and medium-sized enterprises (SMEs). These businesses are increasingly recognizing the advantages of digital transactions, including enhanced customer convenience, reduced fraud risk, and improved operational efficiency. This shift is creating a more dynamic and competitive business environment, enabling SMEs to thrive in the modern economy.

This positive momentum is further amplified by the high satisfaction rates among SMEs already using digital payments. Their willingness to invest further, coupled with strong institutional support and streamlined payment processing, contributes to the overall growth and dynamism of Ethiopia's digital payments ecosystem, creating a virtuous cycle of adoption, innovation, and economic expansion.

This report proposes a multi-pronged approach to further accelerate digital payment adoption, providing valuable insights for government bodies, financial institutions, and businesses seeking to participate in and benefit from this transformative shift. Leveraging Visa's expertise and innovative solutions provides access to global best practices, cutting-edge technology, and tailored support programs. This collaborative approach can unlock the full potential of digital payments, driving economic growth, fostering financial inclusion, and positioning Ethiopian SMEs for success in the digital age.



1 Understanding The SME Landscape in Ethiopia



Small and Medium Enterprises (SMEs) are the backbone of Ethiopia's economy. A thriving digital payments ecosystem is emerging, fueled by a growing recognition of benefits of digital payments among merchants and lower risks associated with handling of cash, amongst other factors.

This section explores the evolving landscape of digital payment adoption among SMEs, examining the key trends, perceived benefits, and potential barriers to wider acceptance. Understanding the dynamics of this evolving payments landscape is crucial for developing effective strategies to support and accelerate the transition towards digital transactions.



1.1 A Strong Foundation For Growth

Ethiopian SMEs have demonstrably embraced digital payments, recognizing their advantages for customer convenience, fraud reduction, operational efficiency, and improved access to financing and data insights. A remarkable 80% of surveyed SMEs adopted these technologies within the last two years, indicating a rapid market evolution and strong embrace of digital technologies by Ethiopian small businesses.

Among current users, satisfaction is exceptionally high (92%), driven by institutional support and faster processing. Of these digital payment users, 23% are already utilizing advanced financial technology, demonstrating a willingness to embrace more sophisticated solutions. This positive user experience further fuels the thriving digital payment landscape.

Moreover, SMEs are willing to invest more in digital payments technologies, with 64% of current users planning to expand their utilization.

This enthusiasm, coupled with the belief among 66% of all SMEs that digital payments will support future business growth in terms of revenue and customer footfall, signifies a strong belief in the long-term value of digital payments and establishes a solid foundation for continued expansion within the sector. Furthermore, the perception of digital payments as innovative and secure positions them as a strategic tool for future-proofing businesses and enhancing customer engagement.



1.2 Digital Payments: A Key Enabler

Digital payments are crucial for SME digitalization, offering numerous advantages for Ethiopia's businesses. These include increased revenue through access to a wider, increasingly cashless customer base; improved customer satisfaction due to faster, more convenient payment options; and reduced operational risks by minimizing cash handling and associated risks. Furthermore, digital transaction records provide valuable data that can facilitate access to financing, thereby empowering growth¹.

Several opportunities exist to further maximize the potential of digital payments in Ethiopia. Recognizing that 43% of SMEs express comfort with cash, designing simple, user-friendly digital solutions that maintain ease of use and familiarity is key. This approach can effectively bridge the gap between existing habits and new technologies, making the transition to digital payments smoother and more appealing.

Similarly, customer insistence on cash, while a present hurdle, presents an opportunity for impactful consumer education and incentive programs. By encouraging a shift towards digital payment methods, these initiatives can foster a more digitally engaged consumer base and expand the market for digital transactions.

Furthermore, addressing the 59% of SMEs who are neutral about card payment fraud

risks through proactive communication about robust security features is a crucial opportunity to build trust and confidence in the system. By emphasizing the high risk of robbery—a significant concern for 65% of cash-only SMEs—the inherent security of digital payment methods can be highlighted, further encouraging adoption.

Beyond individual businesses, digital payments serve as a gateway to broader financial inclusion, providing the unbanked with entry into the formal financial system and access to services like remittances and government assistance. Transaction accounts increase the likelihood of utilizing other financial services, such as savings, credit, and insurance, empowering individuals, and businesses.

Finally, digital payments are a powerful engine for economic growth. Research shows that transitioning from cash to digital payments can generate annual GDP gains of 1% to 2%. Globally, increased payment card usage (debit, credit, and prepaid) added \$245 billion to real GDP between 2015 and 2019; across 70 countries and territories studied, each 1% increase in card usage correlated with an average annual increase of approximately \$67 billion in consumption². In addition, a mere 5% increase in digital payments per year for five consecutive years could reduce the informal economy by 11–13% and boost tax revenue.³

¹ Visa & Kearney. Digital enablement of SMBs. Accessed at: Digital enablement of small and medium-sized businesses

² Moody's, 2021. Accessed at: <https://usa.visa.com/content/dam/VCOM/regional/na/us/visa-everywhere/documents/the-impact-of-payment-cards-on-economic-growth.pdf>

³ Visa & Kearney. Digital enablement of SMBs. Accessed at: Digital enablement of small and medium-sized businesses

1.3 Addressing Barriers to Adoption

Despite the evident advantages, several barriers impede the widespread adoption of digital payments among Ethiopian SMEs. Perceptions of complexity and concerns regarding transaction processing times associated with card payments persist. Moreover, a significant proportion of SMEs express apprehension regarding the potential for card payment failures.

Addressing these challenges necessitates a multi-pronged strategic approach:



Digital Transition Support:

Targeted training and educational programs can effectively address perceived complexities associated with digital payment utilization. Government support through incentivization programs and tax benefits can further accelerate the transition.



Rectifying Misconceptions:

Strategic awareness campaigns, testimonials, and success stories can effectively counter negative perceptions of slow and complex card payment processes, thereby encouraging adoption.



Driving intent to adopt:

Given that only 20% of cash-only SMEs currently plan to invest in digital payment technologies, showcasing the tangible benefits realized by businesses through digital payment adoption can significantly influence investment intentions.



Infrastructure Enhancement:

Investing in robust and reliable digital infrastructure is essential for bolstering confidence in digital payment systems and mitigating concerns related to payment failures.



Limited Awareness of Value-Added Services:

Promoting the numerous value-added services associated with card payments, such as loyalty programs and data-driven insights, can further incentivize adoption and showcase the tangible benefits for businesses.

2 The Value of Acceptance: Driving Digital Progress



The payment acceptance ecosystem encompasses all forms of commerce, from in-person transactions to unattended kiosks, mobile payments, and e-commerce. Merchants are the cornerstone, and their willingness to accept electronic payments is crucial for growth.

As the merchant landscape evolves, so do their needs, requiring tailored solutions for different business sizes, from sophisticated integrated solutions for enterprises to simplified, affordable options for SMEs. While traditionally, merchants connected to networks like Visa through acquirers, the ecosystem now includes various intermediaries catering to the diverse needs of the modern marketplace.

Payment acceptance typically follows a lifecycle: consumers are introduced to card payments (often via ATMs), acceptance expands across merchant segments (from travel and entertainment to everyday spending), electronic payment volume rises, and card payments become preferred, reducing cash usage. While variations exist, this lifecycle provides a framework for understanding card payment growth.

Increased acceptance maturity drives economic growth. Card-based payments create a virtuous cycle: increased consumption fuels production, leading to job creation, higher incomes, and stronger economic growth. Studies show a direct correlation between card usage and GDP growth.

This positive economic impact is driven by several factors:

- **Reduced Friction:** Streamlined transactions eliminate the need for exact cash and reduce cash handling risks.
- **Standardized Spending:** Global acceptance standards simplify international transactions and cross-border commerce.
- **Encouraged Innovation:** A standardized ecosystem fosters competition and innovation among payment providers.
- **Enhanced Security:** Secure card payments build trust, essential for driving consumption.

A balanced approach that combines these elements can effectively drive the digitalization of the SME sector and stimulate broader economic growth.⁴

⁴ Visa. The New Acceptance Landscape. April 2023. Accessible at: 208295bd-644e-475b-a513-885e31c77ed0.pdf


3 Partnering with Visa to Accelerate Digital Payment Acceptance




Many countries are actively seeking to expand their acceptance of card and digital payments. Visa is uniquely positioned to support Ethiopia's transition to a more digital economy.

As a trusted advisor and partner, Visa offers a range of capabilities to help governments, financial institutions, businesses, and technology providers enhance their digital payment acceptance maturity.

 **Understanding the Evolving Landscape:** Visa provides insights into the dynamic acceptance landscape, including emerging trends, technological advancements, and best practices from around the world. This knowledge helps stakeholders make informed decisions and develop effective strategies.

 **Implementing Proactive Solutions:** Visa's suite of solutions includes programs for specific merchant segments, innovations like Tap to Phone, Contactless Payments and Click to Pay, and resources educating businesses about the benefits of digital payments.

 **Assessing Ecosystem Maturity:** Visa can help assess the current state of a country's acceptance ecosystem, identifying strengths, weaknesses, and areas for improvement. This assessment provides a foundation for developing targeted interventions and prioritizing key initiatives.

By partnering with Visa, governments and businesses can leverage a wealth of experience, resources, and innovative solutions to accelerate digital payment adoption, drive economic growth, and foster a more inclusive financial ecosystem.^[1]

^[1] Visa. The New Acceptance Landscape. April 2023. Accessible at: 208295bd-644e-475b-a513-885e31c77ed0.pdf



About the Report



This report, commissioned by Visa and conducted by 4Sight Research & Analytics (October 2024), examines the current payment acceptance landscape in Ethiopia, focusing on how digital payments can empower SMEs and providing actionable recommendations for government support.

Investing in SME digitalization through digital payment promotion is a strategic imperative for governments seeking to drive economic growth, enhance competitiveness, and foster financial inclusion. Implementing the recommendations outlined in this report will empower SMEs to thrive in the digital age, contributing to a more prosperous and resilient economy.

Research Methodology

This study employed a face-to-face methodology, interviewing 259 owners/store managers who are key decision-makers in their respective businesses across Ethiopia.

The sample comprised nano businesses (38%), micro businesses (53%) and small businesses (9%) across diverse sectors, with a mix of retailers accepting cash only (39%) and digital payments (61%).

Research Objectives

The research aimed to:

- Understand the triggers and barriers to using digital payment methods and cash.
- Understand the impact of accepting digital payments on small businesses.
- Gauge the level of openness to digital payment options among those currently accepting cash-only payments.

