

**VISA**

# Value of Acceptance

Understanding the Digital Payment Landscape in Kenya





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# Executive Summary

Kenya is a globally recognized leader in digitization and innovation, driven by the widespread use of mobile solutions alongside increasing adoption of card payments and eCommerce. Within this dynamic landscape, digital payments are rapidly gaining traction, presenting a significant opportunity to further empower small and medium-sized enterprises (SMEs) and drive economic growth.

This Visa-commissioned study reveals that a significant portion of cash-only SMEs intend to adopt digital payments, demonstrating a growing interest in these solutions. Kenyan SMEs that accept digital payments are already experiencing tangible benefits, including faster transaction processing and reduced cash risk. Looking ahead, a strong majority of digitally enabled SMEs recognize the importance of digital payments for future growth and plan to further invest in payment technologies.

This report explores the evolving digital payments landscape in Kenya, examining the benefits, barriers, and opportunities for growth. It proposes a multi-pronged approach, emphasizing targeted interventions to address merchant and consumer concerns, improve infrastructure, and promote the security of digital payments, especially given the persistent concerns about cash handling among businesses. By leveraging Visa's expertise and innovative solutions, such as Tap to Phone, while also fostering collaboration between government and the private sector, Kenya can unlock the full potential of digital payments, driving economic growth and fostering a more inclusive financial ecosystem.



# 1 Understanding The SME Landscape in Kenya



Small and Medium Enterprises (SMEs) are the backbone of the Kenyan economy. A thriving digital payments ecosystem is continuing to emerge, fueled by strong growth potential, tangible benefits for early adopters including faster processing and reduced cash risk, and the pressing need for enhanced security in a business environment where cash handling remains a significant concern.

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

Kenya's digital payments landscape is experiencing rapid growth, driven by increasing demand for digital transactions and growing recognition among SMEs of the associated benefits. This positive trend is evident in the high satisfaction rate (69%) among SMEs already accepting digital payments, who particularly value reduced fraud risk and increased transparency. This creates a strong foundation for further expansion and presents a compelling opportunity to offer integrated solutions that combine loyalty features and enhanced security, meeting the demand for value beyond basic transactions.

While cash remains convenient for its simplicity and wide acceptance, digital payments offer merchants an innovative

edge and the potential to boost customer spending. This nuanced understanding is crucial, especially given the dominance of mobile/digital wallets, demonstrating a clear trend toward cashless transactions.

The shift towards digital solutions is further evidenced by the 40% of SMEs already utilizing financial technology and the significant majority (68%) planning to invest in new digital payment technologies. Nearly one in four (24%) cash-only SMEs plan to acquire POS systems, and 52% of cash-only SMEs intend to invest in new payment technology overall. This, combined with the 61% of existing digital payment users who plan to invest further, particularly in card payments (45%), points to significant future expansion.



## 1.2 Digital Payments: A Key Enabler

Digital payments are crucial for SME digitalization, offering numerous advantages for Kenya'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, empowering growth<sup>1</sup>.

Kenyan SMEs are already acknowledging the strategic importance of digital payments, with 77% of digitally enabled SMEs agreeing that adoption will drive growth. This is further underscored by the strong demand for secure B2B solutions (71%) and guidance on best practices (69%) among SMEs already accepting digital payments. Encouraging further investment by showcasing success stories and tangible ROI is crucial.

Understanding merchant motivations is also key to accelerating adoption. While mobile and digital wallets currently dominate, there is substantial room for card payment adoption as merchants increasingly recognize the benefits of convenience, cost savings, and improved efficiency over cash. In particular, card payments offer valuable benefits such as access to data-driven insights, enhanced security, and value-added services. This

data can empower merchants to tailor communication, target offers more effectively, implement loyalty programs, and enhance the overall customer experience, in turn boosting profitability and efficiency<sup>2</sup>.

Moreover, digital payments are a gateway to broader financial inclusion, representing a crucial first step into the formal financial system for the unbanked, enabling 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. This is especially relevant considering that only 40% of SMEs currently utilize financial technology, highlighting the need for broader digital inclusion.

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 consumption<sup>3</sup>. 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.<sup>4</sup>

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

<sup>2</sup> 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>

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

<sup>4</sup> Visa & Kearney. Digital enablement of SMEs. Accessed at: Digital enablement of small and medium-sized businesses

### 1.3 Addressing Barriers to Adoption

While the outlook for digital payments in Kenya is positive, several barriers hinder more widespread adoption among SMEs.

These include apprehensions about the perceived complexity of digital payments compared to cash (highlighted by 36% of merchants). Furthermore, security concerns remain a significant barrier, even for SMEs already accepting digital payments.

#### Addressing these concerns is crucial for facilitating greater uptake of digital payment technologies.



##### **Reducing Cost Barriers to Drive Adoption:**

To address any concerns about the cost of acceptance, government incentives or subsidies can make digital payments more accessible and attractive, encouraging wider adoption.



##### **Supporting SMEs in the Digital Transition:**

With 52% of cash-only SMEs planning to adopt digital payments, government support can play a vital role in simplifying this transition. By offering resources and guidance, the shift to digital payments can be made smoother and more efficient for businesses.



##### **Strengthening Security to Encourage Digital Payments:**

Cash-related risks are a significant security concern for the majority (97%) of cash-only SMEs, with an emphasis on robbery (62%) and embezzlement (52%). Promoting secure digital payment options as a fundamentally safer way to conduct business can help mitigate these risks, fostering trust and further prompting a shift away from cash.



##### **Enhancing Payment Security for B2B Solutions:**

Among SMEs accepting digital payments, there is a strong demand for secure B2B payment solutions (71%) and guidance on payment security best practices (69%). Providing these services is crucial to support and expand digital payment usage.

# 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.<sup>5</sup>

<sup>5</sup> 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 Kenya'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.<sup>[1]</sup>

<sup>[1]</sup> 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 Kenya, 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 254 owners/store managers who are key decision-makers in their respective businesses across Kenya.

The sample comprised nano businesses (20%), micro businesses (48%), and small businesses (32%) 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.

