

Driving financial inclusion

Fintech leader provides banking and payment solutions to the informal, underserved sector

● GG Alcock, who coined the term Kasinomics to describe the township economy, is one of the few voices giving insights into the economics that underpin the informal market in South Africa.

According to Alcock, “the informal business sector is the next great frontier of Africa and it is undergoing an economic revolution – a new world of small people doing big things, transforming the continent”.

But research on the township economy, estimated to employ 17% of South Africa’s population and contribute more than R300bn to the country’s GDP, is hard to come by. This is in itself an indication that an opportunity looms large.

The country’s informal market is a space, however, that is well understood by South African fintech Lesaka Technologies, a champion of financial inclusion, steadily building a leading position in these fast-growing, previously underserved markets.

Lesaka Technologies, listed

on the Nasdaq and JSE with a market cap of R4bn, is one of the largest tech-focused firms in South Africa right now.

The group uses proprietary banking and payment technologies to distribute low-cost financial and value-added services to small businesses, primarily in the informal sector, as well as to consumers, who are mostly grant beneficiaries excluded from formal financial services.

Previously known as Netl, a change in ownership resulted in the appointment of a new board and management team. The new leadership came with strong credentials and international experience to clean up the business and refocus its offering to play a leading role in financial inclusion in the country.

Modelled on successful emerging market fintechs such as PagSeguro and Fawry, the turnaround involved closing its grant distribution business, redesigning its offering and repurposing its staff to focus on solutions to champion financial inclusion in previously underserved markets.

In 2022, it acquired the Connect Group, one of the leading providers of fintech solutions in South Africa, with

the transformative acquisition igniting the rebranding to Lesaka Technologies.

Lesaka has leveraged disruptive technologies to establish infrastructure, products and services to build a unique dual-sided ecosystem which meets the needs of merchants and consumers operating in informal markets.

More than 72,000 informal retail merchants use its cash management solutions, bill payment technologies, value-added services, business funding and card-acquiring solutions. This allows individual merchants to become a standalone financial hub.

On the consumer side, Lesaka provides unsecured credit, transactional banking and micro-insurance to 1.3-million customers through its EasyPay Everywhere brand.

According to the World Bank and International Finance Corp, of the estimated 2.1-million micro, small and medium enterprises across

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Lesaka CEO Lincoln Mali

South Africa’s informal markets, less than 8% have access to formal credit, and of the 1.4-million informal merchants, only 4% have access to digital payments.

From a consumer perspective, only 20% of the 26-million people in the 1-6 LSM categories have access to regulated savings and credit, and 90% of the 12-million grant recipients rely on immediate cash withdrawals.

“We aim to help merchants in the informal and township economy compete and grow their businesses,” says Lesaka CEO Lincoln Mali.

“On the consumer side, we work hard to add value to the lives of grant beneficiaries, so we focus exclusively on this space. All our attention is devoted to understanding their needs and creating relevant and affordable products and distribution networks for them.”

Mali joined Lesaka in 2021 after spending 25 years in the financial services industry, most recently as the head of group card and payments at Standard Bank.

“Joining Lesaka was an opportunity to take a loss-making organisation with a troubled past and turn it

Untapped market: of the estimated 2.1-million micro, small and medium enterprises across South Africa’s informal markets, less than 8% have access to formal credit



around into a commercially successful force for good that would give grant beneficiaries choice, respect and dignity as unique individual customers,” he says.

“Competition to serve them will change the grant payment space for the better and enable individual customers to choose their bank based on factors that matter to them such as service, products, price or convenience.”

Driving the shift from cash to card

Like many developing economies, South Africa’s economy is still largely cash driven, accounting for 60% of all transactions. That figure is even higher in the informal sector where about 90% of transactions are cash-based. The majority of grant beneficiaries withdraw their entire grant in one go from an ATM, says Mali.

“Though we talk about 80% of South Africans having a bank account, the reality is that most of the 12-million grant beneficiaries are withdrawing their grant in one transaction. That can’t be regarded as financial inclusion as grant beneficiaries still don’t enjoy access to the financial system for their payment, transactional, credit, savings and insurance needs.”

Lesaka, he says, is well-positioned to use technology to offer the broadest range of financial services to these customers.

Shifting grant beneficiaries away from cash, says Mali, requires financial literacy, the development of trust, and educating consumers on the

Our focus is to resolve the pain points formal and informal merchants experience with financial technology as an enabler

Connect Group CEO Steven Heilbron

benefits of cards.

Though the business is starting to see cards having more traction, this is off a low base, and he does not expect cards to replace cash any time soon. Rather, he sees the long-term potential as hugely exciting, with the transition providing a durable catalyst for Lesaka’s growth potential.

A fintech leader

The acquisition of the Connect Group has been a game-changer for Lesaka’s merchant business.

Connect Group CEO Steven Heilbron has extensive experience of the financial services industry after spending 19 years working for Investec, where he was global head of private banking and joint CEO of Investec Bank Plc. In 2013, he led a private consortium which acquired a cash solutions business, which was rebranded as the Connect Group.

In addition to driving organic growth in the Connect Group, Heilbron also oversaw the successful acquisition of Kazang in 2020, a business which had 35,000 spaza shops and informal trader customers.

The acquisition was both targeted and strategic. It provided enormous opportunity for growth in that it facilitated unique access, coupled with

last-mile delivery capability focused on the increasingly targeted and fast-expanding informal merchant market.

This provided an exclusive highway through which the business could deliver multiple product and service opportunities.

A unique ecosystem

Heilbron is adamant that South Africa’s future prosperity lies with small businesses.

“Our focus at Lesaka is to resolve the pain points that formal and informal merchants experience by using financial technology as an enabler,” he says.

The company provides merchants with a point-of-sale device which is linked to a digital wallet from which they can pay suppliers; sell products such as airtime, electricity and settle municipal bills; and take customer payments via card swipes or tap and pay, providing instant settlement.

Through the Connect and Kazang brands, Lesaka provides merchants, including larger and smaller spaza shops, with access to physical smart vaults, which currently process and digitise up to R10bn of cash a month.

Kazang Pay, a spin-off of Kazang, which launched in late 2021 with just 300 clients, now has more than 42,000 clients.

“We’re providing a complete ecosystem which merchants are quickly becoming dependent on,” says Heilbron.

Key to the success of Connect Group, says Heilbron, has been an obsession with innovation, disruption and execu-

tion, and a willingness to explore potential opportunities, then quickly scale those initiatives that work.

“The business is obsessed with fintech, not for its own sake, but for its ability to enable financial inclusion in the informal market,” he says.

Turnaround paying off

Lesaka’s turnaround strategies and new business model are paying off. Its recently released results reflect an operating income (before purchase price allocation amortisation) of R34m for its third quarter, compared with an operating loss of R147m in the same period last year.

Similarly, its adjusted earnings before interest, tax, depreciation and amortisation (ebitda) has swung to a R137m third quarter profit from a R113m loss the year before.

For the full year ending June 30, Lesaka’s guidance for revenue is about R9bn and group adjusted ebitda of about R500m.

“Despite the challenging economic environment, we are excited by the merchant division’s outperformance, and another quarter of continued improvement and profitability in the consumer division,” says Mali of the third-quarter results.

“With our innovative technologies, leading distribution network and relevant product set, Lesaka is well positioned to take advantage of the opportunities arising from the transformation of South Africa’s informal economy.”

Writer: Lynette Dicey



Tech transformation: more than 72,000 informal retail merchants use Lesaka’s banking and payment solutions

Photos courtesy of GG Alcock