Two-Wheeler Asset Financing- An Emerging Frontier for Private Equity and Venture Capital Investments in Uganda

Private Capital: Two-Wheeler Asset Financing

A 2022 US$ 30 million follow-on investment in two-wheeler asset financing company- Asaak¹ -by Resolute Ventures and an assortment of co-investors, as well as a US$ 20 million [private] debt facility extended to Asaak by Cauris² in the same year- by far, represents the largest private capital deployment to a Ugandan company- outside energy infrastructure, telecommunications, and [commercial] banking tracked by EAVCA in a single year. It further signals a strategic shift from traditional sectors and growing investor appetite for nascent, high potential and high growth sectors. This, as private capital providers increasingly look to enter new industry segments- supposed Blue Oceans- rather than compete with the fray in the more traditional sectors.

Data from the EAVCA Deal Tracker provides adequate evidence of the strategic shift, - particularly showing substantial investor interest in asset financing companies targeting Uganda’s motorcycle taxi industry (locally known as Boda-Bodas). Data on the Country indicates private capital investments of **US$ 86.4 million** to disrupters offering two-wheeler asset financing in Uganda, deployed between December 2013 and August 2022 and executed over **15 deals**. When follow-on capital is included, disclosed deal values stand at **US$ 116 million**, executed over **17 deals** over the same period. Considering deal values, three-quarters (76%) of these investments are attributable to the **2020 to 2022** period - signalling a degree of recent investor momentum.

15 Deals  ~$86.4Mn Deal Values
Note: Data ranges from December 2013 to August 2022.

Notable Deals

Notable Investors

**Anchor Investors:** Cauris Management, Founders Factory Africa; Mobility 54 Investment SAS; Nordic Microfinance Initiative; DFC (formerly OPIC); Partech Partners; PG Impact Investments; Proparco; Resolute Ventures; Segal Family Foundation and Verdant Capital.

**Co-Investors:** 500 Startups; End Poverty Make Trillions; Decentralized VC; Denali Venture Philanthropy; DOB Equity; Echoing Green; End Poverty Make Trillions; Enza Capital Management; Founders Factory Africa; Global Partnerships; Goldfinch; HOF Capital; InfraCo Africa; Lendahand; Mobility 54 Investment SAS; Segal Family Foundation; Social Capital; Social Venture Fund; Symbiotics; and Women’s World Banking Capital Partners II (WWBCP II)

Figure 1. Two Wheeler Private Capital Investments at a Glance
Growth Drivers and Opportunities

Growth Drivers for *Boda-Boda* End-User Services

Uganda’s motorisation rate\(^3,4\) substantially lags behind global benchmarks at 3.05% (30 cars per 1000 persons)\(^5\) as compared to Sub-Saharan Africa’s 4.2% (42 cars per 1000 persons) and the World’s 18.2% (182 cars per 1000 persons)\(^6\). This places the potential demand for public transport options in Uganda at 96.95% of the population (43.1 million)\(^7\). Among these options, *Boda-Bodas* represent the primary mode of commuter transport for most. Data from the Country’s statistics bureau indicates that approximately \(~70\% (31.2 million)\(^8\) of Uganda’s 44.5 million\(^9\) large population uses *Boda-Bodas* as the primary mode of transport- pointing to significant demand for commuter services.

Further, Uganda appears to be at the cusp of an emerging e-commerce (package delivery services) and mobile-enabled ride-hailing segment- driven by the entry and rapid uptake of apps such as Jumia, Glovo, Bolt, Uber, and Safeboda\(^10\). All these apps rely entirely or partially on *Boda-Bodas* to deliver commuters or goods from one point to another- implying that app-enabled demand for *Boda-Boda* services- both for commuter purposes or package delivery- is similarly substantive and growing.

End-user demand for *Boda-Boda* commuter services thus represents the key growth driver for the industry, - providing the critical mass needed for industry expansion.

---

**Growth Drivers for *Boda-Boda* Asset Financing**

Adequate end-user demand for *Boda-Boda* services implies a large and growing population of both *Boda-Boda* riders and, by extension- *Boda-Boda* bikes- with the industry an appealing entry point into the job market for urban youths. Conservative estimates place the *Boda-Boda* population at 250,000\(^11\) to 500,000\(^12\) riders [and bikes] In Uganda’s Capital (Kampala) and at 1 million nationally\(^13\) 14.

For *Boda-Boda* riders either already making, or otherwise looking to make a living off the motorcycle taxi industry, outright bike ownership- remains out of reach. A new bike in the popular Bajaj, Dayun, Honda, Suzuki, TVS, or Yamaha models can range anywhere from \(~ US$ 1,200- 2,000\(^15\) pointing to affordability.
issues in a country where the Per Capita Income stands at only US$ 858 (2021 est.)\textsuperscript{16}. Most thus rely on the ‘rent-a-bike’ model- wherein underlying asset ownership never transfers to the rider, despite paying weekly rents of ~US$ 17 to underlying asset owners [in perpetuity]\textsuperscript{17}. Bike ownership through traditional financing is similarly inaccessible to riders –who typically lack quality collateral assets or verifiable credit histories.

The \textit{Boda-Boda} asset financing gap and other factors thus provide fertile ground for the emergence and scale-up of asset financing companies targeting the \textit{Boda-Boda} industry. Many of these are flipping the Pay-As-You-Go (PayGo) model initially applied to last-mile financing for low-income markets in the solar industry- and are using a similar- but adapted model for \textit{Boda-Boda} asset financing. Under the model, riders issue a ~ US$ 200- 260 down payment and thereafter use mobile money or point of sales platforms (MTN, Airtel, and Pay Way\textsuperscript{18}) to disburse ~US$ 20 weekly payments, over 18-24 months- towards eventual ownership \textsuperscript{19,20,21}.

The entry of dominant players- Asaak, Tugende, Watu Credit Uganda, and vertically integrated Zembo -many of whom are running multi-country operations- reflects this market potential- as described. The asset financing space remains loosely regulated by the Uganda Microfinance Regulatory Authority. implying few regulatory barriers to entry. Regardless, newer entrants are few and far between, and include Bajaj Uganda, Mogo and Bodaboda Banja- indicating first mover advantage for existing players\textsuperscript{8}.

\section*{Risks and Threats to the \textit{Boda-Boda} Asset Financing Segment}

Credit risk remains a key concern for asset financing companies targeting two-wheelers, particularly given the high-risk profiles of \textit{Boda-Boda} riders. Many two-wheeler asset financing companies are thus working to mitigate credit risk through several strategies. A notable example is the use of behavioural data collected from ride-hailing apps such as SafeBoda, Uber and Jumia (number of trips completed, customer ratings on apps etc.) to assess borrower credit risk. In addition, pre-qualifiers are riders with demonstrable experience in the \textit{Boda-Boda} industry. In further borrowing from the PayGo model widely used for solar systems asset financing targeted at low-income markets, two-wheeler asset financing companies are leveraging on the Internet of Things (IoT) and are installing digital tracking systems, primarily to curb asset theft by third parties, but also for purposes of asset recovery and reclamation on default\textsuperscript{22}. Human guarantors are also widely employed as a complementary strategy for managing credit risk\textsuperscript{23}.

Un-mitigatable risks, however, exist or are emerging. The likelihood that the balance sheets of two-wheeler asset financing companies were affected by high borrower default rates from riders due to COVID-19 restrictions on the movement of persons is high. Uganda had one of the strictest COVID-19 lockdowns in the World, intermittently lasting nearly two years in the 2020/21 period \textsuperscript{24, 25, 26}. Macro-economic pressures such as rising fuel prices and little appetite for upward fare adjustments by commuters in an industry where \textit{Boda-Bodas} compete with commuter mini-buses for passengers remain a key risk to the earning potential of riders, as well as their ability to service asset leases.

On the regulatory front, a move towards stricter regulation of the presently loosely regulated \textit{Boda-Boda} industry, including plans to restrict \textit{Boda-Bodas} from entering the Capital’s Central Business District,\textsuperscript{27} stands as a potential emerging risk likely to impact the business model of two-wheeler asset financing companies\textsuperscript{28}. In the E-commerce segment, a September 2022 ban by the country’s communications regulator –on the operations of e-commerce apps- including but not limited to Jumia and Safeboda - on grounds of non-compliance with the existing licensing regime presents a significant regulatory risk. This as the ban may lead to short term market disruptions on the package delivery operations of \textit{Boda-Bodas} thereby impacting cash flows and ability to serve asset leases. However, the risk on the latter will likely self-resolve as blacklisted E-commerce actors fulfill relevant compliance obligations\textsuperscript{29}.

\footnote{A handful of Microfinance Institutions (MFIs) and Savings and Credit Cooperative Organisations (SACCOs)- with notable ones being Deed MFI, Nile MFI, EBO Financial Services, and the Wazalendo SACCO provide Two Wheeler Asset Financing products, but not as a core product. Vision Fund- World Vision’s microfinance provider- is the primary player providing two-wheeler asset financing products in Uganda’s MFI space.}
Two-Wheeler Manufacturers

Two-Wheeler Financing

Outright Purchase
Lump sum: ~ US$ 1,200-2,000

Rent-A-Bike
Down payment: ~ US$ 0
Weekly payments: ~ US$ 20
Lease term: Perpetuity

Lease-to-Own (asset financing)
Down payment: ~ US$ 200-260
Weekly payments: ~ US$ 20
Lease term: 18-24 months

Two-Wheeler Users

Boda-Boda Riders

Internet of Things: GPS Asset Tracking

Lease Service Channels

Two-Wheeler Service End Markets

E-Commerce: Apps

Jumia

Glovo

E-COMMERCE: Package Delivery
End Markets

Ride hailing: Apps

SafeBoda

Uber

Bolt

RIDE HAILING: Commuter
End markets

Ride hailing: Direct

Source: EAVCA (2022)
Methodology

Author(s): This analysis has been provided by EAVCA © 2022.

Disclaimer: The data and information used in this analysis was collected from the public domain. Data sources included deal announcements made by limited partners, fund managers, or investees. Information on demand-side trends included publically accessible reports and newspaper articles. The analysis excludes any confidential and/or proprietary data. The data is meant to be merely indicative and representative and in no way or form contains an exhaustive log of deal activity in Uganda or of demand-side trends and actors in the sector under analysis. In addition, while EAVCA has gone to great measure to has taken great measures to ensure that the data and information provided here is accurate as collected from the public domain sources. We however cannot authenticate the accuracy of the details and caution is advised while using the information provided for investment decisions.

Note: The Raw (EXCEL) data file containing historical deal activity data relating to Uganda's Two Wheeler Asset Financing industry (December 2013 to August 2022) is available for download [EAVCA Member Access Only]. EAVCA Members can submit a data request to doris@eavca.org or info@eavca.org to access the raw data file.

About EAVCA: The East Africa Private Equity and Venture Capital Association ("EAVCA") was founded in 2013 to represent East Africa's private equity and venture capital industry and provide a voice for industry players to raise awareness and engage on regional policy matters. The industry body is the primary association for East Africa's private equity and venture capital ecosystem. Its operational jurisdiction within East Africa includes Kenya, Uganda, Tanzania, Rwanda and Ethiopia. With a membership comprising primarily of fund managers, limited partners, and private capital industry service providers, the core business of EAVCA is the provision of services in pursuance of the interests of actors within its membership base. In so doing, EAVCA executes its mandate along its four pillars: advocacy, intelligence, training, and events. Visit us on eavca.org

Endnotes

3. The "Motorisation rate" refers to the number of passenger cars per 1,000 inhabitants.
5. Uganda's Third National Development Plan (NDP III) 2020/21-2024/25 estimates a motorised vehicle fleet of (2018 est.). Assuming a population of 44,501,622 persons (2022 est.) as per statistics from the Uganda Bureau of Statistics (UBOS), the motorisation rate is 3.05% (1,355,090 divided by 44,501,622) being the number of registered vehicles as a percentage of the total population.