

PROFILE: Tugende

Providing affordable ownership opportunities to motorcycle taxi drivers in Uganda



Challenge

Driving a motorcycle taxi (*boda boda*) is an attractive option for uneducated young men living at the base of the pyramid in Uganda, where both jobs and employable skills are scarce. Kampala alone has about 100,000 *boda* drivers; thousands more operate in smaller cities and rural areas. With motorcycles costing about US\$1,350, drivers have to rent them from owners, who can repossess them at any time. Not owning the vehicle makes drivers' jobs insecure.



Innovation

Tugende (www.tugendedriven.com) provides affordable credit through a lease-to-own scheme that gives *boda* drivers the opportunity to own their own vehicles. Customers make a down payment of about US\$96 and sign an 18-month lease agreement that commits them to make regular weekly payments (of about US\$30) in return for a new motorcycle (a total of about US\$2,280). These payments are about 15 percent more than drivers would pay to rent a motorcycle for the same amount of time; however, if payments are made more or less on time, the customer owns the bike at the end of the 18-month period.

The company generates pre-operating cost returns of about 45 percent from the interest payments it charges. It finances the credit with its own working capital. It has raised both debt and equity capital in a number of funding rounds, including US\$780,000 from multiple investors in its most recent round.

Impact

Founded in 2010, Tugende has financed the purchase of 1,600 motorcycles for 1,500 customers. Bike ownership doubles a driver's income once the loan is paid off. A number of Tugende customers sell their bikes at the end of the lease period, using the capital to set up other enterprises or invest in land or build homes. The rent-to-own scheme also provides job security to drivers, who were previously at the mercy of the vehicle owner.

Scaling Up

Tugende has grown quickly, thanks to heavy market demand. Poor roads and the lack of a good public transport system mean that a majority of Ugandans use motorcycles to get around. The number of *boda bodas* on the road is increasing—as is the number of drivers wishing to control their source of livelihood.

The company's strategy of flexibility with customers has been a key driver of success. It screens its customers and asks for proper references, but it avoids the strict formalities that microfinance institutions follow, making it a much more attractive option for low-income customers. Its emphasis on getting to know the customer has allowed word-of-mouth marketing to take place and kept repossession rates low.

Access to working capital has been a major constraint. Some impact investors have been reluctant to fund a business that primarily benefits young men in urban areas. Debt has been hard to come by, as Ugandan banks offer loans only at prohibitively high rates. Regulation has been a constant challenge, too. Tugende has struggled to be recognized by the government as a financial institution. Regulation is uncertain, and keeping up with compliance has been difficult because of lack of information. At the customer level, motorcycle driving is not well regulated. The police target *boda* drivers, who are perceived as bad drivers and law-breakers: every week they arrest a number of Tugende customers and impound their motorcycles. Tugende estimates that half of the arrests are without reason. This practice is a drain on resources for both the customer and the company.