SNAPSHOT

Buy-Now-Pay-Later: A Catalyst for Financial Inclusion

BluePeak Private Capital

Introduction to BNPL

Buy-Now-Pay-Later (BNPL) is a short-term financing alternative gaining ground in Africa that allows consumers to purchase a product or service and spread the loan repayment over time.

Operating as a sub-industry of Microfinance Institutions (MFIs), BNPL provides credit to unbanked or low-income individuals, and is becoming a key driver of financial inclusion in Africa, where low levels of credit data and credit card penetration prevents people from qualifying for conventional financial services and loans.

The model is being extended beyond everyday retail products to include high-end assets such as cars and motorcycles, which can help to facilitate socioeconomic mobility among unbanked populations.

If appropriately regulated, BNPL could potentially be the missing piece in Africa's financial inclusion puzzle, promoting sustainable lending practices that can help in alleviating poverty and encouraging entrepreneurship, productivity and economic growth.

Soaring inflation rates and record levels of e-commerce and smartphone penetration mean that BNPL providers have gained a competitive advantage on the African continent, where consumers increasingly seek alternative financing options.

The industry, therefore, presents a significant commercial opportunity for the private sector as targeted investments can have a decisive role in accelerating financial inclusion across the continent.

The Rise of BNPL in Africa

African policymakers have redoubled financial inclusion efforts since the outbreak of the Covid-19 pandemic, which saw online services embraced by governments and individual consumers alike. The number of digital payments continues to grow faster than cash transactions. Between 2020 and 2025, Africa's e-payments market is expected to grow by approximately 150% to reach nearly US$40 billion in revenues from domestic payments alone, with about US$188 billion in total transaction volumes.[1]

Despite the market's growth, Africa's digital transformation has also highlighted unequal access to these services, especially among poor, rural and often female-led households operating in the informal cash economy, many of whom are unlikely to be registered with a formal financial institution.

A recent Afrobarometer survey found that fewer than 1 in 5 (18%) rural African women said they owned a bank account.[2]

Across the continent, it is estimated that 57% of Africans exist outside the formal financial ecosystem, without any kind of bank account.[3] For many countries, this figure is even higher - the average banking penetration rate in the entire Central African region, for instance, is around 15%.[4]

For these communities, cash is slow and unreliable for receiving remittances, and in an emergency can leave them no option but to borrow from moneylenders at higher interest rates.

A lack of formal financial history also cuts thousands of Africa's poorest communities off from stabilising and uplifting opportunities, making it harder to deal with financial setbacks such as illness, poor harvests and economic downturns - all of which traps them in a cycle of poverty that is difficult to escape.

Unbanked citizens also suffered disproportionately during the pandemic, unable to receive government financial assistance disbursed via digital platforms. As these communities try to recover businesses and livelihoods from pandemic-induced losses amidst a cost-of-living crunch which has seen the price of essential goods and services skyrocket, BNPL has emerged as an innovative and flexible financing solution, making it easier to offer low-interest loans to those outside the digital financial network.

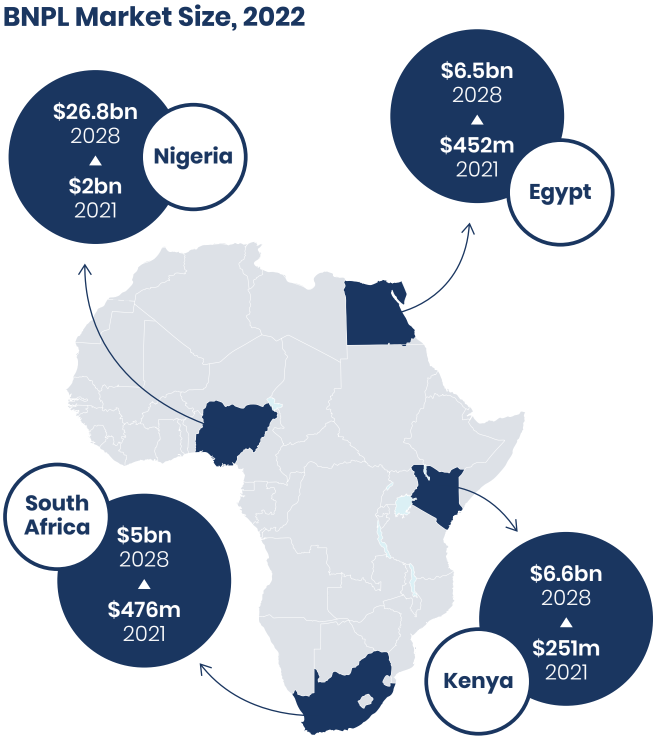
BNPL has capitalised on Africa's e-commerce momentum to become one of the fastest-growing segments in consumer finance. Estimated to be worth US$7.2 billion in 2022, the African & Middle Eastern BNPL industry is poised to reach US$83 billion by 2028,[5] mainly driven by increased digitisation, shifts in consumer behaviours and rising smartphone and e-commerce penetration.

BNPL services are also being extended to a range of "big ticket" items, including cars and motorcycles.

The monumental impact that these vehicles have on economic livelihoods should not be underestimated. The African two-wheeler (motorcycle, scooter, moped) market was valued at US$3.7 billion in 2021, and is expected to reach US$5.1 billion by 2027 - a CAGR of 7%.[6]

Recognising that assets such as motorcycle taxis can be a considerable source of income - allowing riders to transport both passengers and goods - asset financing fintechs in Africa are rising to provide flexible, affordable vehicle financing options that were previously inaccessible to individuals and their families, ensuring that financial exclusion does not restrict their access to markets, productivity and self-reliance.

BNPL Market Size, 2022



Top BNPL & Asset Financing Companies in Africa (Total Amount Raised, USD)

Portfolio company	Region	Service	Amount of Funding (USD)
M-KOPA	pan-Africa	Asset financing	**$264mn**
moove	pan-Africa, International	Mobility fintech	**$230mn**
watu	pan-Africa	Asset financing	**$170mn**
asaak	pan-Africa	Asset financing	**$36mn**
CredPal.	Nigeria	Consumer credit	**$17mn**
LipaLater	Kenya	Consumer credit	**$13mn**
شاري chari	Morocco, Francophone	B2B e-commerce	**$6mn**
sympl.	Egypt	BNPL fintech	**$6mn**

A Catalyst for Financial Inclusion

While BNPL services can also be used for retail products such as clothing, TVs and furniture, the sector has seen significant developments around goods that boost socioeconomic mobility for Africa's financially excluded communities.

In particular, a number of asset financing start-ups and mobility fintechs such as Moove, BasiGo, Asaak and Watu are adopting flexible BNPL payment solutions for their customers, pioneering the movement to unlock vehicle ownership options for those with no credit score, employment history or form of collateral.

These individuals typically do not qualify for loans to obtain "big ticket" assets (such as a car or motorcycle), and this is a major barrier to entry into the formal sector. Many depend on renting vehicles informally or rent older, unreliable, polluting vehicles which are more expensive to maintain.

To tackle this issue and maximise the income potential of its customers, BNPL financing first-time purchases of high-quality assets that individuals might not otherwise be able to afford can be transformative and create tangible development outcomes not to be overlooked.

Moove, a Nigerian mobility fintech start-up, finances up to 95% of an up-front vehicle purchase, and uses alternative credit scoring technology to underwrite customer loans based on the revenue that they generate. As of 2021, Moove-financed vehicles had completed over 850,000 Uber rides across sub-Saharan Africa.

Meanwhile, BasiGo has adopted a "Pay-as-you-drive" technology whereby customers purchase an electric bus at reduced cost and only pay a small daily fee based on the distance they drive. These assets provide an affordable, accessible and sustainable public transportation solution.

Alternatively, Asaak and Watu focus on motorcycle financing; the latter has a market footprint across seven African countries, offering affordable vehicle financing options at favourable repayment terms. The financed asset acts as collateral for the loan, while a unique tech-enabled underwriting model focuses on identity verification for clients and guarantors, enabling Watu to provide qualified clients with a motorcycle in under 2 hours.

These innovative asset financing models offer financially excluded individuals the chance to obtain an income-generating asset that stimulates entrepreneurship and improves their quality of life, which leads to economic empowerment, and contributes to the growth of the domestic economies.

Watu Spotlight

Interview with Andris Kaneps, Founder & CEO, Watu

In December 2022, BluePeak Private Capital's inaugural impact-driven fund invested US$20 million in Watu to broaden access to financial services for underserved and unbanked individuals. As it expands its footprint across Africa, Watu will provide financing to entrepreneurs, enabling them to gain income-generating assets that will empower them and their communities.

Tell us about Watu and how the company has grown since its inception. How does Watu distinguish itself from other asset financing companies?

Watu is an Asset FinTech revolutionising financial inclusion across Africa. We identified a market niche in the provision of asset finance for boda bodas and tuk tuks, areas which previously did not exist in a formal capacity in Africa and have since been building an ecosystem for unbanked and underserved individuals by providing flexible, affordable lending for these assets.

Since our inception in Kenya in 2015, we have expanded to six further countries - DRC, Nigeria, Rwanda, Sierra Leone, Tanzania and Uganda - and have a proven business model whose resilience was stress-tested during the Covid-19 pandemic.

Watu attributes its success largely to its ability to integrate ancillary IT systems which facilitate risk-mitigated loan portfolio expansion. Our established, streamlined business infrastructure and 3,000+ team sets us apart from market competitors.

How many customers has Watu financed?

Over 600,000 loans

have been provided by Watu so far.

Based on the average household size in the markets where we operate,[7] this has positively impacted the lives of more than

3.6 million people.

How does Watu's BNPL loan system promote financial inclusion?

Watu was founded on the belief that everyone deserves the opportunity to be an entrepreneur and achieve their goals, regardless of financial status. We ensure that unbanked people have access to affordable and flexible financing, providing secured lending for assets which owners use to generate entrepreneurial self-employment opportunities in the ride-hailing, delivery and courier sectors.

How does Watu measure the impact of its assets on local communities, the environment and the domestic economy?

Watu measures its impact based on a data-driven and community-focused approach. We are committed to reducing the carbon emissions from the vehicles we finance, targeting a progressive increase in the availability of electric bikes across our markets. We can calculate carbon emissions reduction based on the manufacturer's emissions data multiplied by the mileage from our GPS tracking system.

To understand the specifics of our social impact, Watu has been commissioning customer satisfaction surveys since 2019. The data obtained is invaluable to identify areas for improvement and understand our customers' expectations, all of which provides strategic direction for the company. It also enables us to refine the demographics of our customer base - including income levels and access to alternative financing - to ensure we are creating the desired impact for people who need it most.

What changes do you expect to see in Africa's e-mobility fintech sector over the next few years? What opportunities does this present to Watu?

Watu believes electric vehicles (EVs) are part of the continent's future as we witness a gradual phase out of fuel bikes. The company views itself as an integral player in this process, not only from an EV financing perspective but also by engaging in the development of EV infrastructure such as efficient and reliable batteries, and a swap station network.

We certainly expect partnership opportunities to arise with companies focused on the technical aspects of battery design and production.

And finally, what next? Please share Watu's goals for the next 2-3 years.

Watu hopes to expand its geographical presence - there are plenty of underserved regions in Africa that would benefit hugely from the flexible and affordable financing solutions we offer. We also hope to be a key driver behind the sustainability of Africa's mass transport industry by financing more electric motorbikes, at the same time as diversifying our product offering based on different communities' needs.

How do Watu Customers Acquire an Asset?

1. **Visit a Watu branch or authorised dealer**
   Accompanied by a guarantor
2. **Select a suitable asset**
3. **Provide relevant KYC details**
   Including contact details and a business plan
4. **Undergo Credit Rating Bureau ("CRB") check**
   (helps lenders assess credit risk)
5. **Interview: Ensure rider understands loan terms**
   And will be able to afford loan repayments under their business plan
6. **Pay the down payment**
7. **Sign the agreements**
   (Loan and security agreements)
8. **Get the bike**
9. **Riders pay on a weekly basis**
   Through a mobile money platform

Loan processing time takes 2 hours in total

Key Considerations

The rise of BNPL, and its role in driving financial inclusion in Africa, is not without potential challenges. BNPL providers often rely on identity verification networks, but a lack of recognisable legal identity remains a major barrier to financial inclusion for many Africans.

In addition, low levels of financial literacy means that many of the continent's young population may struggle to plan a long-term financial future and make informed decisions about interest rates, loan requirements, saving and budgeting.

Combined with a lack of regulation which prevents users buying from various BNPL platforms simultaneously, this could leave them exposed to unbearable consumer debt, undermining financial inclusion efforts.

BNPL start-ups are starting to formulate their own solutions to these challenges, pioneering different ways of running credit to protect borrowers and ensure that the industry develops in a just, inclusive and sustainable manner.

Some digital lenders in Africa, for instance, provide sophisticated know-your-customer API to help fintech companies know who the users are, meanwhile gaining a better understanding of a user's income band and transaction history.

Further, BNPL platforms often limit repayment periods between 7 and 30 days, minimising default risk and ensuring that customers don't buy more than they can afford.

By 2025, 600 million Africans are expected to have mobile connections,[8] and rising internet penetration will further enable access to information that can improve financial literacy. However, this will only be effective if governments and financial institutions collaborate on initiatives and allocate resources towards educational programmes.

As the African BNPL sector continues its unprecedented growth, more steps must be taken to ensure that access to finance for unbanked individuals is managed responsibly and ethically.

We must see more collaboration between regulators and BNPL providers to enforce data-sharing policies between lenders, closely monitoring consumer spending patterns and encouraging responsible spending. At present, there is no way for asset financing BNPL platforms to track user activity across various platforms, which increases the risk of defaulting on multiple purchases of goods and services.

Clear consumer protection regulations on how interest, late payment, issuance and processing fees are charged would also improve the credibility of the BNPL model in the financial services market, and protect Africa's poorest and most vulnerable communities from "loan sharks" in the market.

Endnotes

1. McKinsey, 2022. "The Future of Payments in Africa". | 2. Afrobarometer, 2020. "Africa's rural women bear brunt of economic exclusion". | 3. BPC & Fincog, 2022. Digital Banking in sub-Saharan Africa. | 4. European Investment Bank, 2020. Banking in Africa: financing transformation amid uncertainty. | 5. Research and Markets, 2022. Africa and Middle East BNPL Business and Investment Opportunities. | 6. Mordor Intelligence, 2022. "Africa two-wheeler market - growth, trends, Covid-19 impact, and forecasts (2023-2028)". | 7 . Statista Research Department, 2022. "Average household size worldwide in 2019, by region". | 8. African Union, 2020. The Digital Transformation Strategy for Africa (2020-2030).

Authored by BluePeak's Sustainability, Impact and Stakeholders Engagement Team