

PROJECT ABSTRACT
Bayport Colombia: Financial Inclusion for BOP Public Employees
(CO-L1147)

The objective of the Project is to increase financial access for Base of the Pyramid (BOP) public employees in Colombia by scaling up the innovative loan origination program repaid via payroll deductions (libranzas) developed by Bayport FiMSA S.A.S (“Bayport Colombia” or “BC”). BC is a non-bank financial institution focused particularly in rural areas and regions with low levels of financial inclusion and high levels of Unsatisfied Basic Needs. The use of funds will support the company’s loan origination activity and allow it to scale its existing portfolio, specifically to provide financing for home improvements, education, health, micro and small enterprises (MSEs) and agricultural activities. In order to achieve this objective, the Opportunities for the Majority Sector is proposing to provide Bayport Colombia an A/B loan of up to US\$50 MM (approx. COP\$102.6 billion) composed of an A Loan of up to US\$15 MM (COP\$31 billion) and a B Loan of up to US\$35 MM (COP\$71.6 billion).

Financial inclusion is an important macroeconomic goal in itself as it is directly correlated with higher economic growth, as a result of an increase in both consumption and investment. Moreover, financial access for excluded populations is key, particularly access to savings and credit products, wire transfers, remittances, and insurance, as these products reduce vulnerability and poverty shocks, as well as enable long-term asset accumulation and improve overall risk management. Financial inclusion also plays an important role as it enables the BOP to have access to basic goods and services that improve their quality of life, which they could not have access to otherwise given their limited resources.

Despite the important efforts carried out by the Government and the financial sector to promote financial access, 33% of the Colombian adult population over 18 remains unbanked, and over 88% of Colombians over 15 have never had access to a credit from a formal FI. Moreover, 6.45% of Colombians over the age of 15 obtain loans from informal lenders, while 18.27% obtains financing from family or friends.

This insufficient access to formal credit to adult Colombians, affects the BOP disproportionately because of their low income and risk perception. Furthermore, BOP public employees also lack access to formal financing despite their formal employment, as traditional FIs face important challenges when evaluating their credit risk. This comes as a result of: (i) lack of formal credit history (information asymmetry); (ii) high risk perception given the BOP’s low income levels and lack of collateral; and (iii) being located in regions with low banking penetration. Indeed, commercial banks lack sufficient capillarity to offer credit products to the BOP in an efficient and effective manner outside of large urban areas, given the high cost related to opening physical branches and the low margins per transaction associated with BOP clients, making the cost-benefit of such investments unattractive.

The Project seeks to promote financial inclusion, particularly in regions with low credit penetration and/or banking presence, which has partly restricted access to goods and services, such as housing, education, health, financing for MSEs, and agriculture.