

An Innovative Scheme Brings Housing to Colombian Public Employees and Pensioners



CLIENT

Bayport Colombia S.A.S. is a non-bank financial intermediary that specializes in loans repayable via payroll deduction for base of the pyramid (BOP) employees in rural areas of Colombia. Founded in 2007 as FiMSA S.A.S., the firm became a subsidiary in 2011 of Bayport Management Limited, a South-African company with a presence in eight countries in Africa and 15 years of experience in areas with low levels of financial inclusion.



IDB SUPPORT

With a loan of up to \$15 million, the Inter-American Development Bank's Opportunities for the Majority (OMJ) will help Bayport scale its current payroll deduction lending program to public employees and pensioners in Colombia. In addition, OMJ has mobilized private capital of up to \$35 million from other financial institutions to complement the IDB loan.



THE CHALLENGE

Almost 90 percent of adult Colombians have never had access to credit from a formal financial institution. Public employees like police officers, teachers, soldiers, and clerks encounter difficulties when accessing bank credit despite their formal employment. With low salaries, they struggle to make ends meet and face the same problems accessing credit as others living at the base of the pyramid: insufficient credit history, no collateral, and the perception that lending to them is too risky.

Payroll deduction lending is an established industry in Colombia, representing 10 percent of overall lending in the country; however, it is almost exclusively available to middle-to high income clients in urban areas. BOP borrowers often do not even have a bank to go to because Colombia has fewer banking branches per population than comparable countries such as Peru and Brazil. Given the high cost of opening physical branches and the low margins per transaction associated with BOP clients, commercial banks don't see the cost-benefit of providing services outside large urban areas. Yet areas where access to credit is scarce are precisely those where people have the most unsatisfied basic needs.



THE SOLUTION

Bayport Colombia reduces credit risk because its loan repayments are received via payroll deductions. Its clients are low-income public employees who are not eligible for bank credit. Through its commercial agreements with more than 450 municipalities, state institutions, and pension funds, the company quickly identifies potential clients, assess their credit risk, process approved loans, and ensure punctual repayments. Deductions average 30 percent of employees' net salaries or pensions. Average loan amounts of US\$4,400 are used primarily for home improvements, school fees, productive assets and working capital for micro and small enterprises, agricultural inputs and equipment, and health expenses.

The company is able to serve the BOP market efficiently through its "hub and spoke" model based on a large and highly trained mobile salesforce of over 500 agents linked to local and regional offices. Bayport brings its services directly to where its clients are located in 26 of the country's 32 departments, and it has a competitive advantage over commercial banks that rely on a traditional, branch-based structure to offer payroll deduction financing. OMJ financing will enable Bayport to scale its existing portfolio and provide credit to over 110,000 BOP families.



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INNOVATION MAKES THE DIFFERENCE

Thanks to the Bayport Academy, a comprehensive training program for its mobile agents, the company has been able to access remote rural areas in Colombia where other commercial banks have no reach. Bayport further enhances its operational efficiency by establishing key alliances with other providers of goods and services, broadening its geographical presence and making educational services, insurance, and construction materials available to end-clients. Bayport's practices, operations, and credit management are continuously monitored and improved through a formal Knowledge Transfer Agreement with its parent company.

OMJ 2014 Portfolio



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