



## OPPORTUNITIES *for the* MAJORITY

# EPM Extends Financial Democracy in Colombia

Empresas Públicas de Medellín has experienced more than a half-century of solid financial growth and market expansion, becoming the second largest provider of electricity in Colombia as well as a supplier of water, sewerage and natural gas and, through a subsidiary, telecommunications services.

Analyzing its 1.7 million customers, EPM concluded that many of its low-income clients were underachieving in terms of economic and social advancement: they paid their bills on time, but were excluded from credit markets and the formal banking system. Lack of access to formal financing, a handicap for 75 percent of the population of Medellín, forced many citizens to resort to informal loans – with extraordinarily high interest rates – to buy such basic necessities as refrigerators and home improvement supplies.

EPM decided to extend financial democracy, enabling more low-income customers to enter the formal banking and credit system and hence buy more basic goods at less cost. To achieve this goal, EPM is leveraging its customer records of monthly bill payments by converting them into the equivalent of a credit history, the essential prerequisite for obtaining a loan and other financial services. A good utility payment history, according to EPM, represents a good credit history, thereby bringing a much larger number of people into the formal financial system.

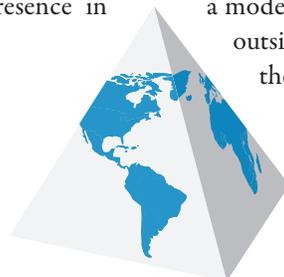
This strategy also represents a profitable business venture, enabling EPM to expand and diversify its presence in underserved markets.

To carry out the program EPM established a trust, Financiación Social, managed by two large Colombian banks. The trust screens and evaluates the credit profile of customers based on their utility payment records and other available data. Those who qualify receive a credit line to make purchases of basic necessities – such as refrigerators, other appliances and home computers – or building materials for home improvements. A network of 170 retail outlets, including 80 chain stores, has agreed to honor the credit line. Customers using the credit option receive bills for their purchases along with their monthly EPM utility bills.

The system is described by EPM's General Manager Federico Restrepo Posada as "a grand social alliance of bring a better quality of life for our customers." Its target is to bring an additional 190,000 households into the credit markets by 2015, since participation in the program will report to official credit bureaus. Most of the new beneficiaries of the credit system will be those who have only modest incomes. The IDB is supporting the program with a \$10 million loan from its Opportunities for the Majority financing facility. The IDB's Multilateral Investment Fund is expected to provide a grant to support refinements in the credit rating system so it may be applied to customers with very low incomes who traditionally represent a high risk for financial institutions.

In addition to improving the quality of life for many utility customers, Financiación Social is also expected to result in energy savings, as more consumers will be able to replace old appliances with new ones that are more energy-efficient. Property values are expected to rise as borrowers use the new credit system to buy supplies to improve their homes.

EPM's system of extending financial democracy to the base of the economic and social pyramid has the potential to become a model that can be adopted by other utilities inside and outside of Colombia, bringing opportunities to improve the quality of life to millions of consumers in Latin



**For more information about the program  
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