



# HUMANA SUPPORT BANK

## CHALLENGE

Venezuela migrant crisis has placed intense pressure on health and education services and the labor market which has created social tensions in neighboring South American countries. Colombia, a country with around 45 million inhabitants, has been impacted the most housing a reported 1 million migrants since 2014. According to the UN, the Venezuelan crisis (2.3 million migrants) is on course to surpass the Sudan refugee crisis (2.4 million migrants) by 2019. Deep diving on the numbers, an estimated 3,000 Venezuelans arrive in Colombia every day. This can lead to an increase in the Venezuelan's population to 4 million in the country by 2021. Approximately 50% of Venezuelan migrants (442,462) currently are living in Colombia with a granted legal status i.e. PEP which allows them to be in the country for 2 years (as of Aug 2018) with access to social services such as healthcare, education and access to employment centers used by natives. However, the real situation of the migrants in Colombia calls for a systematic skill matching process to allow them to find employment, along with relocation possibility to increase probability to find stable employment. In addition to this, there is an identified need to incentivize small and medium Colombian entrepreneurs to hire the migrants and provide proper formal employment

## SUGGESTED SOLUTION



Prioritizing rapid integration of migrants into the employment market will mitigate the risk of these migrants becoming trapped in poverty and unemployment, furthermore reducing social tensions with locals and creating opportunities for economic growth in Colombia.

Humana Support Bank (HSB) is initially focused on providing Colombian micro-entrepreneurs (CmE), essentially willing to hire Venezuelan migrants, access to financing through a collective lending model of micro-finances (to finance WC, increase business operations, etc.) along with value-add services such as skill matching (algorithmic placements), voluntary incentivized relocation of migrants to more suitable and dynamic cities, continuous business training and tax incentives through the government. Under the model, HSB will provide small loans to self-formed groups of 20 CmEs (1/3<sup>rd</sup> female entrepreneurs) and encourage these groups to allocate a percentage of this loan towards hiring a migrant. In this process, HSB will provide services to find the correct match of migrant to the CmE group through HR services, propriety database (formed using information through govt. census and HSB registrations) and analytics.

HSB target population is comprised of high to very high-risk individuals. Hence, a collective lending model allows to mitigate risk through joint liability of loans on a group as compared to one individual and therefore, higher probability of receiving payments.

In addition to the bank model, HSB, through collective lending, aims to bring together CmEs with Venezuelan migrants as the structure allows more employment opportunities for the migrants as compared to individual lending.

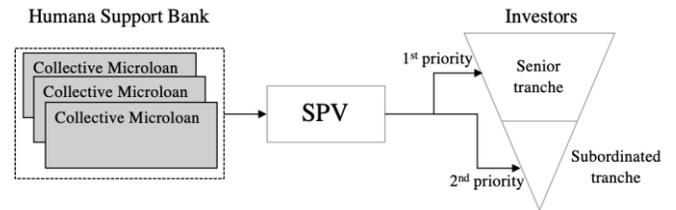
## SCALABILITY POTENTIAL

HSB aims to provide financing to 100,000 micro-entrepreneurs in Colombia in the regions with the highest concentrations of Venezuelan migrants (Norte de Santander, La Guajira, Bogota, Atlántico).

To provide aid for the crisis at a regional scale, this model can be replicated across other South American countries such as Perú (second highest population of Venezuelan migrants), Ecuador, Argentina, Chile, Panama and Brazil with an additional 1,000,000+ migrants.

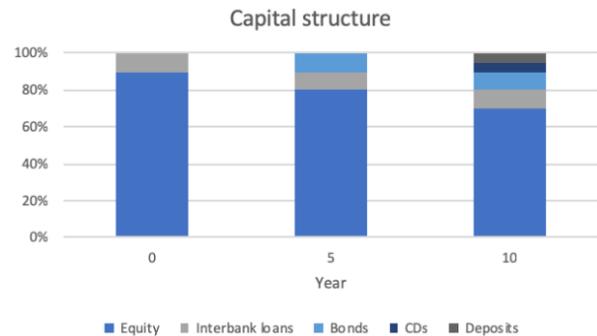
Looking forward, HSB can also target other regions in Colombia, with more than 3 million micro-enterprises.

## INVESTMENT STRUCTURE



## CAPITAL STRUCTURE

Given the higher risk characteristic of HSB's loans, a larger liquidity cushion and a higher share of equity in the capital structure will be required to meet Colombian regulations. Humana's liabilities will be interbank loans in the first years, with bonds and CDs being offered from year 5 to investors.



## FINANCIAL INVESTMENT VEHICLE

Two main asset classes will be offered to investors: debt securities and equity. Equity investors are key for the success of Humana since they will not only provide capital but, as strategic partners, will also share knowledge about the microfinance activity such as credit evaluation and debt collection practices.

HSB will act as the originator of a loan portfolio that will be sold to a bankruptcy-remote Special Purpose Vehicle (SPV). The SPV will then create two tranches: Senior and Subordinated and offer the securities to investors. To align the interests of HSB and the investors of the securities, HSB will have a subordinated stake in each securitization by investing in at least half of the subordinated tranche.

Securities will be issued offering a premium rate over similar microfinance instruments in the market with estimated rates of 13% and 21% to the senior and subordinated tranche respectively. Partnerships with the Colombian government will be evaluated to provide credit-enhancement characteristics such as a cash collateral for each securitization. The securitization of the collective loans will allow Humana to pursue a high growth strategy to generate higher impact on society using the equity capital efficiently.

Given the higher risk characteristic of Humana's loans while they are on the balance sheet, a larger liquidity cushion and a higher share of equity in the capital structure will be required to meet Colombian regulations. Low leverage in the first years of operations will generate concessionary returns for shareholders

We estimate an initial equity requirement of COP 13,500 million (approx. USD 4.2 million) to start operations that would grow to COP 189,000 million (approx. USD 59.8 million) in year 5 and to COP 216,000 million (approx. USD 68.3 million) by year 10. The strategic partnership with several key equity investors (ex. IDB, Microfinance Colombian institutions) would maintain control of Humana by holding 51% of the shares, while the remaining 49% would be owned by several investors with a USD 1 million minimum investment, making the investment accessible to a wide range of impact investors

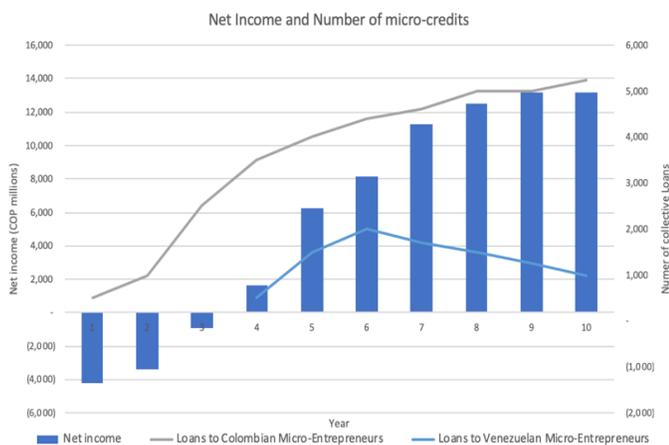
## PERFORMANCE

Given the expected number of collective microcredits and securitizations and an average size of around USD 10,000 for each collective loan, breakeven will be achieved after year 3.

For our base scenario, we assume that the crisis in Venezuela will de-escalate in 5 years, bringing several migrants back to their home country and thus reducing the number of microcredits granted directly to Venezuelans.

Key Financial Figures (COP millions)

	Year 1	Year 5	Year 10
<b>Margin generated on securitizations</b>	1,520	18,480	29,400
<b>Operational Margin (before D&amp;A)</b>	(3,960)	8,200	16,000
<b>Net Income</b>	(4,184)	6,252	13,167



## RISK DUE DILIGENCE PROCESS

Risk	Mitigation Strategy
<b>Cultural</b> Colombian micro-entrepreneurs may not provide long term secure jobs to Venezuelan migrants due to migrant status or the fear of them taking over	HSB will drive awareness of bottom line advantages for Colombian business owners/individuals to employ Venezuelans, in contrast to having direct competition as 75% of the Venezuelan migrant population is highly educated (Secondary schools and above) and younger on average
<b>Operational</b> Misuse of microcredits by borrowers	HSB has adopted a group lending or joint liability lending model to heavily mitigate this risk. HSB will maintain registration and documentation process for borrowers, including migrant workers. Additionally, loan officers or a dedicated employee of the bank will participate in the group meetings of the Loan groups to get updates. We aim to provide additional incentives based on accumulated adherence to the HSB loan contract
<b>Investment Project Timeframe</b> Unknown timeline of Venezuelan economic crisis may discourage investors based on expected returns	Project will be introduced on two levels. Initially, microcredits (with incentives to employ migrants) are granted to group of CmEs in Colombia, which will increase likelihood of repayment and returns based on economic stability. Subsequently, the group lending model motivates the members to push each other to build their businesses to avoid default on loan repayments

## KEY DETAILS

<b>Investments to be offered</b>	<ul style="list-style-type: none"> <li>Microloans Backed Securities: Senior (80%) and Subordinated (20%) tranches for approx. USD 45 million offered yearly. Expected cash collateral of 10% of the securitization.</li> <li>Equity requirements of USD 4.2 59.8 and 68.3 million in years 1, 5 and 10 respectively (51% to be raised through strategic partnership with operating microfinance institution)</li> </ul>
<b>Target Borrowers</b>	<ul style="list-style-type: none"> <li>Groups (on average, 20 participants per group) of CmEs hiring Venezuelan refugees</li> <li>Groups of Venezuelan micro-entrepreneurs in Colombia</li> </ul>
<b>Geography</b>	Colombia (Norte de Santander, La Guajira, Bogota, Atlántico)
<b>Debt securities investors</b>	Colombian institutional investors (insurance companies, pension funds), Foundations, Impact investors, International Organizations promoting development (IDB, World Bank),
<b>Equity investors and partners</b>	Micro-credit focused foundations (Fundación Mundo Mujer, Fundación BBVA microfinanzas), other Colombian Banks with relevant geographical coverage and technological platforms (ex. Banco Davivienda)
<b>Time horizon</b>	<ul style="list-style-type: none"> <li>Asset Backed Securities: 6-18 months</li> <li>Equity: 5 years+</li> </ul>

## IMPACT

HSB business model supports certain UN Sustainable Development Goals 2025, in particular:

- Good jobs and economic growth:** Working to improve the poor lifestyle of Venezuelans in Colombia, HSB aims to provide a platform for the migrants to be employed through micro-entrepreneurs (target borrowers) and further support the growth of the Colombian economy by 0.2% points annually (World Bank, Nov 2018)
- Reduced inequalities:** HSB aims to reduce the gap between Colombians way of life and Venezuelans migrants, with a goal to further reduce inequality in ethnicity and social tensions
- Reduce poverty:** Through easy debt financing micro-enterprises in Colombia, HSB will create job opportunities for the migrants, thereby reducing the number of people under the poverty line
- Good health and well-being:** Venezuelan women, often educated, are pushed into prostitution due to no work availability in Colombia. Providing jobs and empowering women, through HSB funded employment options, enables them to lead a physically and mentally healthy life, thereby allowing to provide health and food to their family

