

BANCUADRA: REDUCING ILLEGAL LOANS THROUGH COMMUNITY LOANS

Bancuadra is a project from the Secretary of Economic Development of Medellín that provides **low-income residents with access to loans and financial education**, with no complex procedures or requirements to join.

HOW DOES BANCUADRA WORK?

Citizens with +18 years old and residents in Medellín create groups of at least 10 people, called networks. Each user has access to loans that will be paid off by the whole network in six months. **Loans can be used for personal expenses or working capital for their small businesses.** Participants receive weekly or biweekly visits for classes on financial education.

WHY IS BANCUADRA INNOVATIVE?

It uses **Community Trust as collateral**. The networks are created by people who know each other and are available to serve as guarantors of loans. This system reduces asymmetry of information between lender and borrower, providing financial access to many more people at affordable rates.

The program also provides **critical financial education to users**. Bancuadra supports resident networks during the whole journey, and loans can be renewed after the payment.

With Bancuadra, **Medellín was one of the five winners of Bloomberg Philanthropies' 2016 Mayors Challenge**, a competition designed to help city leaders think big, be bold and uncover inventive – and, ultimately shareable – ideas that tackle today's toughest problems.

WHAT CHALLENGES CAN BANCUADRA HELP YOUR CITY TO SOLVE?

- **Limited access** to the banking system
- High prevalence of **illegal loans** among residents, with risk of violence
- Low level of **financial education** among residents
 - Low level of **community cohesion** among low-income residents

BANCUADRA IN THREE STEPS



Bancuadra's networks are composed of 10 or more Medellín's residents who are above 18 years old. **The networks request the loans, not individual residents.**



Each user receives a loan of 200,000 Colombian pesos (around USD 60). **The monthly interest rate is 0.91%, and payments happen weekly or biweekly.** A network cannot request a new round until all members pay the initial loan within six months.



Bancuadra's agents make **visits to the networks to manage payments and lead financial education classes.** Topics include accounting, financial management and conflict resolution. Users have to attend at least 12 sessions per loan cycle.

WHAT IS BANCUADRA'S IMPACT?

16,000
loans distributed
between 2016 and
2020

13,600
Bancuadra users

↓14 p.p.
reduction in the use
of loan sharks among
Bancuadra members
(from 24% to 10%)

↑6 p.p.
Increase in the
probability of savings
among users (from
10.5% to 16.5%)

↑13 p.p.
in users reporting
improvements on their
economic conditions
(from 46% to 59%)

WHAT DO USERS SAY ABOUT BANCUADRA?



“I feel part of the society. I feel important and supported. Since I started with Bancuadra, it has been less difficult to deal with my disability.”

Ana María Alvarez, Bancuadra's user since March 2019

“I often did not sleep, worried about my debt. With Bancuadra, my family and I have paid all our debts with loan sharks”

Luz Elena Osorno, Bancuadra's user since April 2019



“Bancuadra allows me to cover costs of the shop and sustain myself a bit financially. We feel very supported and safer”

Daniel Grisales, Bancuadra's user since March 2018



**DO YOU WANT TO
LEARN MORE ABOUT
BANCUADRA?**

We want to disseminate Bancuadra's experience to other cities or organizations facing similar challenges.

Please send us an e-mail: liliana.galeano@medellin.gov.co

Follow us on Twitter: [@AlcaldiadeMed](https://twitter.com/AlcaldiadeMed)