

# Bayport Management Ltd Social Finance Framework

March 2022



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## 1 Introduction

Bayport Management Ltd. (“Bayport”) was founded in 2001 with the aim of making a real difference in the lives of our customers, building a business that offers people a way to truly change their lives and fulfil their potential. By offering a wide selection of financial services in emerging and frontier markets where access to such services is often limited for a significant portion of the population, Bayport contributes to the financial independence and economic empowerment of both individuals, micro and small sized businesses (“MSE”) and the economy as a whole by contributing to the upliftment of the people and communities we serve.

To deliver services suited for a broad client base, in particular those lacking sufficient access to financial services, Bayport embraces technology, product leadership and innovation. The company offers tailored savings, insurance, and credit solutions to individuals and, MSE through an extensive network of branches and agents across Africa and Latin America as well as via online platforms. The company currently operates in Botswana, Colombia, Ghana, Mexico, Mozambique, Tanzania, Uganda, and Zambia with a widespread sales network across both Africa and Latin America. Moreover, the company provides best-in-class call centre, digital and self-service channels that allow for low-cost service provision, seamless processes, and fully remote interaction.

As Bayport has issued Social bonds, the company currently generates an annual Social Impact report which details the social and operational impacts of our business, alongside portfolio and operating statistics. For reference and additional supplementary information, the social reporting can be found at:

<https://www.bayportfinance.com/usd-nordic-bond/?tab=usd-nordic-bond>

<https://www.bayportfinance.com/social-finance-reporting/>

## 2 Vision

Bayport’s vision is to be the most valued financial solutions brand in its chosen markets by providing a broad range of relevant financial solutions tailored to the needs of its clients. To achieve this, Bayport aims to engineer a new reality in the provision of financial services; and aspires to be recognised for consistently demonstrating the highest standard of care, responsibility, and innovation. Bayport aims to be the first choice for the fulfilment of the economically active population’s financial needs—bringing hope, upliftment, financial liberation and inclusion to people in the communities that Bayport serves.

Bayport’s ESG philosophy is deeply rooted in this ambition, and care, responsibility and innovation also characterise how Bayport mitigates any environmental impact and contributes to the upliftment of the people and communities we serve, in their pursuit of economic success.

## 3 The Bayport Way

Many things make Bayport exceptional, but one thing that sets us apart is The Bayport Way. The Bayport Way is our manifesto as to why we exist, what we aspire to and what we believe in, dovetailing seamlessly with the SMART accreditation and Client Protection Principles. Bayport Botswana was the 1<sup>st</sup> credit provider in Africa to be SMART<sup>1</sup> certified in March 2015 as well as the 1<sup>st</sup> payroll lender in the world to be SMART certified. Bayport Zambia was SMART certified soon thereafter in December 2016. The Client Protection

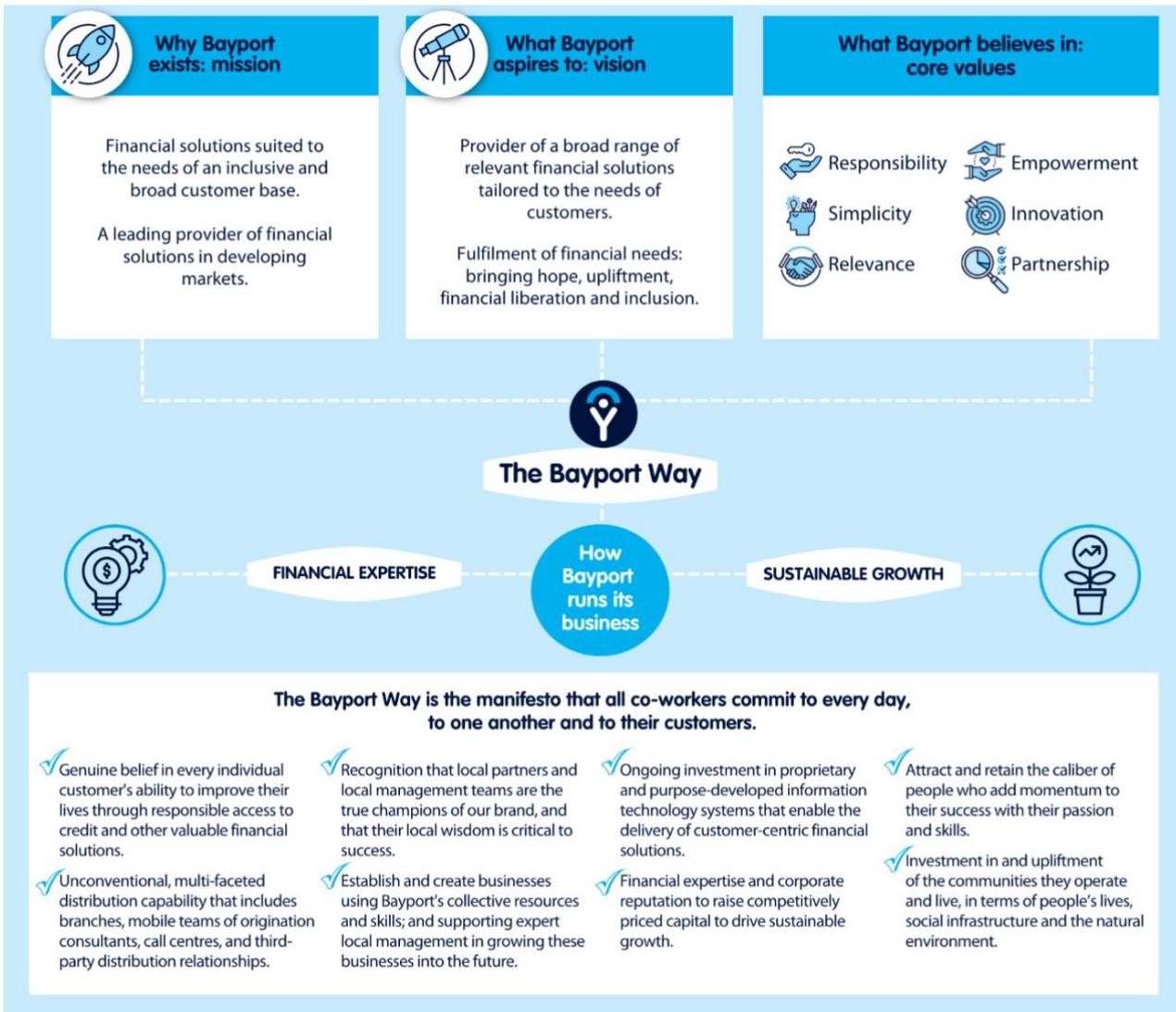
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<sup>1</sup> <https://www.centerforfinancialinclusion.org/about/what-we-do/the-smart-campaign/certified-organizations>



Principles are the driving force of the SMART campaign and are the minimum standards that our clients should expect to receive when doing business with Bayport.

This is the commitment that we make every day to one another and to each and every customer. It is the promise we all stand behind that pulls us together and reminds us that we are all working towards a common goal: The genuine belief that every customer is able to improve their lives through access to credit and other valuable financial services. That we are here to help our customers gain access to these financial solutions, that would otherwise be inaccessible; and that these financial solutions have the power to change their lives.



## 4 Bayport's ESG Principles

Bayport's ESG principles are embedded within the core of the business and look to ensure all our activities are contextualised within a greater social good.

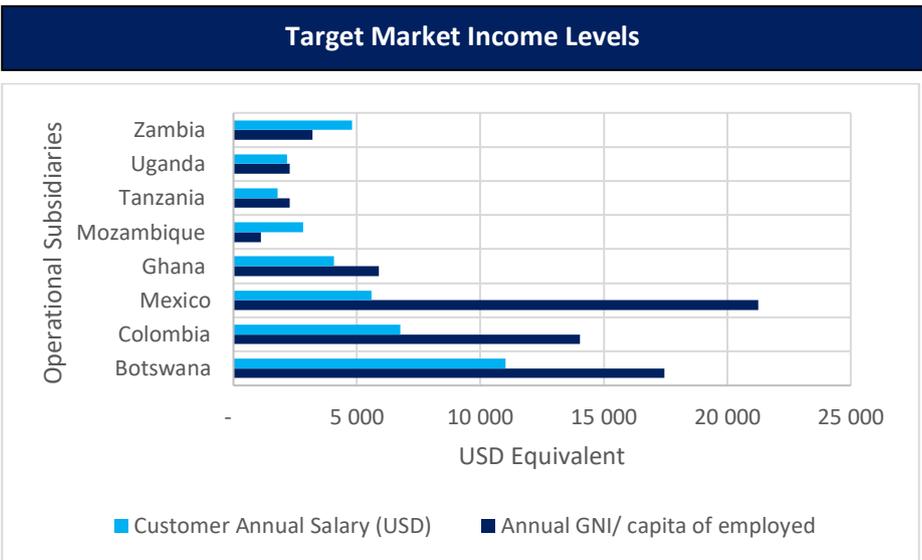




These principles also ensure that we effectively manage, report, and govern our operations within a socially and environmentally conscious construct.

## 5 Bayport Products

Bayport’s philosophy is to provide people with the help they need to help themselves, by being the first choice for the fulfilment of their financial needs. Our products and services are focused on providing customers with the financial ability to change their own lives, bringing hope, upliftment, and liberation to the communities we serve. Without the services offered by Bayport, many of our clients would be unable to invest in life-changing opportunities such as education, housing, agriculture, healthcare, and entrepreneurial businesses. By being an active financial partner to low-income or underserved individuals, with a focus on marginalised areas, the services offered by Bayport promote financial independence and economic growth in the broader community.



Bayport offers a range of financial products and services and is a leading provider of “At Source Deduction” credit with an extensive footprint of frontier and emerging markets.



- (i) “At Source Deduction” lending being the vast majority of the book and offered in all countries as the primary financial services product, is an unsecured personal loan granted (with the agreement of and in co-operation with the employer) to an employee, typically employed by government, and is collected by way of a deduction at source. The client’s product construct dramatically reduces the complexity to originate, as well as the risk associated with traditional retail lending in thin-file or low-data markets and forms a low-risk entry point for individuals entering the credit market for the first time. Moreover, the stringent and hard-set affordability limits imposed by agreement with the employer ensures there is no risk of over-indebtedness. All of these benefits result in the ability to address portions of the market that would previously be unable to access traditional, sustainably priced, credit markets.

Bayport product landscape				
<b>Credit</b>	At-source unsecured credit	Unsecured retail credit		
<b>Savings and deposits</b>	Local currency term deposits	Local currency demand deposits		
<b>Insurance</b>	Credit insurance	Funeral	Personal accident	Motor

It is important to note that our offering provides for a large portion of the market in our respective countries of operations. On one side of the spectrum, incumbent banks will only lend meaningfully-sized loans against a portfolio of assets – something that a large portion of the market have not yet been able to accumulate. Alternatively, mobile lenders provide high rate, small quantum unsecured loans through their mobile wallet platforms. These loans often provide an undue financial burden given their short term, high-rate construct. Our products bridge this gap, by providing meaningful unsecured finance at rates that enable the ability to be financially sustainable.

Provider	Mobile Lender 1	Mobile Lender 2	Govt T-Bill Rate	Bayport Rates
<b>Equivalent Annual Percentage Rate (APR)</b>	53% - 319%	86% - 191%	13% - 22%	28% - 44%

## 6 Taking our services to our customers

The customers we serve do not necessarily live and work close to a branch. Instead of expecting customers to come to us, we go to them. Access to financial services is a prerequisite for financial inclusion, therefore our distribution model has always been focused on how to bring our services to where our customers lives and work. Mobile sales agents have been a feature of Bayport’s business from the outset, often braving adverse weather conditions and long hours of travelling to reach customers in remote areas.

In recent years, we have added online and digital channels to our model, allowing customers to choose their preferred way of interacting with us.

Today, customers can access our services through operations’ websites and call centres, social media platforms and mobile apps. We are also equipping our mobile sales agents with digital tools to improve customer service levels and shorten turnaround times. All of this results in the ability to offer lower-cost credit to our respective customers.



## 7 Financial Inclusion and Responsible Credit

Since its inception, Bayport has been driving an impact agenda aimed at financial inclusion and universal access to credit. Financial inclusion simply means more people and companies having cheaper and easier access to financial services. This is what Bayport aims to achieve. Access to financial services, including credit and bank accounts, does not immediately reduce income inequality, but it creates opportunity – and gives people a chance to save, start a small business, and improve educational options for their children.

Bayport believes in the positive transformative power of credit but is also fully aware of how destructive over-indebtedness can be. In addition to complying with local consumer protection legislation and other applicable laws and regulations, Bayport also has in place several internal policies to ensure responsible credit practices.

The key social risk would be over-indebtedness of our clients. Bayport's strict affordability rules ensure that clients do not take on debt they cannot afford as well as making sure that clients understand the terms and conditions of their contracts and their rights and responsibilities as a Bayport client. Moreover, our insurance products ensure that our customers are protected in the event of illness, retrenchment, or death.

Financial inclusion extends beyond access to financial services to include financial education. People's ability to build wealth depends more on how they manage their money than on how much they earn.

Studies across the world have found that people with low financial literacy:

- Incur high transaction costs, pay higher fees, and use high-cost borrowing methods.
- Carry excessive debt loads and are unable to judge their debt positions.
- Are less able to cope with emergency expenses and weather income shocks

Bayport understands the impact that financial literacy has, hence our operations invest significant resources in consumer education.

Bayport's commitment to responsible credit is further highlighted by the endorsement of the SMART Campaign and its Client Protection Principles. The SMART Campaign's Client Protection Principles are aligned with Bayport's own objectives of building strong, lasting relationships with clients, increasing client retention and reducing financial risk. Bayport's Commitment to the SMART campaign, specifically to the Client Protection Principles will continue with the implementation of the SPTF-Cerise Client Protection Certification in a number of our operations.



This Client Protection Certification is due to replace the SMART certification and is an independent, third-party evaluation to publicly recognized financial institutions that meet adequate standards of care in how they implement the Client Protection Principles throughout their operations, product offering, and treatment of clients.

Environmental risks are considered negligible given our micro-loan size and term, and due to a client base consisting of individuals. We request information on the use of loan at the inception of the application process to ensure no exclusionary environmental and social activities are entered into.

Bayport will not knowingly make any loan or other facility to individuals for activities financing weapons, small arms, fossil fuel exploration and distribution, tobacco, conflict minerals, alcohol, gambling, endangered or protected wildlife, pornography, prostitution, terrorism or any illegal activities including money laundering and tax evasion. Further to this, Bayport will not knowingly make any loan that will lead to child labour, forced labour or unsafe working conditions.



## 8 Changing Lives

We believe the greatest measure of impact is understanding how single lives are changed through our business.

### ***The power of financial inclusion***

Mr Mazinda (Tanzania): For my children, for myself.

*“My name is Juma Ali Mazinda. I work as a village district executive in Tanzania. Most of the people in this district are rice and maize farmers, but climate change is causing big challenges here, mainly because we no longer get the rain, we were accustomed to. The rain arrives at the right time, but stops halfway through the season, thus the crops cannot grow as expected. This means that farmers no longer grow enough crops for their own food and to sell. As a result of climate change, I could also no longer rely on my rice paddy and my maize crop. I also realised I am getting old and will reach a point where I won’t have money for basic needs like buying salt. I, therefore, decided to create a farm at home for long-lasting crops, such as papaya, coconut, limes and sugarcane.*

*To do this, I decided to borrow from Bayport. My loan was just over Tsh1 million. I divided the loan in three sections: Tsh200 000 I used to buy four goats to start a business that will eventually help pay for school fees. With Tsh400 000 I created the farm here at home, and the other Tsh400 000 I spent on improving my rice paddy farm. I see that the development plan I had set for the Bayport loan, is heading towards success. For example, I estimate I can get at least 700 papayas this season and sell them for Tsh300 each. When I decided to borrow, my two children were still in primary school. Education is expensive, but I wanted money to educate them. Also, as I get older, I want to depend on myself with the farm I created and not rely on my children, asking them for Tsh500 to buy salt.*

*I am really thankful to Bayport. You make payments on your loan and they invite you to get top-ups to continue your development plans. Bayport’s loan has really helped me achieve my goals. When my children are older, I will educate them about loans based on my experience.*

*Without my loan, I would have not reached this success. A loan helps if you have a plan. My plan was to look after the wellbeing of my family, how they will live and how I will live.”*



## 9 Social Finance Framework

Bayport's "Social Finance Framework" ("SFF") allows its subsidiaries/ legal entities to issue Social Bonds and Social Loans that support its lending to social and sustainable activities.

This document, the SFF, contains information on interest-bearing social bonds or loans which may be issued by any of Bayport's subsidiaries and financing entities, established for the purpose of funding loans, which have been originated by Bayport or its subsidiaries and meet the respective Eligible Use of Proceeds criteria. Bonds and loans not meeting these criteria will not be included in the pool of assets allocated to a social loan or bond.

The SFF addresses four pillars in alignment with the Social Bond Principles published by the International Capital Market Association ("ICMA") and the Social Loan Principles published by the Loan Market Association ("LMA") namely:

1. Definition and use of proceeds.
2. Process for selection and evaluation of projects.
3. Management of proceeds; and
4. Reporting on eligible projects consistent with international best practice and guidance by the ICMA and LMA and also:
  - a. The Harmonized-Framework-for-Impact-Reporting-for-Social-Bonds.

## 10 Use of Proceeds

The Use of Proceeds forms the foundation of classifying an instrument as social. Bayport will allocate the proceeds of all bonds and loans issued under this framework within the Eligible Use of Proceeds categories indicated below. Such proceeds will be allocated to new and/or existing eligible loans ("Eligible Loans"). Eligible Loans and/ or business activities may fall into one of the respective categories and do not have to satisfy all of the categories in order to be considered eligible. The Eligible Loans are to be funded in whole or in part by an allocation of a loan and/or bond's proceeds. Bayport is committed to ensuring that proper due diligence is conducted on prospective customers to ensure compliance with internal standards before allocating funding. The Eligible Use of Proceeds categories are discussed below, and the social benefits are indicated in terms of the impact reporting that will be provided annually, as detailed in Section 14.



Project Category	Eligible use of proceeds	Socio-economic outcome/ Specific social issues addressed	Target population	UN SDG mapping
<p><b>1. Access to financial services where traditional financial services do not exist or do not serve this target population as well as financial inclusion. Financial services include:</b></p> <ul style="list-style-type: none"> <li>• Credit,</li> <li>• Insurance</li> <li>• Savings</li> </ul> <p>Providing low-income individuals with the financial ability to access essential services and promote socioeconomic advancement and empowerment.</p>	<p><b>Financing and refinancing of loans to individuals for access to:</b></p> <ul style="list-style-type: none"> <li>• public health/healthcare,</li> <li>• public health/emergency response</li> </ul>	<p><b>Providing low-income, underserved individuals or individuals in marginalised communities with the financial ability to access essential services such as loans to;</b></p> <ul style="list-style-type: none"> <li>• Access health services (transportation and/or medical costs).</li> <li>• Provision of insurance products to uninsured customers who would otherwise be exposed to materially adverse risks (death, disability, critical illness, personal accident)</li> </ul>	<ul style="list-style-type: none"> <li>• Low -income population defined as people earning less than the GNI/Capita, calculated as GNI divided by employed labour force in accordance with World Bank calculations, including pensioners.</li> <li>• Underserved individuals whose current asset base does not allow access to mainstream bank credit, secured credit or investment products and their only opportunity to access credit is through informal credit channels or via high priced, small loan size mobile lenders.</li> </ul>	<p><b>SDG 1-</b> No Poverty</p> <p><b>SDG 4-</b> Quality Education</p> <p><b>SDG 8 -</b> Decent Work &amp; Economic Growth</p> <p><b>SDG 10 -</b> Reduced Inequalities</p>
	<p><b>Financing and refinancing of loans to individuals for access to:</b></p> <ul style="list-style-type: none"> <li>• Housing/ home improvements and extensions</li> </ul>	<p><b>Providing low-income, underserved individuals or individuals in marginalised communities with the financial ability to access essential services such as a loan to;</b></p> <ul style="list-style-type: none"> <li>• purchase building materials to improve or extend the home.</li> <li>• Incremental building of formal, affordable houses by borrowers</li> <li>• Financial support to purchase a plot of land</li> </ul>	<ul style="list-style-type: none"> <li>• Marginalised communities and households in rural areas with limited or no access to mainstream financial services as well as some essential services such as medical care.</li> <li>• Undereducated individuals defined as individuals with limited or sub-standard secondary education and/or limited knowledge of financial literacy.</li> </ul>	
	<p><b>Financing and refinancing of loans to individuals for access to:</b></p> <ul style="list-style-type: none"> <li>• Education</li> </ul>	<p><b>Providing low-income, underserved individuals or individuals in marginalised communities with the financial ability to access essential services such as a loan to;</b></p>	<ul style="list-style-type: none"> <li>• Women</li> </ul>	



		<ul style="list-style-type: none"> <li>Assist in financing of primary, secondary or tertiary education or vocational skills</li> </ul>		
	<p><b>Financing and refinancing of loans to individuals for access to:</b></p> <ul style="list-style-type: none"> <li>Employment generation through MSE financing and microfinance</li> <li>Financing and refinancing loans to micro enterprises</li> <li>preventing or alleviating unemployment</li> </ul> <p><b><i>Financing will not knowingly be made to individuals for activities financing weapons, small arms, fossil fuel exploration and distribution, tobacco, conflict minerals, alcohol, gambling, endangered or protected wildlife, pornography, prostitution, terrorism or any illegal activities including money laundering and tax evasion.</i></b></p> <p><b><i>Bayport will further not knowingly make any loan that will lead to child labour, forced labour or unsafe working conditions.</i></b></p>	<ul style="list-style-type: none"> <li>Employment created through lending to individuals who in turn employ family members, others or support other MSE businesses with the proceeds of their loans.</li> <li>Giving entrepreneurs and small enterprises access to funding to enable them to expand their businesses and generate employment in their local areas.</li> <li>MSE defined as micro, and small sized enterprises. Micro enterprises typically employ less than 5 full time employees.</li> </ul>	<ul style="list-style-type: none"> <li>Businesses with less than 5 full-time employees at the time of signing the loan agreement, run by low-income individuals, which is defined as people earning less than the GNI/capita, calculated as GNI divided by employed labour force in accordance with World Bank calculations.</li> </ul>	



## 11 Refinancing

The proceeds from the social bond or social loan issuance can be used to finance new loans and/ or refinance existing loans. New loans are those where disbursements have been made no more than one year before the issue of the respective bond or at any time from the date of the issuance. Existing loans are those which have been advanced less than 2 years before the issuance.

## 12 Selection and Evaluation Process

Bayport will identify the Eligible Loans, including loans and other investments and related expenditures that meet the Eligible Use of Proceeds criteria defined in the Use of Proceeds section.

All loans provided by Bayport undergo a comprehensive credit review at origination, including strict affordability rules and a structured approach to risk management; ensuring that loans are consistently granted to individuals that have the capacity to repay them and who need them the most.

Each operation utilizes a board-approved credit policy against which all loans are evaluated prior to origination and disbursement, with most of these checks being hardcoded within the origination system. These credit policies stipulate, amongst others, maximum affordability limits, maximum term and capital, nature of employment requirements, age exclusions and required documentation on application (proof of Identification, payslips, payroll authority etc.). The credit policies also outline the process and authority for each step of the lending process (origination, disbursement, collections, arrears collections, refinance, and settlement). All credit policies are governed by a board-mandated credit committee, with all changes to credit policies being approved by the respective boards. Credit policy adherence is assessed at least annually by the company's internal audit function with direct reporting to the independent audit risk and compliance board committee (ARC). This committee reports at both a local and group board level.

Loan usage is captured into the origination system immediately where a digital process exists, alternatively via physical application forms signed by the customer. This information is mandatory, and no loan can be originated without this information having been provided. The process of loan approval is a segregated processing and quality assurance function within each operation, ensuring independence and adherence to our credit policy. This information is then captured within the loan management system which provides a near-real-time remote reporting capability. This allows operations to track disbursements and loan performance by loan usage, age of the applicant or date of application among others. This ensures that a portfolio view can be expanded to get to individual loan information.

This information is captured within our loan management system (LMS), and all information is fully replicated for risk management. Any amendments would contain associated approval and have full auditability. Included in the LMS are information fields that allow for tracking of the social impact indicators relating to the use of proceeds. The eligible loans are easily identified and tracked for the impact reporting.

Only such loans that fall into at least one of the respective Use of Loan categories and have been approved through the internal credit approval process will be eligible and can be included in the pool of Eligible Loans. Loans that are compliant with the Eligibility Criteria will be documented as such and included in the pool of Eligible Loans.



## 13 Management of Proceeds

Bayport intends to allocate the proceeds from a Social Bond and social loan issuances to Eligible Loans which will be selected in accordance with the Eligible Use of Proceeds criteria and the evaluation and selection process mentioned above.

Bayport will track the receipt and use of proceeds via its internal accounting systems, ensuring that Eligible Loans financed by a social Bond, or a social loan are appropriately identified. Bayport will maintain records of all Eligible Loans financed by it or able to be financed by its social bonds or social loans. These records are subject to review by our internal audit function.

Bayport will ensure that the level of allocation for the Eligible Loans matches or exceeds the balance of net proceeds from outstanding social bonds and social loans issued in terms of this framework. Eligible Loans will be added to or removed from Bayport's Eligible Loans to the extent required, in the event a loans eligibility criteria changes during the term of the social bonds/loans.

In the event there are unallocated proceeds within the duration of the social bonds and loans, these will be invested in a money market account with a tier one banking institution or as per the requirements of the placement documents of the bond and loans.

## 14 Reporting

Bayport will disclose the allocation and report on the impact of funding raised through this SFF on an annual basis, reflecting current market practices. Bayport will prepare and disclose annually an impact report with respect to the social bonds and loans issued under this framework. Bayport will disclose the division of net proceeds between funds allocated to Eligible Loans and funds held as cash investments annually until the funds are fully allocated. These reports will be made available on the Group's website

<https://www.bayportfinance.com/usd-nordic-bond/?tab=usd-nordic-bond>

<https://www.bayportfinance.com/social-finance-reporting/>

### 14.1 Allocation Reporting

The allocation report will provide relevant information applicable to the target population as per section 9:

- the total amount of proceeds allocated to Eligible Loans and Bonds.
- the number of Eligible Loans and Bonds.
- the balance of unallocated proceeds.
- the amount or the percentage of new financing and refinancing; and
- annual impact indicators (see 14.2).

A summary of the impact of the Eligible Loans and Bonds may include the metrics set out below and relevant project narratives, where the data is available from clients and subject to permitted disclosure in accordance with relevant confidentiality agreements and privacy, competition, or other relevant regulation.



## 14.2 Impact Reporting

Bayport to implement a formal internal process to track the use of proceeds that meet the predefined eligibility criteria.

14.1.1 Access to financial services where traditional financial services do not exist or do not serve this target population;

- Education and vocational training
- Public health/healthcare
- Employment generation through finance to individuals for Micro and Small Enterprises (MSE)
- Housing/home improvements
- Socioeconomic advancement and empowerment

The impact reporting on the social bond and loan proceeds will be made available at least annually with the annual social impact report.

Eligible Use of Proceeds	Indicative Impact Indicators	Sub indicators
Education	Number of individuals provided with access to secondary or tertiary education and vocational skills	Number of loans to ageing individuals Number of loans to women Number of loans provided per region/country Number of loans per income bracket
Health services	Number of individuals provided with access to health services	Number of loans to ageing individuals Number of loans to women Number of loans provided per region/country Number of loans per income bracket
Micro & Small Enterprises (MSE)	Number of individuals provided with access to financial services for employment generation through MSE financing and microfinance	Number of loans to ageing individuals Number of loans to women Number of loans provided per region/country Number of loans per income bracket
Housing/ home improvements or extensions	Number of individuals provided with funding for incremental housing	Number of loans to ageing individuals Number of loans to women Number of loans provided per region/country Number of loans per income bracket

Social taxonomies are still in development, and we will align our reporting as and when these are more broadly adopted in the market.

## 15 External Reporting

Bayport will prepare and publish annual impact and allocation reporting (to the extent applicable) with respect to the funding under this framework. This report will be made available on the Group's website. Bayport intends to show the allocation and impact of social bond and loan proceeds within the Eligible Loans portfolio at least at a category level.



### 15.1.1 Second Party Opinion

Bayport's Sustainable Finance Framework will be reviewed by an independent party with experience and a track record in issuing second-party opinions. This second party opinion will be made available along with the Sustainable Finance Framework to investors on the Group's website

<https://www.bayportfinance.com/usd-nordic-bond/?tab=usd-nordic-bond>

<https://www.bayportfinance.com/social-finance-reporting/>

### 15.1.2 Verification

An appropriate external auditor or independent assurance provider will annually assure the allocation process and that the allocation of proceeds are in accordance with Bayport's Sustainable Finance Framework. To the extent all funds have been deployed and all allocations have been made, no further verification will be provided.

