

EXECUTIVE SUMMARY

Cubo: Driving Financial Inclusion of MSMEs in Central America through digital payments (RG-Q0106/RG-Q0108)

Despite the progress in recent years, financial inclusion continues to have gaps in Latin America (LATAM), especially in nascent ecosystems such as Central America. For example, despite the gradual growth of debit/credit card in the last few years, the penetration of Point-of-Sales (POS) payment systems in Central America is half the percentage of other LATAM countries. While Mexico, Brazil, Colombia and Argentina have an average of 22 POS per 1,000 inhabitants, in Central America the average drops to 11 POS for every 1,000 inhabitants.¹

This can be a significant limiting factor for Micro, Small, and Medium Enterprises (MSMEs) in the region – while 6 out of 10 Salvadorian MSMEs obtain 50% of their income from digital sales, 46% do not have the option for their clients to make direct payments digitally. Providing digital payment options to MSMEs in Central America can therefore create a tremendous opportunity for income generation, not to mention the impact of digital financial inclusion.

In order to tackle this issue, IDB Lab proposes to fund the regional expansion of Cubo Technologies LLC (Cubo or the Company), a Salvadorian digital payments platform founded in 2021 with a mission to digitalize the Central American payments ecosystem for MSMEs. Through this project, IDB Lab expects to benefit more than 70,000 MSMEs with an emphasis on microentrepreneurs and small businesses by 2025.

IDB Lab will be investing US\$750,000 with the Simple Agreement for Equity (SAFE) instrument in a seed financing round of US\$3,000,000, led by Amador Holdings and with the participation of Global Founder's Capital and global investors such as Soma Capital. With this, Cubo aims to not only consolidate market share in El Salvador but also expand into Guatemala, Panama and Costa Rica in 2023. Cubo is expecting to raise a Series A equity round within the next 12 to 18 months, before launching out to other Central American and Caribbean markets.

Women Entrepreneurs' Finance Initiative (We-Fi) will be financing US\$500,000 and MIF funding will be financing US\$250,000 of this investment. IDB Lab is also reserving MIF resources for US\$1,000,000 from MIF core funding as a reserve in case of future follow-on investment in the Company.

This was an exceptional opportunity identified through IDB Lab's Direct Equity funnel that screened over 400 deals in 2022, of which only 17 were from Central America. The Project Team was impressed by both the quality/professionalism of Cubo's team, the potential of the market given the geography, as well as the Company's early traction, and considers this the prime opportunity for creating scalable impact in Central America.

¹ Rankings Latam.