

PROJECT SUMMARY
BANKAIO: A MOBILE SOLUTION FOR DIGITAL & FINANCIAL INCLUSION
(EC-L1271)

Despite Ecuador's efforts to advance financial inclusion in the country, 5.8 million adults still do not have access to the financial system. Women are among the main excluded. The access gap between women and men is above 17 p.p., one of the highest when compared to countries with similar GDP in the region. In the case of access to credit, 32 percent of the population indicated having applied for a loan the previous year, and only 17 percent did it through a formal financial institution. Among the main reasons for not having access to credit are the lack of collateral and the inability to prove income generation. The geographic reach of the financial system is another factor hindering inclusion: more than 30% of people without accounts report distance to points of service as a major challenge. These barriers are usually tackled when promoting digital financial inclusion vs traditional financial inclusion¹.

The spread of mobile connectivity is still an untapped opportunity to promote financial inclusion in Ecuador and in the region. In Ecuador digital financial services are still nascent. Only 22 percent of the population has completed digital payments and the holding of instruments necessary for these transactions such as debit or credit cards is also low (28 and 9 percent, respectively), even below the regional average (41 and 18 percent, respectively)². This situation mirrors what happens at the regional level: according to the IMF³, traditional financial inclusion is still dominant in LAC as opposed to African and Asian countries (where digital financial inclusion maintains an overall lead).

Aggregated numbers show that the opportunity to leverage mobile economy for accelerating financial inclusion is big: out of 656 million of people living in LAC almost 320 million do not have a bank account, while there are 442 million unique mobile subscribers in the region. The internet has become one of the most fundamental and vital infrastructures for development around the world. However, the digital divide, which refers to the gap in usage and access to digital infrastructure and services, remains significant in emerging economies. One of the major challenges is related to affordable network services, devices, and applications.

By investing in Bankaio, a high-impact startup based in Ecuador and expanding regionally, the project seeks to provide low- and middle- income populations access to digital and financial services in an ethical and responsible manner in Ecuador. The specific purpose is to support the development and deployment of a new type of digital solution that, based on a series of alternative data sources and a cutting-edge artificial intelligence engine, will assist users in the construction of a formal credit profile and promote digital financial inclusion.

The current IDB Lab proposed transaction is expected to benefit more than 650,000 people of low- and middle-income in Ecuador by: (i) giving adults with nonformal credit history access to formal financial services and credit; (ii) offering new financial products and services for low-income populations; (iii) lowering costs of access to mobile services and devices; (iv) providing digital financial education.

The project is aligned to the Updated Institutional Strategy of the IDB Group with the development challenge of social inclusion and equality, given its goal to foster digital financial inclusion of low-income populations. In addition, the project is aligned with the cross-cutting theme of gender equality and diversity, as the credit scoring algorithm will have a particular focus on enabling access to women. The project is also aligned with [IDB Group Country Strategy of Ecuador \(2018-2021\)](#) by "deepening of financial markets through IDB Group operations designed to expand medium and long-term financing by local banks as well as offer financial products that alleviate

¹ Source: *Diagnostic on Financial Inclusion in Ecuador*. World Bank (forthcoming 2020)

² Source: *Diagnostic on Financial Inclusion in Ecuador*. World Bank (forthcoming 2020)

³ Source: *The promise of fintech: financial inclusion in the post COVID-19 era*. International Monetary Fund (2020).

credit constraints in segments such as MSMEs, agroindustry, and the popular and solidarity-based economy”

IDB Invest is a key partner of the Project and synergies with the IDB Invest portfolio are expected, as Bankaio primarily targets lower-middle income prepaid Mobile Network Operator’s customers.

The Project is also closely aligned with the efforts that IDB Group is carrying out in the responsible use of artificial intelligence. Finally, this Project is aligned with IDB Lab’s financial inclusion strategy and contributes with IDB Lab’s efforts in promoting fintech for financial inclusion, especially in smaller ecosystems.