

EXECUTIVE SUMMARY
GÉNESIS EMPRESARIAL: DIGITAL TECHNOLOGIES
TO ACCELERATE RURAL FINANCIAL INCLUSION
(GU-T1302; GU-L1173)

In Guatemala, the traditional banking and microfinance service models have failed to appropriately address the country's persistent and significant gaps in financial inclusion. As a result, large segments of the lower-income population remain unserved.

Although access to microcredit funds has expanded, the existing array of financial products still does not satisfy the needs of the lowest-income groups, who require very small monetary transactions and amounts, as well as nimble financial products tailored to their day-to-day transaction requirements that do not involve high costs and that help protect users from vulnerabilities associated with their unpredictable low incomes. This is due to a lack of business models that make it possible to manage very small financial transactions in a cost-efficient and financially-viable manner.

The project objective is to increase the coverage of financial services for low-income Guatemalans through the use of digital technologies that lower the cost of financial products and services. To achieve this, the project will help Fundación Génesis Empresarial (FGE) innovate and strengthen its business model to reach currently-unserved low-income client segments through the use of digital financial technologies (fintech) installed on mobile phones. With these technologies in place, FGE will launch **new digital financial products** (nano-credits) and nontraditional channels (**digital wallet**), not currently available to its clientele. It will also expand and diversify its client base, adding value to its relationship with its clients and strengthening their ability to generate revenues. FGE estimates that these digital products will help the company reach approximately 300,000 new vulnerable or low-income users over a period of three years. Specifically, these new financial services would reach residents of **rural areas and small urban centers**, including young people, women, and members of local indigenous communities, thereby promoting financial inclusion in the country. The project will also finance the purchase of 100 smart automated teller machines (ATMs) that will **strengthen the payment ecosystem** ("cash in, cash out"), facilitating the conversion of electronic money into cash and enabling service provision in places where opening a branch cannot be justified due to low population density, or where congestion at existing branches needs to be relieved.

FGE is Guatemala's largest unregulated microfinance institution, which has a strong track record of financial performance and social impact. With this project, FGE seeks to modernize and make a qualitative leap in the way it reaches its clients by innovating its services and complementing them with fintech.

IDB Lab will lend FGE US\$4 million to finance the expansion of its new digital credit portfolio, structure its digital wallet platform, and acquire smart ATMs. In addition, it will provide nonreimbursable technical-cooperation funding to finance the design and implementation of a program to familiarize users with the new digital products and services and train them in their use, empowering the target population to develop a solid understanding of these new technologies and adopt them.

From the standpoint of IDB Lab's portfolio, this project brings **a new, innovative—fintech—approach** to the problem of the lack of financial inclusion in Guatemala. IDB Lab has worked on this problem for a number of years through different projects. Fintech dovetails with microfinance since: (i) it uses digital technologies to enroll and screen clients, eliminating the need for visits to clients' homes or businesses and lowering origination costs; (ii) it is a tool for inputting transactional data to produce information about credit clients, mitigating the limitations of having to deal with personal references from neighbors and suppliers; (iii) it leverages the efficiencies of digital channels and electronic payment methods to conduct remote transactions through nonbank correspondents, reducing the need for physical offices and lowering administrative costs; and (iv) it leverages the network of nonbank correspondents, creating more opportunities for transactions and income generation.