



## The Genesis of Success: Financing Agribusiness

**This success story illustrates how commitment, innovation and technology can improve people's lives.**

Fundación Génesis Empresarial is an organization renowned for its work in responsible financial inclusion through the implementation of a business model aimed at achieving social impact for its clients through different financial products. The institution has coverage in Guatemala's 22 states, has 151 agencies and reaches over 240,000 clients, of which 85% belong to rural areas, 76% are women and 26% are part of the agricultural sector.

With support from IDB Invest, Fundación Génesis Empresarial strengthened its operation, bringing rural financing to numerous agricultural value chains in Guatemala. By mid-2022, Génesis Empresarial had benefited more than 17,000 entrepreneurs who own agricultural microbusinesses.

Guatemala is a country that is highly vulnerable to climatic phenomena such as storms, hurricanes, droughts and frosts. Génesis Empresarial's financing has also enabled agricultural practices to include measures to mitigate and adapt to these climate risks, which cause recurring losses for farmers and keep them away from access to finance.

Thanks to the working capital granted and the measures adopted, farmers have had access to sell their products under alliances with corporations from the food industry, generating continued income for their families and moving forward on their development path away from poverty.

## The Origin of the Project

By 2018, Génesis Empresarial was financing small-scale farmers through a pilot program that sought to support productive chains. Through this model, the chain's clients establish commercial relations with corporations interested in fresh farm products for sale to the final consumer.

Data from the 2018 Population and Housing Census of the National Institute of Statistics indicate that 46% of Guatemala's population lives in rural areas. The economically active population (EAP) constitutes 50%, that is, around 32% of the total EAP works in the agricultural sector. However, according to the Bank of Guatemala, the credit granted by the formal financial sector to these activities does not exceed 3.1% of the credit portfolio, with 42% payable in approximately one year. This situation is paradoxical since global projections point to a future food shortage.

Data from the Diagnosis on the Informal Economy of the International Labor Organization (ILO) for Guatemala indicate that the level of economic informality is 70%. It is important to note that the agriculture, livestock, forestry and fishing sectors comprise 42.6% of these informal workers, of which 85% are of Mayan origin. Consequently, there is a high perception of risk in financing entrepreneurs in this sector, since they experience fluctuations in the prices of basic products and a high risk of crop failure derived from living in a country with extreme exposure to climate risks.

Fundación Génesis Empresarial, expert in microfinance for development, sought to promote finance and training with a high social impact so that its clients could move forward on a development path that would allow them to get out of poverty. This initiative was based on its own segmentation methodology, which identifies the farmers' specific finance needs and the opportunities to improve their living conditions at the family level. Due to its experience and knowledge of the needs in the field, Génesis Empresarial was clear on how to identify solutions to address the risk of constant losses in agriculture. Therefore, it established a specialized team of agronomists and climate risk management systems and offered support to farmers to invest in actions and measures that would reduce the incidence of frosts, storms and droughts as the main drivers of crop losses.



## Committed to the Development Pathway

Fundación Génesis Empresarial fosters Guatemalans' financial inclusion, mainly in rural areas of the country, promoting their economic aspirations through productive activities. Its main commitment is to increase income to improve the living conditions of its clients and families, pursuing their development in two main axes: financial conditions and social living conditions.

Due to the level of vulnerability of its clients, Génesis Empresarial's "Development Path" model requires direction and supervision. From the beginning, constant support is provided to the client and their financial and social indicators are recorded, measured and monitored to promptly address any risk conditions in order to avoid their economic decline, pursuing their growth in the two main axes to promote their development.

Fundación Génesis Empresarial's formula is comprehensive, as it provides working or investment capital, training, guidance and

technical assistance, and supports producers and their families in increasing their income and improving their living conditions through, for example, financing of their formal education and the improvement of their housing.

Through an in-depth analysis, Génesis Empresarial identifies the need for investment and the client's ability to pay. The information obtained allows them to grant credits in a timely manner that favors the growth of the business or productive activity and prevents over-indebtedness. In this way, Fundación Génesis Empresarial begins supporting the client so that they can accelerate their progress along their development path, offering entrepreneurs the financial support and technical assistance that enables them to move from a scenario of poverty toward one of decent living conditions.



The information gathered from total active clients as of December 2021 indicates that 42% of clients are likely to be below the national poverty line, and that 10% of these could be below the extreme poverty line. Regarding the degree of vulnerability, 28% are likely to be very vulnerable, 13% to be vulnerable and 17% to be not vulnerable. According to this distribution, Génesis Empresarial serves a majority of vulnerable and low-income clients, for whom they provide financial and non-financial products, services and specialized channels, which seek to respond to their priority needs and help improve their living conditions.

To achieve its objective, especially in rural areas of the country, the institution has identified that it is necessary to support families and microenterprises in financing agricultural and livestock activities, on which many depend. The productive chain program allows them to finance small-scale agricultural producers and advise them on how to manage their crops, increasing their production, improving their quality and facilitating their access to value chains where they will find business relationships with food industry corporations, ensuring the sale of their products.

Throughout these initiatives, climate risk management creates a synergy with Fundación Génesis Empresarial's mission, particularly in a country like Guatemala, whose exposure to various risks is high and which is among the countries most

vulnerable to climate change. Climate risk management makes it possible to prevent and mitigate these risks, avoiding losses and supporting producers in making investments that take these risks into consideration, thereby reducing their vulnerability. This increases their chances of success and of generating income and attracting investments that enable them to advance in their development.



## From Concept to Problem Solving

*“At Fundación Génesis we specialize in providing comprehensive support to clients and their families, providing working capital alongside training, financial education, and technical assistance to invest in businesses, increase agricultural production, improve homes, and pursue technical and professional careers, reducing vulnerability through insurance and medical assistance. In addition, we have complementary products available to boost quality of life.”*

*- Edgardo Pérez, General Manager.*

*“Access to agribusiness finance is extremely important for producers. Through our productive chain program, we have managed to secure a market for many of our clients. However, we need to design and implement a system that identifies climate risks and allows us to identify climate-smart crops, indicating when to finance or change crops. Regarding the latter, it is necessary to implement technological packages that reduce the vulnerability of the crop or of the producer’s location; that is, if the risk is drought, the financing should include an irrigation system as needed or, if we are talking about a frost, the financing should be accompanied by technologies to cover and protect crops.”*

*- Edward Solís, Manager of Productive Chain and Housing.*

## A Pre-Engineered Solution to the Technology Challenge

In 2019, Fundación Génesis Empresarial and IDB Invest sought to establish a financial alliance that would accelerate the growth of the financial inclusion portfolio in Guatemala. During the analysis carried out by both institutions, they identified that scaling up rural agricultural finance would have a positive impact on poverty reduction and rural economic reactivation. Therefore, finding a suitable solution to identify, mitigate and manage climate risks turned out to be a priority for the alliance.

To do so, IDB Invest provided financing and advisory services to solve the double

requirement of funds and knowledge needed to address the identified problem. Working jointly, IDB Invest and Génesis Empresarial identified previous solutions supported by IDB Lab, the IDB Group’s innovation laboratory, which had carried out pilot tests for a virtual climate risk management system in the microfinance industry in countries of the Andean region as part of the Ecomicro program. This system was developed by YAPU, a German company that had validated the use of this platform with microfinance entities.



## Overcoming Barriers

The implementation of the YAPU system in combination with Fundación Génesis Empresarial's systems enabled the identification and mitigation of very relevant risks, based on the ge positioning of the crop fields of the clients to be financed.

The customer analysis process changed considerably. What were previously identified as risks are now seen as necessary investments to make the agricultural activity to be financed viable and low risk. The new approach is to look for investments that foster climate change adaptation and improve the resilience of farmers. In addition, this type of investment reduces the risk of the portfolio and changes it in relation to the increase in finance for the agricultural sector.

The implementation of the solution led to the development of a climate risk management

system, which measures variables to estimate climate vulnerability (level of exposure to climate risks such as storms, droughts, frosts, etc.) and the risk sensitivity of the crop, the specific location and the producer's adaptive capacity. The system feeds into indicators that have a direct connection with the stipulated risk and the credit approval process. The system also allows to permanently monitor and update climate risks, given their variable behavior year to year.

For the implementation of the system, all administrative levels of Génesis Empresarial received training. Those involved in the branches of the different regions of the country and the administrative support areas already have knowledge on credit analysis and approval, through the day-to-day operations enabled by the information provided by the new system. In parallel, implementation of pilots in which Fundación Génesis Empresarial could benefit from applied learning were planned.



## The First Achievements to Continue Dreaming

Currently, the productive chain initiative has a total of 17,000 financed users, showing a quarterly growth of 22% and a tendency to be adopted and extended throughout the country. The initiative also has 160 agricultural promoters or specialized technical promoters to serve the agricultural sector in conjunction with climate assessment tools.

Among the potential risks identified are the acceptance and adoption by producers of new agricultural technologies that mitigate and help them adapt to climate change.

The alliance between IDB Invest and Fundación Génesis Empresarial supported the Guatemalan institution in further strengthening its already solid offer for the agribusiness sector. This combination of products, services, risk management and guidance make it possible for them to offer a truly comprehensive program that benefits entrepreneurs in the sector, as well as the institution's portfolio risk and profitability. Without a doubt, this program will give Fundación Génesis Empresarial's customers all the tools they need to advance smoothly and successfully along their development path.

## Lessons Learned

Fundación Génesis Empresarial's Risk Manager identified the following main lessons learned regarding innovation processes in the application of technology:

- ▶ The operational efficiency of the productive chain promoters, mainly in providing technical assistance.
- ▶ The need for technological tools that provide daily information to producers, particularly of a climatic nature.
- ▶ The vulnerability of producers to climate events and the adoption of digital applications to mitigate it.

Special thanks to:

