Scaling Responsible Innovation in Lending for Underserved Communities in Emerging Markets

Small businesses are the heartbeat that pump vitality into local economies. They are the neighborhood shops and service providers that make a community function, creating local jobs and employing millions. Despite the economic and social value that small businesses generate, they frequently remain invisible to mainstream financial institutions.

Launched in 2021, CIM’s emerging markets strategy brings CIM’s successful financial track record in the U.S. to emerging markets. The strategy seeks to deliver on-market, risk-adjusted returns and positive social impact by investing in financial technology (fintech) companies that expand access to capital in traditionally underserved communities by providing innovative, responsible credit products. The investment approach is to provide strategic asset-backed debt facilities to fuel the growth of fintech lending partners, and in turn, broaden the reach of their responsible loan products. By helping these fintech partners scale, CIM aims to catalyze a more inclusive financial system for micro, small and medium enterprises ("MSMEs") and low and middle-income households.

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About Community Investment Management

Community Investment Management (CIM) is a global institutional impact investment manager that provides strategic debt funding to scale and demonstrate responsible innovation in lending to small businesses and underserved borrowers in the United States and emerging markets. CIM partners with technology-enabled lenders through customized transaction structures to isolate bankruptcy risk and provide credit enhancement to investors. CIM’s advocacy work in the sector has centered on developing a set of responsible practices and codified behavior within fintech lending. CIM is a member of the Executive Committee of the Responsible Business Lending Coalition, the Financial Health Network, Impact Capital Managers, the Investors’ Council of the Global Impact Investing Network, and chairs the Investors’ Council of the Marketplace Lending Association.

Since inception, CIM has provided over $4B in debt financing to more than 5 million underserved borrowers including small businesses, low-income households, and students.

About the Venture Impact Program (VIP)

VIP is an innovative way for MCF donors to engage in impact investing through philanthropy. Via a partnership with ImpactAssets — a market leader in impact investing — VIP enables philanthropic dollars to be directed towards both non-profit and for-profit companies that are seeking to make positive social or environmental impact.

For further information, contact Safia Kryger-Nelson at MCF, 415.464.2515 or skryger-nelson@marincf.org.
ILLUSTRATIVE INVESTMENT

Konfio is a financial technology organization based in Mexico, a country with a well-regulated banking system but a fragmented lending market. Small and medium enterprises (SMEs) in Mexico constitute 97% of all companies and 86% of all formal private sector employment, yet these businesses are underserved by traditional banks.

To date, Konfio has offered two product lines: software-as-a-service (SaaS) solutions for SMEs and larger corporates, as well as credit products for SMEs. The company offers solutions by providing a 100% digital credit process with a hybrid underwriting approach that uses both traditional data as well as non-traditional data to calculate an instant credit score, loan decision and risk-based pricing.

CIM’s partnership with Konfio provides capital for the growth of its credit card product for SMEs, addressing the “missing middle” segment between personal credit cards (high interest rates) and traditional corporate credit cards (high qualification barriers). With technology to assess creditworthiness in a cost-efficient manner, Konfio is well-poised to serve SMEs who require smaller business loan sizes.

STRENGTHS

- Extension of a performing and proven U.S.-based lending strategy
- Income-generating impact debt option that offers both high yield for an emerging markets strategy and liquidity features.
- Investment strategy provides strong risk management via highly structured asset-backed credit facilities that include risk-sharing mechanisms and bankruptcy remoteness.
- Robust process in place to deal with and effectively hedge currency risk, given volatility and cycles in currencies are a permanent fixture in many of CIM emerging markets strategy’s target markets.

RISKS

- Ability to assess the CIM emerging markets strategy team’s cohesion is limited as the team is comprised of several new hires, including on its leadership team. This is mitigated by the fact that the strategy has 1.5 years of investing track record and team operations since launch.
- Governance structures are still under development, requiring improvements to the Investment Committee and the establishment of an LPAC for the emerging markets strategy. This is mitigated by the CIM emerging market’s strategy team’s willingness to engage with investors in constructive dialogue around governance, and these changes are currently in progress.

The Summary of Terms is a summary and not exhaustive. The Strategy’s Offering Circular contains additional details on strategy, terms, disclosures, and risks. All investing involves risk of loss. Actual returns could differ materially and adversely from those expressed or implied in any forward-looking statements as a result of various factors. Any estimated future returns set forth herein are hypothetical and do not constitute a forecast. They have not been and cannot be verified. The outcomes and assumptions may require material adjustment as additional information becomes available and as economic, market developments warrant. Any such modification could be either favorable or adverse. Targeted performance is not necessarily indicative of future results, and there can be no assurance that the applicable investment will achieve results similar to those presented.

ImpactAssets is an impact investing trailblazer, dedicated to changing the trajectory of our planet and improving the lives of all people. We empower impact investors and philanthropists with access to investing opportunities and customized solutions that promote positive change. ImpactAssets manages more than $2 billion in assets on behalf of 1,700 donor advised fund accounts, working with purpose-driven individuals and their wealth managers, family offices, foundations and corporates. ImpactAssets is an independent 501(c)(3) organization.

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