

## CASE STUDY: KONFIO



### KONFIO: FOSTERING INNOVATION AND GOVERNANCE EXCELLENCE

Konfío, an innovative online lending platform and “100% Mexican company,” has revolutionized access to credit for Micro, Small, and Medium Enterprises (MSMEs) and individuals through its groundbreaking credit risk assessment methodology.

“MSMEs in Mexico are significantly underserved, and we are dedicated to addressing their needs by maximizing the use of data and technology,” said David Arana, Konfío’s founder and CEO.<sup>2</sup> “For every 20 companies in Mexico, 19 are considered ‘very small’ (annual sales up to USD 700K) ...[these] very small businesses account for more than half of the workforce, but their financing options are not ideal,” explained Mr. Arana.<sup>3</sup> Konfío’s fintech revolution has empowered entrepreneurship and sparked creativity and innovation across the region.

In 2020, a trying year for all, IDB Invest extended a revolving line of credit of up to USD 40 million to Konfío. This financial support was designed to facilitate the acquisition of accounts receivable, thereby promoting the growth of competitive financing options within this sector in Mexico.

Konfío’s core strength lies in its streamlined and agile credit approval and loan disbursement process, driven by cutting-edge mathematical algorithms. Beginning as a startup in 2014, Konfío rapidly evolved into a scaleup, achieving the coveted status of a “Unicorn” in 2021.<sup>4</sup> By the time IDB Invest entered the picture, Konfío had already secured funding from esteemed institutions such as Goldman Sachs, Victory Park Capital, and JP Morgan and was gearing up for a series D financing round.



## KONFIO AND THE STARTUP CONUNDRUM

Startups, with their laser focus on fundraising and operational efficiency, often overlook the importance of strengthening their corporate governance practices to sustain their growth. **“As a company grows and transitions from a startup, it’s necessary to harmonize the enthusiasm for expansion with the pragmatism of a mature business mindset,”** explained Gonzalo Arauz, Lead Investment Officer at IDB Invest. **“In the case of Konfio, the need for a balanced board and good governance became increasingly important as they rapidly grew.”** A well-composed board would serve to supervise and play a role in

## KONFIO’S GOVERNANCE JOURNEY

Konfio, inspired by a commitment to governance excellence, embarked on a transformative journey. Before granting financing, IDB Invest conducted a thorough Corporate Governance Review to identify potential risks faced by Konfio and devise strategies for their mitigation.

Despite initial hesitations regarding feasibility, Konfio established an audit committee featuring independent members and Konfio executives, following IDB Invest’s advice. **“Incorporating four independent members proved to be a challenging endeavor, particularly when seeking the right level of expertise, experience, and alignment with Konfio’s desired impact, and candidates with the time available to dedicate to the role”** recalled Leticia Robles De Las Fuentes, Vice President of Corporate Affairs at Konfio.

Implementing effective governance practices during the early stages of startup growth proved to be a beneficial experience. **“With the addition of four independent members to the Board of Directors, the Board became more modern and realistic. It sparked an evolution among all members, helping to clarify who should and should not serve on the Board. This transformation resulted in a Board where management could receive more constructive feedback and test their assumptions from other points of view,”** said

decision-making, conflict management, and oversight, foundational to all governance practices.

As startups face new challenges, sound corporate governance helps to shield them from potential risks and uninformed decision-making, positioning them for success in the ever-evolving business landscape. Moreover, startups striving to champion impact, gender equity, inclusion, and diversity while also fostering innovation and digitalization are better able to accomplish their objectives and create beneficial impacts for all stakeholders by incorporating good governance practices.

Robles De Las Fuentes. This and other actions made the company stand out among fintech firms in the region. **“The requirements from IDB Invest have contributed to strengthening processes, risk management, driving internal initiatives such as corporate governance and control automation, and maintaining a prominent position within Mexico’s dynamic startup sector,”** she added.

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➔ **“Having independent members with experience has been instrumental in challenging and giving constructive feedback to certain perspectives that are key to our business, such as the appropriate level of reserves. It has been a humbling exercise for Konfio, from the process of compiling and preparing information for the independent members to receiving their insights. This has had an impact on decision-making both internally and externally. It was also always challenging for the Board to understand how to improve the business model while remaining profitable. The new composition of the Board facilitated this discussion with management.”**

**Leticia Robles De Las Fuentes,**  
Vice President of Corporate Affairs at Konfio.

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Konfio's choice to establish the audit committee proved pivotal as the fintech industry faced mounting challenges due to fraudulent activities. "At that time, several companies in the sector faced setbacks, as evidenced by cases such as 'Credito Real'<sup>5</sup> and 'AlphaCredit'<sup>6</sup> which impacted the fintech market and in some cases IDB Invest directly," recalled Arauz.

In such a scenario, corporate governance proved to be an important element for distinguishing the good apples from the bad ones. "In today's general environment, as the ease of opening accounts and expanding access contributes to the growth of financial inclusion, there's a rising level of fraud within the system. Consequently, many non-bank financial entities have grappled with risk management issues, such as cyberattacks and cyber fraud, as well as challenges in their audits," explained Arauz. "This has heightened distrust among those who fund fintech companies, so transparency and good governance are now imperative for entering the market and successfully issuing debt," he concludes.

→ "The credibility of Konfio is of paramount importance, and governance practices such as maintaining contact with investors through a standardized reporting model facilitated things,"

**Leticia Robles De Las Fuentes,**  
Vice President of Corporate Affairs at Konfio.

Konfio's proactive approach to early detection and intervention systems, coupled with transparent, independently audited information under the scrutiny of the audit committee, reassured clients, investors, and creditors of its credibility. "During monthly calls with creditors

and investors, the ability to demonstrate the existence of an Audit Committee, independent auditing, and transparent reporting provided a sense of reassurance," Arauz added. "When they heard that progress had been made in corporate governance, they found solace because these measures aided Konfio in early problem detection," explained Arauz. "In contrast, those without such good practices couldn't detect their issues as promptly and found themselves in dire straits, underscoring the pivotal role of sound governance in navigating industry challenges," he concluded.

Konfio's action plan with IDB Invest also recommended other milestones oriented to the company's governance structure. "An important improvement was bringing order to the committees, such as the risk committee," said Robles De Las Fuentes. "We knew we had much to address regarding risks, and now the committee is reviewing all risks and convening monthly," she explained, also emphasizing that "this shift has contributed to a change in the management culture." Moreover, "hiring a 'big 4' independent external audit firm has been invaluable for handling highly technical matters."

Other stakeholders such as regulators also saw a benefit from the new practices. "Regarding Anti-Money Laundering ('AML') matters, these were already on Konfio's radar, but the more formalized committees helped elevate their significance and priority, prompting increased attention," said Robles De Las Fuentes. Konfio, regulated by the Comisión Nacional Bancaria y de Valores (CNBV - National Banking and Securities Commission in English), immediately saw the effects in compliance. "A month after formalizing the committees, the regulator conducted an audit on AML issues, and due to the committees' enhanced focus, we were better prepared and had a more robust framework to present to the regulator regarding AML processes," she recalled.

## USING CORPORATE GOVERNANCE TO MAKE CHANGE HAPPEN

Implementing robust governance practices and IDB Invest's guidance allowed Konfio the ability to work toward eliminating gender bias in lending practices by utilizing a fair algorithm that determines loans based only on credit risk.<sup>7</sup> **"As an impact investor, IDB Invest recognizes that corporate governance is not merely a risk to be managed but it serves as a pivotal enabler, aligning with our multifaceted goals such as climate financing and gender diversity and inclusion,"** explained Marta Viegas, Head of Corporate Governance at IDB Invest.

When looking at Konfio, Viegas' words become a reality as the partnership has already yielded a substantial impact, offering a glimpse into the transformative potential of fintech in underserved markets. IDB Invest helped Konfio examine the companies' sales growth in Konfio's portfolio, and the findings were compelling: businesses that secured loans from Konfio experienced a remarkable 19% surge in sales just two years after the loan disbursement, outperforming their peers that did not benefit from Konfio's financial support.<sup>8</sup>

The impact was even more pronounced for women-owned businesses, with sales soaring by an impressive 42%.<sup>9</sup> This data underscores the critical role that fintech can play in bridging

the funding gap for underserved entrepreneurs. The success of women-owned businesses, often limited in funding options, is a testament to their untapped potential.

**"IDB Invest, as an investor, works with companies such as Konfio to accomplish these objectives with a long-term view and governance as the cornerstone,"** Viegas said. **"This strategic approach, coupled with stringent controls and unwavering transparency, forms the bedrock upon which companies and investors build together a future of impactful and sustainable investments,"** she explained.

By eliminating gender bias from credit evaluations and tailoring lending approaches to the unique needs of women entrepreneurs, financial institutions, including fintech companies like Konfio, can attract and retain loyal women-owned businesses and position themselves as leaders in the financial services sector. This shift towards inclusive practices empowers women entrepreneurs and fuels regional and national economic growth, ensuring the prosperity of both borrowers and lenders alike.

### IDB GENERATES IMPACT IN MEXICO THROUGH KONFIO\*

Corporate Governance enables important development initiatives to thrive: the case of Konfio and IDB Invest working together to level the credit playing field for women-owned MSMEs in Mexico

#### EVIDENCE:

"High-interest rates, onerous requirements, and complex application procedures prevent many MSMEs in Mexico from accessing credit, limiting their growth potential."

"it is typically more difficult for women-owned businesses to access credit, and when they do, the terms are often worse than those offered to their male counterparts."

#### ANALYSIS:

**19.4% HIGHER**   
are the sales growth of Konfio clients after two years of receiving a loan when compared to similar firms that were rejected for financing

**41.9% EVEN HIGHER**   
among women-owned firms

#### SUSTAINABLE DEVELOPMENT GOALS



#### CONCLUSION:

"Konfio is agile. It processes applications 24/7, 365 days a year. Borrowers can apply, get approved, and receive funds on the same day" thus generating more efficient access to finance.

"The large difference in sales growth among women is likely less due to Konfio's female clients performing better, and more due to the other women performing much worse due to prevailing credit market constraints in Mexico."

"Gender bias, unconscious or not, is prevalent in lending. Konfio's experience shows that this bias can be effectively eliminated through fair algorithms that make lending decisions based only on credit risk, representing a win-win for financial equity in the region."

\*<https://www.idbinvest.org/en/publications/boosting-business-growth-while-leveling-credit-playing-field-women-msmes-mexico>

## TAKING KONFIO TO THE NEXT LEVEL

Konfio's commitment to robust governance practices has not only reshaped its operational landscape but has also opened doors to a new phase in its journey, which is about to reach a significant milestone; obtaining a commercial banking license. **“Overall, the experience with IDB Invest has been instrumental for working with regulators as one cannot envision the transition from a non-banking financial institution to a bank without having gone through the process with IDB Invest, both in terms of Due Diligence and financing requirements,”** said Robles De Las Fuentes.

Konfio's pursuit of a commercial bank license promises to expand operational horizons, with a particular focus on serving the base of the pyramid.

This strategic move is poised to amplify its impact significantly. As Konfio transitions into the realm of a commercial bank, the governance framework fostered by IDB Invest assumes even greater significance. **“All the prior work in corporate governance has allowed Konfio to prepare itself better as it strives to become more regulated and transition into a bank,”**

commented Arauz.

The stringent regulatory requirements accompanying this transformation necessitate a rock-solid foundation in governance. This infrastructure ensures that Konfio seamlessly complies with the evolving regulatory landscape, a crucial step in sustaining its growth and ensuring its continued success. **“It is important to understand that corporate governance goes beyond mere compliance as it elevates decision-making and supervision, enhancing their quality and, in turn, cultivating a culture of excellence within the company,”** clarified Viegas.

Konfio's journey, shaped by robust governance practices and strategic partnerships, is a testament to fintech's transformative potential. As it embarks on becoming a commercial bank, its commitment to governance excellence continues to pave the way for a brighter, more inclusive financial future for all.

→ Konfio's pursuit of a commercial bank license underscores the foundational importance of governance practices promoted by IDB Invest. These practices serve as the cornerstone for navigating the intricate regulatory requirements.

### About the Authors | Cefeidas Group

Cefeidas Group is an international advisory firm that helps its clients advance their objectives in Latin America. Cefeidas Group has worked with IDB Invest and IDB for over a decade. Cefeidas provides professional services in Public Policy, Risk & Strategy, Corporate Governance, Stewardship & Sustainability, and Strategic Intelligence & Research. [www.cefeydas.com](http://www.cefeydas.com)



## ENDNOTES

<sup>1</sup> [Qué es Konfío](#). Retrieved October 11th, 2023.

<sup>2</sup> [Konfío, el nuevo unicornio mexicano, ya vale más que estas grandes empresas argentinas. iProUp](#). Retrieved October 11th, 2023.

<sup>3</sup> [Entrepreneur Profile: David Arana, Founder & Ceo, Konfío. Lavca Venture Investors.](#) Retrieved October 11th, 2023.

<sup>4</sup> [Konfío se convierte en unicornio al lograr un valor de 1,300 mdd.](#) Retrieved October 11th, 2023.

<sup>5</sup> [Crédito Real paga crédito otorgado por BID Invest.](#) Retrieved October 11th, 2023

<sup>6</sup> [Unifin. Crédito Real y AlphaCredit: ¿Qué está sucediendo con las instituciones financieras no bancarias?](#) Retrieved October 11th, 2023.

<sup>7</sup> [Boosting Business Growth while Leveling the Credit Playing Field for Women MSMEs in Mexico. IDB Invest.](#) Retrieved October 11th, 2023.

<sup>8</sup> [Boosting Business Growth while Leveling the Credit Playing Field for Women MSMEs in Mexico. IDB Invest.](#) Retrieved October 11th, 2023.

<sup>9</sup> [Eliminating Gender Bias from Lending in Mexico. IDB Invest.](#) Retrieved October 11th, 2023.

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