

Key questions to build a robust and sustainable APEX

STUDY
ABOUT...



Based on its experience and in search for a better answer to challenges of financial inclusion, SIDI has positioned itself as one of the European players working with second-tier financial institutions (also known as apexes). These institutions are created by local or regional stakeholder groups committed to providing local financial services according to their own agenda.

With this handbook, SIDI wishes to enhance understanding of these little studied institutions by transcribing the experiences and capturing the learning of a representative sample of SIDI's partners with the apex profile.

This learning exercise aims to:

- Better understand the potential scope and impacts of an apex lender,
- Foster dialogue amongst apex organisations, who lack opportunities to exchange with their peers,
- Promote apexes as worthwhile and valuable players in the broad field of social and solidarity finance.

SIDI thanks the F3E, co-author of this publication, for its methodological approach and its support for this initiative, as well as CERISE for facilitating the dialogue and capturing the experiences of SIDI's apex partners.

Dominique Lesaffre

Chairman

Key questions to build a robust and sustainable APEX

Handbook

for apexes and their partners

based on lessons learned from SIDI's apex partners

With the participation of:



Colombia



Peru



Guatemala



Senegal



Uganda/East Africa



South Africa

Coordinated by:



TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES	6
<i>Profile of SIDI's partners</i>	<i>6</i>
<i>Positionnement des APEX dans le financement local</i>	<i>7</i>
BUILDING AN APEX: LESSONS IN 5 KEY AREAS	8
<i>Legal and institutional profiles</i>	<i>8</i>
Key issues.....	8
Examples.....	9
Conclusions.....	13
<i>Financial and non-financial services.....</i>	<i>16</i>
Key issues.....	16
Examples.....	17
Conclusions.....	24
<i>Governance and the participation of members in the apex.....</i>	<i>25</i>
Key issues.....	26
Examples.....	27
Conclusions.....	30



<i>The business model</i>	31
Key issues.....	31
Examples.....	32
Conclusions.....	38
<i>Measuring social performance</i>	40
Key issues	40
Examples	41
Conclusions.....	44
KEY QUESTIONS FOR A ROBUST AND SUSTAINABLE APEX	45
<i>Legal and institutional profile</i>	45
<i>Products and services</i>	46
<i>Governance</i>	47
<i>The business model</i>	47
<i>Measuring social performance</i>	48
ANNEXES	49
<i>Annex 1: Brief Presentation of Apex Participants in the Study</i>	49
AgroSolidaria, Colombia	49
Fortalecer, Peru	49
Red Fasco, Guatemala	50
Sen'Finances, Senegal	50
SMF-EA, Uganda/ East Africa	50
Tembeka, South Africa	50
<i>Annex 2: Methodology</i>	53
<i>Annex 3: Bibliography</i>	54

BACKGROUND AND OBJECTIVES

Profile of SIDI's partners

SIDI (International Solidarity for Investment and Development) is a social investor created by CCFD - Terre Solidaire in 1983. SIDI's portfolio of EUR 22 million (end-2016) supports more than a hundred organisations in 30 countries, mostly in Africa, Latin America and around the Mediterranean, through loans, guarantees, equity investments, and non-financial support. This support takes the form of participation in governance bodies and technical assistance missions focused on planning, organisation, management and fund-raising.

SIDI's partners include microfinance institutions (MFIs), producers' organisations and refinancing institutions. Apexes are part of this last category. SIDI has relationships with 10 apexes, whose services cover a total of 16 countries in Africa and Latin America. At the end of 2016, nearly EUR 2 million or 10% of SIDI's portfolio and a significant amount of non-financial support was directed to these refinancing structures.

Over the years, SIDI has become increasingly interested in working with apexes, given their capacity to leverage invested funds and pool risks thanks to a diversified portfolio. Moreover, their geographic and cultural proximity to the organisations they finance facilitates the identification of funding opportunities and reduces risk. Because they are rooted in the local economy, they contribute to consolidating local financial markets.

SIDI has accumulated considerable experience and knowledge of apexes through its work with these institutions, and decided that it was time to draw some lessons from their achievements, but also problems, solutions, dilemmas and challenges. These lessons are meant to serve both the apexes themselves, as well as their partners and other sector stakeholders.

The overall objective of this effort to capture lessons is to better understand apexes' potential to promote financial and non-financial services that respond to the needs of microfinance institutions, producer organisations and social businesses.

More specifically, it aims to fill a gap in research on apexes, by drawing on diverse and rich experiences from three regions: Latin America, West Africa and East Africa. This handbook is the result of a year-long capitalization process. It describes and analyses the strategic approach, scope and management of the selected apexes around five themes: legal status, products and services, governance, financing, social performance.



SIDI counted on the support of the F3E and CERISE, which coordinated exchanges with the apexes and drafted this guide. The apex structures were the drivers of this collective learning process, which would not have succeeded without the strong commitment of these actors, who shared internal documents and dedicated their time to in-depth, honest discussions about their work*.

This handbook is first and foremost for apexes, regardless of their stage of maturity: whether they are just starting out, under consolidation or transforming into a different legal status. They will be able to draw from the examples and the analysis herein, to ask themselves questions that will help establish or improve their practices as well as define or adjust their strategies. Investors in financial institutions can also benefit from this handbook, which proposes a framework for considering apexes as potential intermediaries for local financial services.

The role of Apexes in local financing

An apex is defined by CGAP (Consultative Group to Assist the Poor**) as “a second-tier or wholesale organization that channels funding (grants, loans, guarantees) to multiple microfinance institution (MFIs) in single country or region. Funding may be provided with or without supporting technical service.» (Rosenberg, Helms, 2002) Apex mechanisms function at a meso level (Richter, 2004), with two main roles: financial intermediation of donor funds and market development. Apexes come in a variety of shapes and forms, including public development banks, government funds, national investment funds, private companies, cooperatives, foundations. Apexes vary in their governance structures, service offer and mission. Their diversity makes them difficult to characterise, and has led to a lack of understanding of these unique animals in the microfinance landscape.

They share one characteristic: their refinancing function. Apexes offer refinancing possibilities in countries where the number or the size of MFIs makes access to private financing, whether national or international, difficult. When they lend in local currency, as is often the case, apexes effectively manage the exchange risk themselves and limit the MFI's exposure. Their proximity to the institutions they lend to gives them a better understanding of the working environment, institutional dynamics and national or regional issues.

However, the sustainability issues has proven difficult. In countries where the microfinance sector is emerging, financing MFIs is riskier, refinancing needs are relatively small compared to TA needs, and consequently profitability is low. When the sector matures and the partners grow, the apex's position vis à vis more competitive refinancing from banks can be complicated. MFIs that grow at different rates, or over-exposure to a small number of strong institutions can have serious consequences on the balance of power. In this case, an apex may consider diversifying its partner base and turn to producer's organisations or social businesses. This calls for market research, as well as monitoring and evaluation systems that are adapted to these new partners.

How to balance all these issues? This handbook investigates them, in view of facilitating the local refinancing of MFIs, as well as of producers' organisations and social businesses

* The methodology is detailed in Appendix 1

** CGAP is an initiative of the World Bank, a joint effort of some 20 bilateral and multilateral donors to channel more resources to MFIs to develop and deepen their work towards the poorest economically active.



BUILDING AN APEX: LESSONS IN 5 KEY AREAS

This handbook is organised around five key areas that are fundamental to structuring and ensuring the sustainability of an apex: the legal and institutional profile, product and service mix, governance, the business model and social performance measurement. The following sections identify, for each area, the issues to be considered when structuring an apex and illustrates them with examples from the apexes who participated in this capitalization process. Each section concludes with a few key points drawn from the diversity of experiences studied here, that serve as guidelines for well-functioning apex.

Legal and institutional profiles

Key issues

The legal and institutional status sets the foundation of the apex: how to choose which institutional option will best serve the apex's mission and objectives? what is the rationale behind the choice of different legal forms? what are the pros and cons of each option in terms of governance, growth, funding opportunities, sustainability, member services, promotion of responsible finance, etc.?

Trends: Each apex is different—its statutes are influenced by the context, founders, its history, etc. There is no one best model for an apex. And while the choice of legal status creates the foundation for the apex's future, it does not necessarily box it in to any particular strategy.



Examples

NGO: Red Fasco and AgroSolidaria

RED FASCO

Red Fasco in Guatemala is a federation of community associations (ASCOM) that offers financial services to its members. The NGO status was chosen to ensure a governance structure that was representative and participatory, and, by extension, to ensure priority was given to the «ends» (local autonomous development, and changes for the people) rather than the «means» (financial sustainability). The consequence of this choice is a slow decision making process, but one that is rooted in the credibility and representativeness of the community associations. It prevents Red Fasco from «going off course» and lose sight of its social mission. Nevertheless, this legal status reduces access to finance: savings cannot be mobilised nor equity from national or international investors.

AGROSOLIDARIA

In Colombia, the legal status of an NGO is not regulated in a stable way to offer financial services. Regardless of whether they are solidarity-based, only financial cooperatives are regulated by DANSOCIAL, the supervisory authorities for the Superintendence for the Solidarity Economy. AgroSolidaria's approach is to integrate communities at the municipal level to first create credibility; only then does formalization come in. From this standpoint, the non-profit, non-governmental legal status facilitates this process, as it is flexible and allows the entity to be created quickly. It also allows for the definition of decision-making mechanisms that are independent from the economic contribution of each actor.

Cooperative: Fortalecer

FORTALECER

At Fortalecer in Peru, more than two years of discussion and debate were needed before choosing the cooperative model. The first option considered was a shareholder's company, but the cooperative model felt more aligned with founders' values (democracy, cooperation, self-management). Fortalecer's 50 member institutions all have a single vote in the General Assembly, regardless of their size or volume of transactions with Fortalecer. A cooperative model needs less equity at the start and can respond to the financial needs of members. Furthermore, in Peru, this model is built within the framework of cooperative by-laws, a regulatory body (SBS - Superintendencia de Banca y Seguro), and a supervisory one (FENACREP - Federación Nacional de Cooperativas de Ahorro y Crédito del Perú, - National Federation of Savings and Credit Cooperatives).



SEN'FINANCES

The foundation status opted for by Sen'Finances allows for joint public-private management of public funds in a transparent, autonomous and independent way. The Board of Sen'Finances has representatives from 9 organisations coming from different spheres of the Senegalese economy (NGOs, economic sectors, government). The foundation status offers a stable, non-profit structure that allows it to mobilise both public and private resources.

The foundation option was selected because it was the legal status that allowed for the continuity of the Senegalese-Swiss Counterpart Fund set up upon creation of Sen'Finances. Nevertheless, the Foundation has faced difficulties in raising funds, with private investors showing little interest. Moreover, the foundation status has proved complex; the Senegalese law on foundations was defined only a decade ago, and still has many contradictions. Board members must change every four years (renewable once), which can make it hard to maintain strategic continuity, especially when the strategic planning process coincides with a change in the Board. Finally, under the present regulations, becoming a member of Sen'Finances is difficult. The system is not open and it is practically impossible for new structures to become members.



Shareholder company profile : an asset for SMF-EA, a limitation for Tembeka

SMF-EA

Prior to creating SMF-EA, the Strømme Foundation (Norway) was active in microfinance in East Africa, but did not have a clear framework or legal entity. Strømme's loan portfolio was of low quality: «The sweet-talkers where the ones getting loans!» Faced with the need to professionalise, upgrade expertise and attract new donors, a study was commissioned in 2003 to structure operations and choose a status. The decision was to create a shareholder's company.

Formalizing the structure as a company provided the opportunity to introduce systems and procedures, to professionalise the loan evaluation process, as well as documentation and conditions for granting loans. A high-quality Board of Directors helped improve loan portfolio quality and new investors came on board (SIDI, Cordaid).

SMF-EA is registered in Uganda, but operates at the regional level; special authorisations are required from the Kenyan government and the fund must deal with administrative burdens when working in Tanzania. The profit sharing between the countries must be clear and transparent, to align taxes accordingly.

TEMBEKA

For Tembeka Social Investment Co. Ltd. in South Africa, the status of a for profit limited company seemed obvious at first. It was the only form which allowed an unlimited number of shareholders, and individual and institutional shareholding was the way Tembeka hoped to fundraise, through equity. Besides, at the time of its creation, non-profit organisations did not have a very good reputation in South Africa; they were often seen as entities that were not «serious», and lacked accountability. Things have changed since, and today, the shareholders' company form is not as evident as it once was. First, the hypothesis that Tembeka would find local shareholders has not been confirmed. Individuals do not want to invest, and the big companies who could be interested can only do so within the framework of their CSR funds, which are reserved for non-profit organisations.

Tembeka is left in a difficult place, because the shareholders' company legal form is used by large companies, especially listed ones. This makes it difficult to convince the public of its social mission, and it prevents investors from benefiting from tax exemptions. Tembeka tried to become a social business, but this concept has no legal recognition in South Africa.




Conclusions

Choose the legal framework that is most adapted to the institutional vision

Apexes are often considered strange animals, not the least due to their many different legal forms. Their commonality is to offer local refinancing in domestic markets. The choice of a legal status is result of the history of the stakeholders involved in the creation process but more broadly speaking of the national history: we can observe that among the apexes having taken part in this study, the ones from South America or French-speaking Africa are non-profits: NGOs, cooperatives or foundations; the ones from English-speaking Africa are shareholders' companies.

The analysis of the six apexes bring to light four major legal forms. Each one has advantages and limitations that affect them depending on the context and involvement of key persons. The table below gives an overview.

Table 1: pros and cons of the possible legal forms for apexes

 PROS			
NGO	Cooperative	Foundation	Shareholders' company
Non-profit status, coherent with a social mission Entity of the social economy Possibility of tax exemptions for the organisation and donors			Social mission (should be integrated in the governance)
Can mobilise financing from members through social shares Financing by debt		More options for raising capital (debt and equity)	
Advocates for social and solidarity-based economy Democratically run, independently from asset owners Legitimacy and power given to the member organisations Possibility to rely on the membership base and work in a decentralised fashion that favours grassroots participation. Reinvestment of returns		Possibility to combine public and private resources Possibility to set up a management model combining public and private actors	Opportunity to have a broad range of diversified shareholders (in terms of financial and human resources) Clear ownership and governance Possibility to organise the shareholders in different bodies, to safeguard the social mission
Representativeness and member participation Quick formalisation process	Mission to defend members' interests Members take part in governance Members contribute to the capital (social shares) Possibility to collect savings	Management is independent from funding sources	A parent NGO can be majority shareholder to safeguard the social mission

The choice of a legal status will therefore reflect the country's history; the political, economic and legal context; the vision, mission, aims of the apex; and dialogue between the founding stakeholders.



**CONS**

NGO	Cooperative	Foundation	Shareholders' company
Cannot collect savings Cannot attract equity	Relationship between the federating body and local cooperatives (autonomy and the financial solidarity) Relationship between different levels of decision making	Cannot collect savings	Lack of access to subsidies: For profit status sometimes misunderstood or incompatible with donations or subsidies No tax exemptions for investors
Sometimes, weak governance, slow decision making process Relationships between elected representatives and technical staff Extensive training/awareness raising programmes needed to ensure active and democratic participation of member		Relatively complex legal status that is not well developed in some regions Difficulty (or even impossibility) to open the door to new members	Sometimes, lack of commitment of shareholders or board members Mission drift due to shareholders' profit expectations Complexity in the choice of shareholders and safeguard of social mission: aligning values and aspirations Centralised decision-making
Limited financial services for members/MFI Challenges in fund-raising			No market to sell shares

Build long-term objectives into the chosen framework

The legal status alone does not define the apex's development. Rather it creates a range of options, and should reflect the historical, political and institutional ambitions of the institution. Even if the choice of legal status can contribute to solving economic constraints and sustainability issues, it can also block opportunities.

In some cases, especially in the case of shareholders' companies, crucial issues appear when selecting new shareholders. As noted by one of the participants, "El que pone más plata pone más condiciones*": because the legal form alone cannot guarantee the mission, new shareholders must align with the organisation's values, the target clients, the type of businesses to finance, profit expectations, etc. These issues should be discussed prior to formalising any partnership and defined in a shareholder's agreement.

* «The one who puts in the most money, sets the most terms»



Be open and flexible to change

The legal status of an apex is not set in stone, and should be questioned regularly, to ensure it is meeting the needs of the apex as it evolves over time. Among the apexes taking part in the study, several of them are thinking about modifying their legal status to face new constraints or better meet market demand.

Apexes are generally under the radar of most regulators. Nevertheless, the lack of regulation can pose a systemic risk when apexes collect savings or borrow money from banks. It would appear that no legal form is perfectly suited to apexes. Each organisation must analyse its operations and context to define the most appropriate form, when it is not imposed by default.

Apexes may want to consider associating themselves with efforts initiated by the microfinance sector to lobby authorities for a legal framework adapted to their activities as refinancing bodies of local microfinance institutions and social businesses.

Financial and non-financial services

Key issues

Apexes can offer a wide range of products and services, both financial and non-financial. How to decide on a product mix to best meet the needs of members or clients? What are the constraints to providing high-quality, competitive services, especially in markets where the supply of financing is growing? How to cope with competition from international funds or local banks and bring real added value, so that relationships with clients/members go beyond simple financial transactions?

Trends: Apexes generally offer a wide range of products and services, combining financial and non-financial support, which gives them the opportunity to address the diverse needs of their MFI partners. In this way, they bring real added value with their offer compared to the competition (especially from social investors). They are like innovative laboratories, and generally, they rely on alliances with strategic partners.



Examples

Wide range of diverse products and services: AgroSolidaria

AGROSOLIDARIA

AgroSolidaria in Colombia is built on the belief in the importance of collective knowledge (one must understand in order to transform), autonomy (effective democracy), interdependence (complex and dynamic systems), intergenerational exchanges (work with children and young people), shared management (between organizations in the solidarity sector, government and private entities driven by social and environmental responsibility). With this broad and holistic vision, AgroSolidaria offers a range of services to its members in three areas:

- Agro-food chain
- Crafts

Community-based tourism (training families to understand the rationale for developing rural tourism)

AgroSolidaria also develops local, short food supply chains as well as «city-country» fair trade. AgroSolidaria's approach to financial services is built on a Community Finance model, founded on the federative principles of decentralisation and community-based management. This model is materialised by the Network of Community Finance Self-managed Local Funds. Local funds are created, regulated and managed by each Section.



Traditional financial services for MFIs excluded from financing: Sen'Finances

SEN'FINANCES

Sen'Finances classifies Senegalese MFIs into four categories: (1) small, isolated, rural MFIs with an outstanding loan portfolio between 50 and 100 million CFA; (2) large isolated rural MFIs with an outstanding loan portfolio between 100 and 500 million CFA; (3) emerging networks; (4) large networks.

The Foundation works primarily with MFIs in the first two categories, which are operating in rural areas (agriculture and livestock), even if at the beginning, Sen'Finances financed MFIs in Dakar. Some of these early partners have faced problems which are being resolved through litigation, leading the Foundation to focus on rural areas with more stable MFIs.

With support from the Belgian cooperation, emerging networks have been backed by Sen'Finances. Therefore, the Foundation's market has changed over time, with a focus on rural areas, after having encountered difficulties with urban institutions.

The Foundation offers only one financial product (a loan of maximum 150,000€ for 24 - 36 months for isolated MFIs and 300,000€ for MFI networks with quarterly reimbursements with a grace period of 3 - 6 months depending on the activity financed). It is a standard product developed at the time of FCSS (Fonds de Contrepartie Sénégal-Suisse) and maintained by the Foundation. It meets the needs of category 1 and 2 MFIs, but networks (category 3 and 4) find the amounts too low and duration too short.



Horizontal exchanges between members: Red Fasco and Fortalecer

FORTALECER

Fortalecer in Peru was convinced of the potential impact of bringing together NGOs and cooperatives, despite the challenge of working with entities who themselves are convinced they do not have the same values. The approach answered a need in the market, to open in the future to different members. As members of Fortalecer, NGOs and cooperatives have learnt to consider each other in a positive way, not only as rivals. The change in perception also has to do with the self-regulation of NGOs and the adoption of standards that are common to the cooperative world. Today they are closer than they ever expected.

RED FASCO

In Guatemala, some member organisations transformed into cooperatives to be able to mobilise savings. Red Fasco organises peer exchanges between members, which generates synergies, sharing and analysis of good practices. The network can promote peer exchanges when Corfinco (the network's community finance program) does not have enough liquidity. Nevertheless, it is not that easy: peer exchanges require trust, mutual knowledge and regular meetings between members who are just starting to get to know each other, and to rethink their way of doing things.



RED FASCO

Red Fasco and organic coffee: given there are PO's amongst its members, the network has backed a process of development of financing for value chains with FECCEG (Federación Comercializadora de Café Especial de Guatemala), which is a federation of 14 co-operatives and organisations, representing 1940 coffee smallholders.

In this process, Red Fasco wasn't yet another actor of the chain, but a facilitator of the data-feeds, which constituted a critical element.

Value chain is an innovative model of financing in the microfinance sector, which aims to address the gap in the rural finance of Guatemala. It was also an occasion to enter and explore a segment as of yet not really served by formal banks and MFIs. For the application of the model, they had to create specific tools adapted to the characteristics of the product so as to properly manage risks. FECCEG could capitalise the experience in the coffee processing by stretching the model to honey and, at present, to fruit dehydration (in trial). With this diversification, the network not only specialises in this model, but also furthers development by empowerment, through TA and training.

FORTALECER

Fortalecer and value chains/women's role: here the support to value chains has focused on the less-served ones (coffee being already well supported in Peru) and firstly finances micro or very small enterprises in rural zones, in any sector on condition that they either interact in value chains, or be managed by women or have a strong representation of women in governance, property, capital structure, jobs, suppliers, etc. Thus, Fortalecer has facilitated cooperation between actors of the chains, and creates financial products for six partners of original chains (honey, alpaca wool, dairy...)



Innovation, housing loans: SMF-EA

SMF-EA

SMF-EA's strategy focuses on innovation through development of demand-driven niche products that have a social benefit and contribute to financial inclusion in Uganda and East Africa. Part of this strategy involves support to help partner MFIs offer housing microfinance loans.

The housing loan product aims to improve livelihoods through access to decent housing and by minimizing health-related dangers associated with poor shelter. SMF-EA staff are trained in the design and implementation of housing microfinance products. At end 2016, SMF-EA was partnering with 6 institutions on the housing microfinance loan product, which represented about 10% of its portfolio.

Lobbying: AgroSolidaria and the solidarity economy

AGROSOLIDARIA

AgroSolidaria in Colombia was created with the goal of advocating for the solidarity economy, agro-ecology and local fair trade. AgroSolidaria puts producers' families at the very centre of its activities and deems that democratic participation has transformative power.

Its work focuses on building solidarity economic channels, in which financial services are one element. To do this, AgroSolidaria draws on the cooperative law and the solidarity economy law in effect in Colombia. Its work also focuses on defending the interests of smallholder farmers; it is negotiating a law on family farming that would take into account the specificity of this kind of agriculture by facilitating access to credit, protecting local markets, managing agricultural risks and technical assistance needs.



New opportunities with social entrepreneurship: TembekaTembeka

TEMBEKA

Tembeka offers South African MFIs financial and non-financial services

- that include short and medium term loans to finance portfolio growth,
- an overdraft service
- technical assistance, through an incubation project which follows MFIs 3 to 5 years,
- to build capacity
- MFI monitoring and performance reporting, a subscription-based service since 2015

The strategy for 2015 to 2019 plans a deep transformation of the economic model of Tembeka, which is looking to make a progressive switch from income derived from loan interest to income derived through the provision of Tembeka services. Tembeka is thus trying to develop more training services, so that MFIs can benefit from a government fund which subsidises employee training. Tembeka also foresees new partnerships to distribute green products (lamps, solar chargers) and to create links between semi-formal savings entities (stokvels).

Tembeka has identified potential to leverage its experience with development MFIs to benefit from recent initiatives organized by the South African government around the economy of townships. B-BBEE (Broad-Based Black Economic Empowerment) is a specific government policy to advance economic transformation and enhance the economic participation of black people in the South African economy. More specifically, the vision of the BEE Unit is to work for the restructuring of the country's economy through equity, empowerment and strategic interventions. The objective is to enable the meaningful participation of black people, women and rural or under-developed communities in the mainstream economy, in a manner that has a positive impact on employment, income redistribution, structural re-adjustment and economic growth.



A comprehensive range of long-term products to analyse to choose one's specificities : Irish league of credit unions Foundation

Irish League of Credit Unions Foundation

The Irish League of Credit Unions Foundation, ILCUF, created in 1980, aims to alleviate poverty through the credit union model, by sharing the success of 60 years of the Irish Credit Union movement. ILCUF works to support savings and credit cooperatives (SACCOs) in Albania, Belize, Ethiopia, Gambia, and Ghana.

In the experience of ILCUF, SACCOs need some 10-15 years to develop a mature structure. They need to clearly define the identity and core functions expected of them, defined as follows from the experience of the Credit Unions, their members and the public:

Apex Identity	Apex Core Functions
Laboratory for Innovation	<ul style="list-style-type: none"> • Stabilisation Fund • Deposit Guarantee • Marketing • Support for new products
Business Developer	<ul style="list-style-type: none"> • CU Payments • Lending to CUs • Central Finance • Insurance
Watchdog	<ul style="list-style-type: none"> • Monitoring • Social performance
Advocate	<ul style="list-style-type: none"> • Advocacy, Lobbying • Strategic & Business Plans • Local regulation
Service & Training Provider	<ul style="list-style-type: none"> • Standard MIS • Risk • Audit

It is important to develop a long-term perspective for SACCOs, with a clear legal structure and operations model. Sustainability of the apex is dependent on various sources, such as interest from lending, income from services such as training, donor support, etc. but apexes need to count on more than a symbolic contribution from their members. In general, it will take more than five years to become financially sustainable. In addition, the members must see the value-added of the apex in the core functions provided to them.



Conclusions

Define the range of products and services according to the strategy chosen by the apex

The diversity of products and services offered by the apexes in this study reflect the diversity of their strategies, which are based on an analysis of market needs, or sometimes historical context. The questions guiding the apexes in their choice of products and services are:

- The financial offer: does the institution want to offer a “traditional” product (cash loans and medium term loans) and / or a niche product (housing, farming, support to local value chains, etc.)?
- The non-financial offer: is there a desire to offer other services such as support to the solidarity economy, promotion of transparency by means of performance monitoring, lobbying/advocacy to defend the interests of the microfinance sector?
- Partners / clients / beneficiaries: should the financial offer be tailored to MFIs, or should the apex work with members with different profiles (producers’ organizations, social businesses)? Should apexes strive for a clientele of traditional MFIs or should they target women, youth, farmers, or a combination? What should be the balance between supporting rural and urban sectors? Should the focus be on solid and mature MFIs or small, fragile MFIs that need to be strengthened?

Consolidate and professionalise operations

The first objective is to ensure professional financial operations. This involves market research that analyses the needs and solidity of the targeted clients as well as creating products that are complementary to those of potential competitors. Strong management tools are also needed for the selection, approval and monitoring.

Staff training on how to monitor the product portfolio is essential, especially when the product involves getting partner MFIs to use niche products such as housing loans. Reaching economies of scale helps make the most of investments in human resources and management systems.

Once the apex has refined its financial offer, it can define strategy in terms of non-financial services:

- Defining the relevance and the value of offering non-financial services. In some cases, non-financial services may be part of the apex’s strategy, and independent of the financial offer, to meet the challenges of structuring a growing sector, of lobbying, or diversifying opportunities for MFIs.
- In all cases, the apex should think about the complementarity of its offer compared to competitors (networks, investors, technical assistance providers), but also compared



to its own members who may address similar issues (by working with value chains, for example).

- A key question is how to finance technical assistance services: they can add value to the apex, but often depend on subsidies. MFI partners can participate in their financing but often only marginally.

Ensure access to sufficient capital

The apex must be able to ensure access to capital in the long run, from different sources:

- Shares, savings from the members but generally the amounts are limited
- Local financing: banks, foundations
- International financing: investors

Liquidity constraints necessarily impact the loan portfolio, and are often the reason many apexes cannot provide long-term loans.

While subsidies are available to develop non-financial services, the availability of subsidies to finance portfolios, including those of apexes, has been considerably reduced over the last two decades, prompting apexes to contract credit lines or seek out equity; investors are generally socially-motivated, as returns from apexes are low, given the competitiveness of the MFI financing market.

Funding support to non-financial services often comes as part of a project—very much the way Associations of MFIs work, which can put apexes in competition with them. Hence the importance of market research, and a good understanding of what the clients or members want and of what they are already offered by other ways.

Build alliances

Apexes tend to work through alliances, as apexes themselves cannot bear alone the support and professionalization of their partners. These alliances revolve around:

- Financial support: investors, multilateral funders who can bring in long term resources and a technical experience in microfinance
- Methodological support: universities, research institutions which can help in market research, definition of niche products, and training of specialised teams in the apex
- Political support: working in cooperation with the actors in the solidarity economy when there is an agenda to develop and reinforce the capacity and sustainability of partners. Government coordination: although working with the state will always be looked at with caution, due to the need to preserve the independence of the apex, especially in its decision-making process.



The risk of training competitors during sensitisation workshops has been evoked, but the overall feeling is that the market is enormous and that it is better to have strong partners (and competitors!) for the reinforcement of the organisations you will work with.

Governance and the participation of members in the apex

Key issues

The key issues around governance revolve around representivity (especially the role of MFIs as members or only “customers”), the solidity of the governance bodies and the profile of governance actors, to better meet the needs of the organisations to finance, to prevent crises and to adapt in evolving contexts.

Trends: One strategic choice is to decide whether the organisations benefiting from financing should take part in the governance or not. Those in favour of client participation in governance defend principles of participation and solidarity values, while those opposed point to the importance of professionalization and independence. No one model can be recommended over the other.



Examples

Independent governance with microfinance professionals: SMF-EA

SMF-EA

SMF-EA's corporate governance framework is based on an effective independent board with board committees generally comprising of a majority of non-executive directors (Executive Committee, Finance Sub Committee, Audit Sub Committee, extraordinary Sub Committee of Local Directors and Operations Committee).

At SMF-EA in Uganda and East Africa, of the 8 Board members, 3 are independent, which brings objectivity as well as knowledge of microfinance and finance in general.

Strømme Foundation is still the controlling shareholder of the company to ensure the Strømme vision at the level of the Board and to prevent mission drift. However, members of Strømme do not bring much experience in microfinance, which means there is strong complementarity among Board members.

When SMF-EA started, one MFI client sat on the Board but when the person left, SMF-EA did not renew the seat, for reasons of conflict of interest, vis à vis SMF-EA but also competitors. However, SMF-EA is conscious that the Board could benefit from more feedback from MFI clients.



The State's role in governance—a legacy that sometimes needs to be renegotiated: Sen'Finances

SEN'FINANCES

The case of the Foundation Sen'Finances in Senegal is unique in that it was created following the transformation of a public project; as such the State participates in the management bodies. The Foundation's board is composed of nine members, including two representatives of the State (Ministry of Economy and Finance) and seven persons co-opted by the Founders, with expertise in the Foundation's areas of operations. The law stipulates that the State representatives may not exceed a third of the Council members. The State is also involved in the supervision of the Foundation's activities. The Foundation must circulate its annual report, budget and financial statements within the three months following the closing of accounts.

Participative governance and the role of finance: AgroSolidaria

AGROSOLIDARIA

The refinancing structure of AgroSolidaria relies on a federation of local funds, where issues of human resources and independence in decision-making are crucial, especially for funds working in the most remote areas (and in the Colombian context, most affected by violence).

Management is in the hands of volunteers. The model has its limits—some are not committed fully to their role—which makes the local funds weak or can give way to a lack of objectivity, and increased risks in the decision-making process. Volunteers, with their limits and risks, are all part of the community system and must be considered to prevent the potentially detrimental effects. The idea of AgroSolidaria is to get more people involved through local leadership workshops targeting young people (internal control, governance, administrative support, finance skills, etc.). These trainings boost management skills and self-esteem.

At this point, the funds do not have independent Boards, which could be in charge of the financing matters. This should be considered, to ensure independent decision-making matters related to solidarity finance.



Thoughts on transformation: the examples of Sen'Finances and Corfinco within Red Fasco

SEN'FINANCES

The foundation status has served Sen'Finances well until now, but currently partners feel the limits of the status in the governance, with a need to diversify expertise and funding sources.

Considering the sector's development in recent years, it would be desirable to have a more representative board. Some entities were competent enough at the time of the Senegalo-swiss Counterpart Fund, when the work was about granting direct credit, but nowadays they are lacking expertise to analyse funding requests from MFIs. The Foundation would benefit from involving different sector stakeholders, more specialised in financing microfinance institutions. Discussions on how the foundation should evolve have included the idea of including MFIs in Sen'Finances' decision-making bodies. The microfinance association could also play a bigger role than its current one, which is limited to participating informally in strategy, as well as in events and exchanges organized by the Foundation.

RED FASCO

The current thinking is to split the "Corfinco" solidarity finance programme from Red Fasco, so that it can develop independently, but in complementarity to Red Fasco. For now, Corfinco is not very attractive to investors, because it is integrated into the network. Separating it would guarantee more transparency and objectivity, and would limit conflicts of interest. However, Red Fasco fears that the transformation would mean drifting from the main objective of Corfinco, which is to bring positive changes to the vulnerable populations.



Conclusions

Define the role of MFIs in governance

In this study, the apexes that were created to meet the needs of their members (AgroSolidaria, Fortalecer and Red Fasco) adopted the legal status of association or cooperative. In two of these cases, the individual members or the local-level associations are represented at the general meetings and sit on the board, thereby ensuring representative governance structures.

In shareholders' companies, the participation of technical experts and microfinance practitioners in the governing bodies has been favoured over that of the refinanced MFIs. However, the question of MFI participation can come up, even with this legal form, when it comes to defining a strategy that will meet their needs, especially as their position in the national microfinance landscape solidifies.

Clarify the position vis à vis the State

In many countries, there is competition from government funds, which can lend to MFIs at rates far lower than what apexes can.

Sometimes, the apex must position itself as a financial partner of the State to distribute financing within the framework of specific programmes (for example, Sen'Finances is currently holding discussions with the State for the management of the financing side of national programmes).

In this type of partnership, it is important to maintain a high degree of autonomy and keep a balance of power that makes it possible to pursue one's own model. The State is sometimes present as a shareholder with one or several representatives on the Board, which can offer the opportunity to exchange information and discuss on the national strategy for refinancing.

Safeguard the mission through governance

The issues arising from governance underline the importance of choosing shareholders and partners well. The legal status does not determine which values or mission the apex defends.

Ways to ensure the mission is upheld by governance bodies include:

- Training and sharing of experiences: training of the members of governance bodies and awareness raising activities can build commitment to the social mission
 - » In cooperatives and associations, this translates into ensuring the active participation of the core members
 - » In the shareholders' companies, this involves training the Board members



- Ensuring founders hold a majority share: the parent NGO keeps control of the strategic orientation through a majority on the Board of Directors, as is the case of Strømme Foundation in SMF-EA. This way, the founder has the historic and social vision of the institution and upholds it when making decisions (target clients, products, alliances, opening up to newcomers, etc.).
- Eligibility criteria for new partners: bringing in new partners to the apex governance is a critical moment. It is important to check the “social affiliation” of the partner (who are its shareholders, what are its social goals, experiences with other partners in different contexts, etc.), its overall objectives, its target group, the models it supports, expectations in terms of financial returns or investment period, etc. Negotiations should be frank and transparent, to ensure alignment of expectations.
- Legal documents securing the conditions: respective expectations can then be formalised in the statutes, or in a shareholders’ agreement. According to McKee (2012), “provisions in legal documents offer a basis for addressing trade-offs that arise, including around responsible finance, and anticipating how future problems will be addressed. They also help ensure alignment of the parties around mission, strategy, and targets.”

The business model

Key issues

In this section, we analyse the apex business model and explore ways to build financially sound institutions that mobilise resources efficiently and meet the needs of their MFI clients/partners. It is a difficult task: apexes struggle to find a sustainable business model that corresponds with their institutional mission.

Trends: As is often the case with 2nd tier organisations (such as microfinance associations), finding a balanced business model is complex. The apexes that have managed have done so in conditions that are very specific to their context and difficult to replicate. The political and strategic role of microfinance in the country is a major point to be considered.



Examples

Patient and systematic: building an apex by leveraging cooperative members' capital

FORTALECER

In the case of the savings and credit cooperative Fortalecer in Peru, the members leverage the structure's capital base with their member shares. The cooperative has focused its strategy of asset growth on several elements: the continued contribution of its partners in relation to the use of financial services, the entry of new local partners, the capitalization of annual surpluses to increase capital and the formation of a cooperative reserve fund, as well as the participation of a shareholder (SIDI) to boost share capital.

INDICATEURS DE PERFORMANCE	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Portfolio quality										
Past due portfolio	0,00%	0,72%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Portfolio at risk	0,00%	0,00%	0,00%	0,90%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Loan loss reserve	1,09%	1,07%	0,15%	0,42%	0,83%	0,94%	0,33%	0,17%		
Risk coverage ratio	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Efficiency and productivity										
OPEX ratio	4,51%	4,05%	3,41%	4,70%	3,57%	3,24%	3,92%	3,64%	0,00%	0,00%
Profitability										
Return on assets	0,44%	1,72%	4,40%	1,40%	1,85%	2,03%	2,91%	2,70%	1,21%	1,34%
Return on equity	1,90%	5,93%	10,10%	3,65%	5,82%	6,04%	8,41%	8,67%	3,64%	3,54%
Return on share capital	2,06%	6,69%	12,21%	4,52%	6,87%	7,25%	10,53%	11,26%	4,61%	4,40%
Equity growth										
Growth of share capital	57%	42%	54%	7%	23%	13%	12%	8%	11%	17,00%
growth of equity	48%	47%	65%	10%	18%	15%	17%	12%	8%	15%

According to ILCUF (Irish League of Credit Unions), membership fees are a key element that should be «more than symbolic» and sustained over time: regular contribution for sustainable services.

The constraints to breaking even: Sen'Finances and Tembeka

TEMBEKA

Tembeka's business model was clear from the start

1) Develop a financial base from a network of institutions or people who could eventually become shareholders.

2) Lend at rates that would allow it to break even. Market research done prior to the creation of Tembeka found a lack of financing resources for MFIs, suggesting a demand. The founders did not know, however, what the investors' appetite was, but decided to take a chance, based on the belief that the sector would grow and investments would follow.

From the beginning, Tembeka has had lean organisational structure, relying on only a few subsidies to finance its non-financial activities. With a spread of around 3%, it managed to break even, until a non-payment crisis in 2014. Already fragile, Tembeka was profoundly affected by the default of 2 of its 7 clients. This default crisis was due to several factors (liquidity issues and bad management of the MFIs, as well as flaws in Tembeka's loan approval and monitoring), and has seriously eroded Tembeka's equity, but has taught valuable lessons: the need for better due diligence, more quality control in the process and more on-site verification of records. Also, the importance of diversification of the risk exposure (maximum 20% of the portfolio with one single client).

Expectations to identify new institutional and individual investors have not materialized. This lack of local capital has prompted Tembeka to borrow from international markets, where financing is easier to acquire, but much more expensive (13%). Moreover, borrowing in strong currencies implied an exchange rate risk, which has grown over the years in an ever more volatile South Africa. Between these high financing costs, a sector in decline due to the expansion of consumer microcredit and lack of a consistent political strategy for the South African microfinance sector, Tembeka has discovered that even the strongest business model cannot compensate for a particularly unfavourable context.

The future of Tembeka is being rethought, with the redefinition of its main products, the broadening of its activities, and potentially a change in the legal status to permit access to less costly financing.



SEN'FINANCES

Since its creation, the Foundation has never received subsidies, but has never managed to break even. This sustainability problem can be explained by:

- Targeting small rural MFIs with low absorption capacity, and that remain risky in spite of their potential for growth
- Limited resources which have prevented scaling up activities
- Rather low lending rates (generally 8%), due to the foundation's target MFIs and market
- The fact that the State has not really played its role of facilitator, to negotiate subsidies for the foundation; it has instead developed programs within the ministries, that operate microfinance directly
- The decision of some funders who have decided to create their own financing structures, rather than consign funds to the foundation.
- The difficulty to negotiate higher interest rates on the funds it invests with banks, due to their relatively small amounts (at present term deposits rates are between 5 and 5.5% per year)
- The Foundation is moreover seeing a drop in activity due to:
 - » a slowdown in the microfinance sector at the national level
 - » the implementation of new microfinance regulation in the UEMOA zone which has led MFIs to concentrate on achieving conformity with the regulation, to the detriment of lending activities.
 - » the Foundation's marketing strategy, which is not proactive but rather based on MFIs demands
 - » the Foundation's cautiousness in approving loans due to challenges in the sector in recent years



- Despite this difficult situation for Sen'Finances, there are positive signs for the future.
- The sector has shifted in light of recent efforts to consolidate, which has led to new opportunities for business development (in 2015 and 2016, Sen'Finances received more requests for financing than in 2013 and 2014)
 - » Sen'Finances is well into discussions with some national programmes, to manage their financing components
 - » The implementation of CSR policies in Senegalese businesses, which could serve as new financing sources, even if this development is still nascent and for now involves mostly multinationals.

The Foundation is, it seems, well known in the microfinance sector but little known by the other organisations, whether public or private. Communicating better on Sen'Finances's experience, and the tax exemptions for donations to foundations, could help reach more MFIs, businesses and donors, creating an opportunity to manage their credit lines.



Equity investment and financial return: Red Fasco

RED FASCO

In Guatemala, Red Fasco has managed to become shareholder of a local rural financing bank (BANRURAL), one of the five biggest banks in the country. The equity investment was made possible by a USD 275,000, 7-year loan by SIDI, in 2007. This stake enables Red Fasco to take part in the bank's governance and facilitate loans to its members: due to a better understanding by Red Fasco of how BANRURAL works, and also because loans granted to Red Fasco members are guaranteed by the network's stake in the bank.

Red Fasco also has a say in the bank's strategy, thanks to a seat on the board. Over time, BANRURAL has become a financial 'superstructure' and the voice of minority shareholders is sometimes lost in the mass. However, Red Fasco continues to benefit from an undeniable advantage: the financial returns on the investment have allowed the network to shore up its own equity, and finance its activities.

This unique set up is based on the ability to invest in a solid, local bank but shows the advantages of being a bank shareholder: facilitated bank financing, a channel for advocating for rural development and building an innovative economic model.

SIDI later granted new loans to Red Fasco (USD 125,000 for 5 years in 2011, USD 400,000 in 2014) for the constitution of the Corfinco fund, designed to finance associations not yet eligible for bank financing.



A sound financial institution based on professional financial services: SMF-EA

SMF-EA

The case of SMF-EA in Uganda and East Africa is representative of more recently created specialised and professional apexes.

Even if SMF-EA started in the red because of lack of professionalism, low quality portfolio and high write-offs, its growth was accompanied by efforts to structure, select and monitor partners, and finances have progressively improved.

Parameter/Ratio	2006	2007	2008	2009	2010	2011	2012	Dec-13
Operational self sufficiency	79,12%	102,32%	103,91%	107,09%	112,40%	128,64%	129,84%	155,03%
Return on Assets (ROA)	-2,97%	0,24%	0,49%	1,10%	1,26%	2,95%	3,00%	6,40%
Return on Equity (ROE)	-13,43%	0,71%	1,22%	3,16%	2,66%	4,78%	4,79%	10,42%
Portfolio Yield	11,27%	12,03%	13,00%	12,27%	13,01%	13,70%	14,59%	14,93%
Portfolio to Assets	79,82%	88,27%	78,13%	93,01%	61,58%	75,17%	77,14%	85,72%
Debt to Equity Ratio	269%	154,00%	150%	223%	65%	59%	59%	66%
PAR (30 days)	6,14%	1,92%	6,06%	1,60%	4,04%	1,69%	1,59%	0,06%
Operating Cost Ratio (OCR)	5,97%	6,11%	7,94%	4,87%	5,10%	6,56%	6,57%	3,66%
Cost of funds ratio	3,59%	4,30%	4,64%	5,20%	5,40%	5,72%	8,22%	5,23%

SMF-EA achieves net positive results thanks to this patient, sustained professionalization that has earned it the recognition of its partners. But the question of sustainability remains difficult:

- lack of funds to lend (some partner loans have been evaluated and approved but not disbursed because of lack of funds)
- continuity of the financing of technical assistance or capacity building programmes.

The cost of the funds from social investors remains high and attempts to issue local bonds have been unsuccessful at this stage because of rather prohibitive technical and legal constraints.



Conclusions

Position the apex vis à vis the local refinancing market

Analysis of the market demand is the very foundation of an apex.

Market study of MFIs. If the market is neither strong nor promising (in terms of size, solidity, growth expectations, balance between Tier 1,2 and 3 MFIs, etc.), the apex's position is risky. If returns are not high enough to reinforce equity, the apex will stay fragile and vulnerable to crisis, market fluctuations and political changes.

Of course, some apexes can take the risk, if they can identify patient capital, and have the intention to create a demonstration effect that will draw in investors at a later stage. Indeed, in some contexts, the presence of investors sends a strong signal, indicating a refinancing market. Nonetheless, in this case, the apex needs to be clear on its added value in terms of its knowledge of the local context.

Market study of other types of organisations. Refinancing as well as technical assistance and lobbying can be useful for other types of organisations besides MFIs. Producers' organisations and social businesses, for example, can benefit from an apex's services.

Experiences with producers' organisations show the need to assess their solidity (financial performance and governance) and test linkages with MFIs.

Expanding towards social businesses should be considered, especially when public policies support this form of entrepreneurship (possible source of funding for the apex), or when there is an opportunity to refinance a socially-driven business backed by investors coming from the impact investing world, who could benefit from the apex's experience with the microfinance sector.

Apexes should draw on the range of potential investors to develop an adapted offer that can guarantee two sources of resources:

- Apexes that primarily specialise in refinancing will depend on loan interest as the main source of income; it is therefore important to analyse the potential spread between the funding sources and rates paid by partners.
- Apexes with a more diversified offer will have income from loan interest, TA subsidies and billing from services (training, technical assistance). Regular and long-lasting subsidies are nevertheless difficult to find.

Ensure added-value over time

An apex is seldom the only financing source of an MFI, and thus must continuously look for its added value in comparison to the other sources. This added value is often linked to proximity, which gives it in-depth knowledge of the local context, allows it to act quickly, reduce reporting requirements, communicate in local language, etc. Proximity translates into well-adapted support over time, which builds partnerships and allows for targeted technical assistance (housing, value-chains, solidarity finance, participative governance,



etc.). This support can also justify the higher prices many apexes must practice due to refinancing costs.

Added value can also come from the visibility the apex offers, when it plays a representation/advocacy role vis à vis the government or other actors.

Finally, added value can come from economies of scale, which enable peer learning and horizontal alliances (PO/MFI, country/city) amongst apex partners.

It is important to communicate on apexes' experiences, their advantages, potential, results and achievements in terms of managing local refinancing lines and supporting fragile MFIs that investment funds do not work with.

Furthermore, it is in the interest of apexes to innovate, re-invent themselves, and change strategy, to reflect developments among sector stakeholders and changes in the economic, social and political context.

Build a business model coherent with the institutional mission

Apexes face different issues:

- Source of refinancing: apexes can position themselves to capture funding from:
 - » social investors (economy of scale and local understanding)
 - » local banks (economy of scale and proximity)
 - » the State (rural, agricultural development public policies, etc.)
- Increasing the membership base for cooperative models: the focus on rural entities and tier 2 or 3 MFIs can make it challenging to increase member shares. Therefore, it is important to have a large, diverse membership base.

Apexes should be aware of what their legal status conveys to outsiders. It is difficult for a private limited company to knock at the right door when looking for CSR funds, and similarly for an association looking for private funds. Sometimes, apexes are locked in a vicious cycle where they see their equity eroding because of negative results, making it difficult to convince investors or donors who find them risky and will increase their rates.

Ensure portfolio quality through trust and procedures

When the main funding source for apexes is interest from loans, portfolio quality is fundamental. Good portfolio quality depends on very strict procedures for selection, approval, monitoring and control (e.g., SMF-EA). A key qualitative element is trust, which must be established between the apex and the MFI partner over time thanks to adapted support and proximity.

However, relying on trust alone is not enough, and runs the risk of default over time. Port-



folio quality may decline as the risk profile of partners increases (small rural MFIs or local self-managed funds, for example). In all cases, support and professional monitoring remain the key elements.

Generally speaking, portfolio quality must be managed continuously, and apexes should not hesitate to be firm, even when dealing with member/owners.

Engage competent, efficient and polyvalent human resources

Most of apexes have relatively small teams. Human resources should be hired with partner diversity and geographical outreach in mind.

One challenge is to find staff who are specialised in niche products (housing, agriculture, value-chains, for example) to be able to support the MFIs with a real added value.

Measuring social performance

Key issues

Many apexes are created with the objective of bringing positive social change, often with the goal of combating inequalities and poverty, in view of improving the well-being of the families of their direct beneficiaries. Apexes with this vision are often concerned with their social performance management (SPM). They are particularly well-positioned to raise and address questions related to measuring the impact of the financial services offered by their members or MFI clients.

Apexes have to define, on one hand, the way they want to promote responsible finance (targeting members excluded from other types of financing, reinforcing local capacities, promoting client protection, decent work, environment protection, etc.), and on the other hand, how they can encourage their partners to measure end-client outcomes.

The apexes studied here have set up SPM monitoring systems that involve technical assistance to increase members' capacities, harmonize tools for measuring social performance and produce social statements for the apex and each of its partners. These efforts have taken the form of workshops to raise awareness amongst stakeholders, build / select relevant indicators, define implementation strategies and exchange experiences. This is clearly visible in Latin America. In Africa, other paths have been taken, as seen in the example below.

Apexes can distinguish themselves from other actors by providing support for collecting social data, especially in contexts where social performance management is a new or emerging concept.

Trends: There is a true willingness and added value of apexes to implement responsible finance, but it is a long-term process that needs partners' commitment, time, and resources to be done efficiently.



Examples

Added-value for members: Tembeka

TEMBEKA

Since 2007, Tembeka has been entrusted with the performance monitoring of the whole microfinance sector. In a context where few institutions report to MIX Market, this role is critical for improving transparency and to «sell» the sector to investors. From the beginning, Tembeka has tried to include social indicators. The choice of the indicators has been based on the capacity of South African MFIs to report on them reliably.

This “lowest common denominator” approach has led to selecting three indicators: percentage of female clients, percentage of clients receiving an added-value service (such as training) and the breakdown of clients’ activities per sector. Despite the relative simplicity of these indicators, collecting them was challenge for some at first. With time, it became easier. Nowadays, Tembeka manages to monitor these indicators on a quarterly basis. Feedback from the MFIs is mixed: the more mature ones find this monitoring insufficient, while the more fragile ones perceive the requests for these social and financial indicators as a constraint. Overall, the MFIs do not find any value to this performance monitoring for their organisations. Besides, Tembeka does not regularly communicate on the data or observed trends to external stakeholders (authorities, professional association), which limits its impact in terms of transparency.

However, the MFIs participate, even if symbolically, in the co-financing of the performance reports produced by Tembeka. The strategy for increasing the capacity to collect data, to communicate and to lobby will be reinforced in the near future.



Strengthening values and principles: Fortalecer and Red Fasco

FORTALECER

Cooperative Fortalecer in Peru and Consortium PROMUC have prioritized SPM as a way to help members achieve their social mission and to demonstrate microfinance's role in the fight against poverty.

Building a social performance management system has become an important goal. Achieving it is dependent on several factors:

- self-determination of members of the two organisations
- a collaborative process that aligns the mission, vision and objectives of the two organisations
- creation of an alliance between them to coordinate efforts in building / strengthening local capacities, improving and monitoring social performance of member organisations
- support and TA from SIDI, FOROLAC FR, OIKOCREDIT

The process started in 2009 with a series of workshops on SPM and SPM tools, held with the 11 member organisations of PROMUC and FORTALECER. Directors, credit managers and loan officers attended.

A final workshop in 2010 achieved the following:

- The revision of the results of the social audit tool SPI 3.2.2, to validate the indicators to be monitored going forward
- A proposal of indicators to monitor
- Targets for each member and an institutional commitment to SPM
- Proposals of policies for monitoring and disseminating information on social performance in each institution (PROMUC and Fortalecer).

In addition, there were two main deliverables:

- A synthesis of the aggregated results of the SPI 3.2.2 audit tool
- A set of monitoring indicators validated by the two networks
- Action plans to implement SPM, for each member
- A proposal by the two organisations to support SPM implementation at the member level



RED FASCO

Social Performance Management is a fundamental element of the Integral Management system used by the network, and a genuine political position. SPM drives a process, that, above all, seeks to value the identity of member organizations. By working on social performance using institutional identity and experience as a starting point, the network has initiated a process of institutional management and defined the strategic objective of «developing a process of social self-sustainability» for the Rural Finance programs of Community Associations, members of Red Fasco, to foster an appropriate balance between financial performance and social performance.

Red Fasco organised different workshops in 2009 and 2013 for Managers and Social Performance officers of affiliated organisations. One of these workshops introduced the social audit tool SPI3. In another, the Integrated Method was validated as a proprietary tool for measuring poverty in the network. In yet another the social audit tool SPI3 was applied, and the results were compared with those of 2009.

The network concluded that social performance is an issue that affects the whole organization and that it must be institutionalized to ensure the continuity, monitoring and dissemination of social results. Today, the question of creating a Social Performance Committee is again on the agenda. This would institutionalise the network's Social Performance Measurement System, enabling it to monitor and evaluate the institutional SP management of its members.

A major challenge remains, however: ensuring continuity of the process at the member level. Two conditions have been pointed out: on the one hand, the governing bodies must express commitment to the implementation of SPM and, on the other hand, Red Fasco must obtain financial resources to fulfill needs for SPM training, technical assistance and monitoring. Red Fasco plans to conduct an overall diagnostic of how the SPM process is being institutionalized amongst its members, and from there will make decisions on its next steps.



Conclusions

Integrate social performance in the strategy

Monitoring the social performance of MFI partners and members enables an apex to carry out its mission and encourage discussions between partners and other sector stakeholders (investors and State, especially) on the social role of the sector.

By tracking the social outcomes of members, apexes can differentiate themselves from investors or other funds, to justify subsidies, demonstrate the specificity of microfinance, and reinforce the sector's reputation. Integrating social performance as a strategic priority charts the way for choosing reporting indicators that are context-specific. This way reporting is valuable to members, allowing them to position themselves and improve their practices, in a way that is linked to local constraints and opportunities.

Plan the process over time: awareness raising to improvement to reporting

The introduction of a social data collection component is a lengthy process (choice of indicators, sensitisation, training, collection, analysis) in which the apex can play a facilitating role. Apexes may encounter difficulties finding a focal point within the MFIs, because of the lack of institutional commitment. And when they do get beyond the data collection phase, they are often limited by a lack of competent local human resources to help improve SPM practices, stymied by “self-proclaimed” experts who are incapable of building commitment and getting the job done.

It is important that social data collection be seen as a starting point for improving practice. Stopping after the initial social audit and data collection is frustrating for partners. The process must include efforts to improve the MFI's operations, in a way that is adapted and realistic for each one (“quick wins”). In recent years, resources—both human and technical—have been developed to promote implementation of good SPM, which will benefit apexes.*

Showcase the data to give greater visibility to the apex and its partners

Annual social reports (by the apex, by each member) are a vector for communicating results to the sector. These reports can highlight the characteristics of end clients, social achievements, initiatives around client protection, quality of services, environmental protection, decent work, etc.

They can then be circulated at the national level (regulators, investors, local banks, general public) to defend and strengthen the MFIs positioning. Often, reports are written in cooperation with local strategic stakeholders, in particular microfinance associations. They offer a periodic update of social performance achievements, an Annual Review and, at the apex level, can include a benchmarking section, for comparison amongst members.

* See the Social Performance Task Force and Smart Campaign, for example



KEY QUESTIONS FOR A ROBUST AND SUSTAINABLE APEX

By way of conclusion, this handbook lists the key questions that apexes and their partners should ask themselves regularly, to remain strong, relevant sources of local financing for MFIs, POs and social businesses.

Legal and institutional profile

When should the question of legal status be raised?

Upon creation, of course, but later as well, when an apex starts to feel cramped by its status: when it cannot pursue certain opportunities due to an ill-adapted legal form; when it is unable to break even because of lack of growth perspectives; or when its ability to grow is limited.

How to approach the question of legal status?

- Identify the existing legal forms in the national context.
- List the pros and cons of each possible form (see table 1 “pros and cons of the possible legal forms for apexes”) depending on:
 - » The social and financial goals of the apex
 - » The governance (which members, which expectations, which implications)
 - » The profile of the partners to finance
 - » Growth prospects in the national or regional context
 - » Sources of financing and prospects for sustainability
- Choose a legal status (for the founding or the transformation of the apex) in agreement with all the stakeholders



- Define the key legal and strategic documents to give substance to the legal formalisation:
 - » Define the rules of participation in governance
 - » Agree on realistic social and financial objectives and formalise them in the legal documents to prevent future shifts
 - » Include the social objectives in the strategic or operational plan

What if there are limitations to all the possible legal forms?

Apexes are innovative organisations and there are not always legal forms clearly adapted to their activities. It could be beneficial to stimulate regulators to consider more carefully the legal forms necessary to local refinancing.

Products and services

Which range of products and services to propose?

The choice of products and services should aim to meet the needs in the market while ensuring the apex's sustainability.

The questions that should be asked on a regular basis, and especially when defining the operational and strategic plan, revolve around the following issues:

- Choosing between specialisation or diversification amongst short, medium or long-term loans, niche products (housing, agriculture, specific value chains, etc.), savings, technical assistance, transparency and monitoring, advocacy, lobbying, etc.
- Defining the profile of the partners to be financed: MFIs (rural/urban, fragile/strong, growing /established), producers' organisations, social businesses, etc.

Where to mobilise resources to provide quality products and services?

- Identify the sources of funding that will supplement credit funds and will finance services.
- Find a balance between what will be done internally with staff resources and externally, through partnerships: the apex has to define what will be proposed directly by the staff, the necessary professionalization of its own human resources, what will be proposed by means of partnerships and on which basis these partnerships will be built.



Governance

Who to involve in the governance?

Far more than legal status, the governance structure will determine the strategic definition of the apex and its objectives. The apex should carefully consider its governance structure, particularly:

- Define the role of the organisations benefiting from apex financing: should they be involved in the decision-making process, or simply beneficiaries of services?
- Think about the position vis à vis the State and public policies: should the State be involved in decision-making? an external partner but prescriber of public policies (rural and agricultural finance, for example)? or completely outside the apex strategy?
- Clarify the nature and role of investors in the apex strategy, and ensure the involvement of like-minded investors.

How to ensure the strategic role of the governance structure in the long term?

Strategic decisions should be able to evolve according to the context and demand. However, the “DNA” of the apex should stay constant, particularly its social goals.

The apex must :

- Enlist the founders as stewards of the apex’s mission.
- Define the characteristics and eligibility conditions for new shareholders.
- Formalize collective commitments through:
 - » Shareholders’ and / or partners’ agreements
 - » Legal documents
 - » Recurring agenda points during the General Assembly or Board meetings

The business model

How to ensure sustainability?

The question is difficult, as for most second-tier institutions. Apexes consider the issue from three perspectives:

- The constraints and opportunities of the national context: favourable regulation and political support in the strategic sense of the term can provide an enabling environment for operations, as can promising growth prospects (recognized MFIs, favourable economic context), or diversified partnerships (with producer organizations, or social businesses, for example).

- Sources of income: interest from loans if the volume of refinancing allows it or diversification with complementary services that generate income from members or subsidies for technical assistance.
- Start with a good market study.

How to bring real added value?

The question of added value has to be systematic and central in the definition of the proposed services, in order to ensure a real appropriation by target clients and to face competition from international investment funds and local banks.

Measuring social performance

What are the needs for transparency, lobbying and social performance management?

For the APEX, it will involve:

- Getting to know the financed institutions to understand their situation, their needs and their capacities when monitoring social performance
- Identifying key indicators appropriate to the national context (aligned with existing initiatives, partners' needs, regulators' requirements, etc.).

How to ensure a sustainable process leading to a continuous improvement of practices?

In general, the apex experience highlights the following points:

- Do not underestimate the time and energy needed and work collaboratively with all those involved
- Move beyond audits and assessment to implementation in order to keep people motivated: create action plans for MFI members, lobbying, transparency, etc.



ANNEXES

Annex 1: Brief Presentation of Apex Participants in the Study

This handbook was made possible thanks to the cooperation of six APEXs from two continents, who openly and constructively shared their experiences, their questions and their trajectories. Out of these elements, this document tries to draw general lessons. Below is a description of the six apexes.

AgroSolidaria, Colombia

Created in 1994, AgroSolidaria is a national confederation with a membership of 120 associations grouped together in federations located in 16 departments of the country, reaching more than 25,000 families. AgroSolidaria aims to organise and empower producers' families through an offer of solidarity microfinance and through support for production, processing, distribution and consumption. The institutional structure of AgroSolidaria consists of a first level (direct service provider) and a second level consolidating the whole structure. In 2009, AgroSolidaria created its first "federated fund", a refinancing fund for the 15 local funds in the Bocaya department. At the end of 2015, the network counted 53 local funds, grouped into 5 federated funds. These funds have country-wide coverage, and provide finance in rural areas where MFIs are lacking.

Fortalecer, Peru

Fortalecer Cooperative is an apex created in 1998 by eight NGOs and an NGO network. Today it brings together about forty small, local, rural MFIs, either saving and credit cooperatives, NGOs or local programmes. Fortalecer offers credit and savings services to its members. It also has developed specific support for members working in relatively unique value chains such as alpaca wool and guinea pig, which gives an opportunity to work with women.

Red Fasco, Guatemala

Red Fasco is a regional association supporting a financial network of community associa-



tions (ASCOM) offering services to the Maya communities. The network has been structured as a second-tier organisation that has its roots at the local level (the associations) and links them at the regional level (Red Fasco). In order to boost the capacity of farmers, Red Fasco offers support to microfinance institutions and to coffee producer federations, and organises peer learning visits among them to promote cooperation in rural development. Support to its members takes different forms: technical assistance (to monitor financial and social performance), a human development programme (workshops, links with universities, practical on-the-job training opportunities, etc.) and a community finance programme. Red Fasco is working with some 800 communities from 130 municipalities in Guatemala, through about 60 local branches.

Sen'Finances, Senegal

Sen'Finances Foundation was created in 2007. It is the continuation of the Senegalese-Swiss Counterpart Fund (FCSS) created in 1994 within the framework of the Swiss debt-reduction programme. In exchange for cancelling 80% of Senegal's external debt towards Switzerland, the Senegalese government agreed to allocate 20% of the total amount (about FCFA 1.9 billion, i.e., Euro 2.9 million) to financing development programmes.

The foundation primarily finances MFIs that are active in rural areas (agriculture and livestock sectors). Since 2008, 42 MFIs have been financed through 55 credit lines for a total amount of FCFA 3.2 billion (EUR 4.88 million). In addition to credit, Sen'Finances has been implementing a social performance management programme with the support of SIDI since 2014.

SMF-EA, Uganda/ East Africa

Strømme Microfinance East Africa (SMF-EA) is a refinancing apex based in Uganda that operates in the East Africa region (51% of the loan portfolio is in Uganda, 26% in Kenya, 23% in Tanzania). SMF-EA was founded to develop a specialised and professional source of funding for MFIs in the region. Strømme Microfinance AS Norway is the majority shareholder. The Strømme Foundation regional office in Eastern Africa, SIDI and CORDAID are also part of the capital structure. SMF-EA offers loans to MFI partners, including several niche products around housing and agriculture. Technical support is done in partnership with local consultants and microfinance associations: AMFIU in Uganda, AMFI in Kenya and TAMFI in Tanzania.

Tembeka, South Africa

The origins of Tembeka go back to 1996, when a first structure, Tembeka Guarantee Ltd, was created by three MFIs with SIDI backing. It was set up to address the need for banking intermediation in South Africa. In 2002, Tembeka (which means "trust" in Xhosa) changed its product offering—until then focused on issuing guarantees—to concentrate on short and medium term loans and capacity building of "development MFIs" (the term for MFIs in South Africa that do traditional microfinance as opposed to consumer micro-credit) especially in rural areas and townships. Tembeka operates with two structures: a shareholders' company providing the financial services, and a non-profit association in charge of the TA and non-financial support.



Tab 2: key datas about participant APEXES

	SEN'FINANCES	SMF-EA	TEMBEKA
COUNTRY	Colombia	Peru	Guatemala
INTERVENTION ZONE	National	National/rural focus	National
YEAR OF CREATION	1994	1998 (active in 2000)	2005
PROFIT MODEL	Non-profit	Non-profit	Non-profit
STATUTES	Cooperative	cooperative	association
# OF MEMBERS/BENEFICIARIES	42 local funds	41 members	15 local organisations
MEMBER TYPE	Self-managed funds	28 NGOs, 11 cooperatives, Sidi, Alterfin	9 associations, 2 foundations, 2 coffee producers' federations, 2 cooperatives
MISSION	To be a recognised, sustainable socioeconomical organisation, in the fields of community finance, agro-ecological production and transformation, fair trade between cities and countryside and traditional production, which ensure year-long operations and reliable, socially responsible products and services.	To mobilise internal and external resources, amongst members, thanks to innovative financial services and joint investments, which allow for better competitiveness, in a framework of cooperation and solidarity.	2 foundations,
SERVICES	Diversified: besides the local refinancing funds, focus on « south/south » fair trade, agroecology, rural tourism and solidarity finance.	Specialised in savings and loans products for members, and in support to value chains, lobbying.	Diversified with a financial offer, TA and local capacity building (workshops, seminars, joint programmes with universities).
FINANCIAL PERFORMANCE AND VOLUMES	Financial balance: no	Financial balance: yes	Financial balance: yes
A FEW STRATEGIC PARTNERS	IseFondacion, Confiar, Icco, Trias, SIDI	AlterFin, Fondation Ford, BID, SIDI	Oikocredit, Icco, Fondation Ford, SIDI
FOR MORE INFORMATION	Agrosolidaria.org	fortalecer.org	redfasco.org.gt



	SEN'FINANCES	SMF-EA	TEMBEKA
COUNTRY	Senegal	Afrique de l'Est	Afrique du Sud
INTERVENTION ZONE		East Africa	Nationale
YEAR OF CREATION		South Africa	2002
PROFIT MODEL		A but lucratif	A but lucratif (avec un trust sans but lucratif)
STATUTES	National/rural focus	Regional (Ug, Kn, Tz)	National
# OF MEMBERS/BENEFICIARIES	49 cumulated credit lines as of end 2013	27 partenaires	2014 - 7 clients 2015 - 3 clients
MEMBER TYPE	Small, rural MFIs	Small MFIs for out-reach, big MFIs for durability	« development » MFIs
MISSION	To contribute to the improvement of living conditions of marginalised and disadvantaged populations of Senegal, while ensuring its own viability and sustainability.	To provide, on a sustainable basis, market responsive, financial services and capacity building support to financial and business service providers to enhance access to financial services by the enterprising poor in the Eastern Africa region.	To develop marginalised persons & communities involved in entrepreneurship for self employment and to provide social financial services to institutions (requiring empowerment) social enterprises & cooperative groups' (rev. 2015).
SERVICES	Specialised in short- and medium-term loans.	Specialised in short- and medium-term loans.	Specialised in loans with support to niche products, such as housing loans.
FINANCIAL PERFORMANCE AND VOLUMES	Financial balance: no	Financial balance: yes	Financial balance: no
A FEW STRATEGIC PARTNERS	Belgian technical cooperation, SIDI	Strømme Foundation, FMO, Norad, Cordaid, SIDI	Crédit Coopératif, DGRV, Fefisol, ADA, SIDI
FOR MORE INFORMATION	senfinances.sn	strommee.org	tembeka.co.za



Annex 2: Methodology

For this study, CERISE consultants played a facilitation role: the apexes themselves were the key players. Therefore, this work is not that of an experts' opinion; it is the fruit of a collaborative exercise. The apexes were intimately involved in the guiding the process, sharing internal documents (business plan, minutes from GM's and the board, financial projections) and then their experiences through in-depth, one-to-one interviews with the consultants.

Step 1: Preparation/ scoping/ choice of partners

A meeting to define the scope of work clarified the issues to be addressed. The sample of apexes was selected based on an initial phase of data collection, interviews and the expression of interest by the apexes themselves to participate in the exercise: Tembeka in South Africa, Sen'Finances in Senegal, AgroSolidaria in Colombia, Fortalecer in Peru, Red Fasco in Guatemala, SMF-EA in East Africa. These six institutions reflect the diversity of contextual and institutional profiles that can be found among second-tier lenders.

Step 2: Systematisation of the apexes' experiences

Consultants carried out 1-2h interviews with the managing director of each apex for each of the five themes, based on an interview guide developed by CERISE consultants. These interviews allowed the consultants to transcribe the position and experience of each apex, and then conduct an overall analysis to identify key learning points around each theme.

Step 3: Feedback workshop in Paris

A 2.5 day workshop was organised in Paris at the beginning of September 2015 to share and probe initial findings on the main themes. Participants included one representative of each of the six apexes, as well as the SIDI investment officers in charge of working with the apexes, and other resource persons.

Step 4: Drafting of the handbook

Drawing on the interviews and workshop proceedings, CERISE consultants drafted this handbook, which describes and analyses the strategic approach, the scope and management framework of the six apexes (legal profiles, products and services, governance, funding, social performance). Several draft versions were circulated and discussed, including in a presentation given at the European Microfinance Week in Luxembourg in November 2015, thus allowing the apexes and partners to refine the content.



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This guide comes from a capitalisation study which aimed to induce a better knowledge of Apexes, as umbrella organisations for financing, whose stakes are to promote financial and non-financial services in response to local demand. MFIs, POs and social businesses are concerned. This guide lists the practices of such institutions, which weren't subject to much research. It draws on diverse and rich

experiences from three regions: Latin America, West Africa and East Africa. It describes and analyses the strategic approach, scope and management of the selected apexes around five themes: legal status, products and services, governance, financing, social performance.

SIDI counted on the support of the F3E and CERISE, which coordinated exchanges with the apexes and drafted this guide. The apex structures were the drivers of this collective learning process, which would not have succeeded without the strong commitment of these actors, who shared internal documents and dedicated their time to in-depth, honest discussions about their work.

This handbook is first and foremost for apexes, regardless of their stage of maturity: whether they are just starting out, under consolidation or transforming into a different legal status. They will be able to draw from the examples and the analysis herein, to ask themselves questions that will help establish or improve their practices as well as define

or adjust their strategies. Investors in financial institutions can also benefit from this handbook, which proposes a framework for considering apexes as potential intermediaries for local financial services.

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