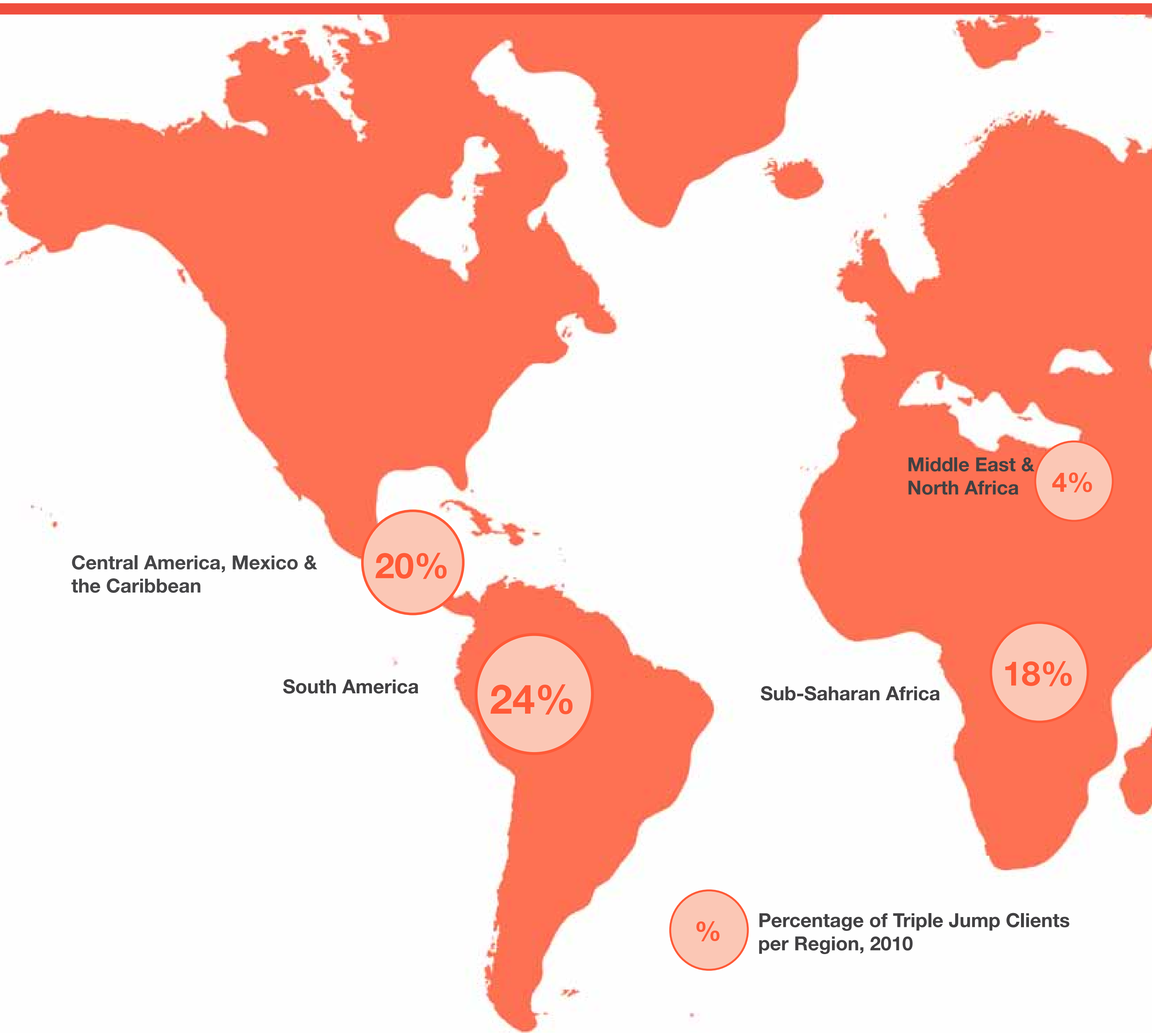
Triple Jump
Social Performance Assessment
2010

Triple Jump

microfinance investment managers
& advisory services



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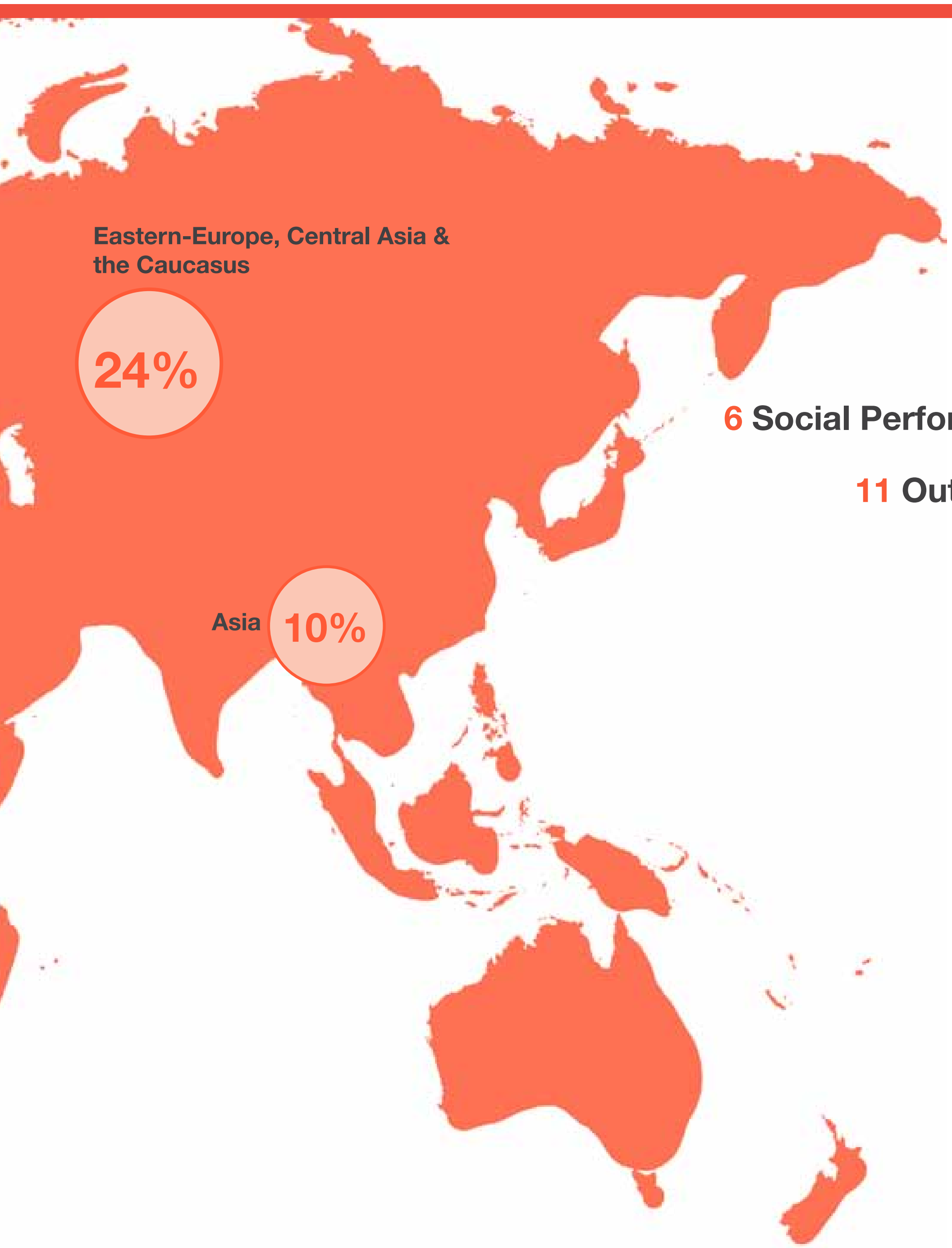


Contents

Activities Triple Jump as of November 2010		
Our organisation: 32 employees 5 offices The Netherlands, Peru, Georgia, Kenya, Senegal	*Financial Services to:* 7.8 mln. clients 71% female clients 52% rural clients	*Portfolio Invested:* $ 270 mln. 152 MFIs 52 countries

1 Introduction

Introduction

Triple Jump believes that access to financial services can help entrepreneurial men and women provide for their families and meet their business needs. We aim to improve access to financial services for the world's poor by contributing to the growth and reinforcement of the microfinance sector.

In addition to increasing access to financial services, we wish to ensure that the financing which we provide to microfinance institutions (MFIs) is translated into appropriate products which reach our target end-clients, that is, low-income entrepreneurs, especially women and people living in rural areas. We also wish to reduce the risk of harm to these low-income entrepreneurs through over-indebtedness, client misinformation or the violation of client privacy, to name a few examples.

To assess whether our clients are reaching out to our target end-clients with appropriate products, and to reduce the risk of harm to end-clients, Triple Jump developed the Social Performance Assessment Questionnaire and Scoring Tool (TJ SPA). This tool assesses the likelihood that the services provided by an MFI will positively impact the lives of its clients.

The questionnaire is completed together with the MFI's management during the due diligence visit. This is an opportunity to exchange with our partners on the importance of social performance, and to learn from their experiences. The outcome of the TJ SPA allows us to target funding towards MFIs which meet our minimum standards in terms of social performance.

The Questionnaire and Scoring Tool provide information which we use to report to our investors and stakeholders about the social performance of our portfolio. From January 2009 to June 2010, Triple Jump conducted 81 Social Performance Assessments. The data from these 81 assessments was combined in a database together with financial information on the MFIs, allowing us to put in place a database of valuable financial and social data.

Based on this data, we have identified relationships between social performance and certain MFI characteristics which will be presented in the last section of this document. The main findings include the fact that there is no significant trade-off between financial and social performance, confirming earlier research by other parties. We find that social and financial performance can reinforce one-another.

In addition, based on our sample, we find that investments in smaller MFIs can be a good way of achieving a deep outreach, as smaller MFIs in our portfolio tend to have a higher percentage of female- and rural borrowers and smaller average loan sizes.

Social Performance Assessment

The Social Performance Task Force[1] has agreed on the following definition for Social Performance:

> *Social Performance is the effective translation of an institution's social goals into practice in line with accepted social values; these include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve.*[2]

Social performance looks at the entire process by which impact is created, from the intent of the institution (its mission), to the way this mission is implemented (policies), to the output (results) and outcomes (impact). This process is called the "Social Performance Pathway" (Figure 1).

Figure 1: Social Performance Pathway (Source: SPTF)

Based on the Social Performance Pathway, the Triple Jump SPA allows us to assess an MFI's intent, implementation and results, but not the impact. We assume that good performance in terms of intent, implementation and result forms a reasonable proxy for the likelihood of reaching a positive impact. Applying the Social Performance Pathway to the management of a (microfinance) institution is called "Social Performance Management". According to the Social Performance Task Force, "*Social Performance Management is the practical translation of an MFI's social mission into measurable, achievable and realistic social performance objectives".*

Social Performance Assessment

[1] The SPTF is a platform of over 800 organisations working in the microfinance sector, and was founded with the mission to clearly define social performance and to address questions regarding social performance assessment and management. The platform meets annually and has a large number of working groups. See www.sptf.info for more information.

[2] Source: CGAP Focus Note 41, "Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions" (May 2007)

By selecting MFIs that apply Social Performance Management in a systematic manner, we believe that we maximize the likelihood that we are investing in MFIs which deliver valuable services to their clients. In the case of MFIs with a weaker social performance, the assessment is a good moment to discuss concrete recommendations, and to encourage the MFI to apply Social Performance Management in a more systematic manner.

Why is Social Performance Assessment Important?

Triple Jump's commitment to Social Performance Assessment stems from our own social mission. We wish to ensure that our investees, like us, are committed to fulfilling their social mission and that they provide appropriate products to our target-end clients. We wish to demonstrate to our investors that our investments achieve a minimum level of social performance, in line with their requirements. We also believe that good social performance can lead to an improved level of financial performance. For example, by treating its clients well, an MFI helps to foster client loyalty, thereby improving repayment behaviour and reducing client turnover. In the same way, an MFI that pays attention to client over-indebtedness can help protect its clients from the risks associated with excessive debt, in turn leading to reduced credit risk for the institution. By stimulating MFIs to apply social performance systematically, we are helping to reduce overall financial risk in our portfolio.

Triple Jump and Social Performance

Our commitment to social performance is reflected in our active membership in the Investor Working group of the Social Performance Task Force (SPTF), the fact that all Triple Jump staff have received a social performance training by (social) rating agencies[3], and the development and systematic application of a Social Performance Assessment Questionnaire and Scoring Tool in cooperation with Oxfam Novib.

Triple Jump is the coordinator of one of the SPTF Investor Working Group sub-groups, the Action Group on Tool Sharing and Harmonization. Within this action group, Triple Jump is working to bring together microfinance investors to share knowledge and experiences in the area of social performance assessment.

Besides sharing information on due diligence assessment tools, the action group aims to help harmonise social performance reporting requirements by investors to MFIs, and to help ensure that all social investors apply a minimum level of social performance criteria in their investments. In September 2010, in cooperation with Oikocredit and CGAP, Triple Jump organized an investor meeting about Environmental, Social Performance and Governance (ESG) due diligence assessment tools to explore if there is ground for cooperation among microfinance investors regarding social performance assessment during the due diligence process. During this meeting we made a first step towards sharing our various social performance/ESG due diligence tools and sharing experiences[4].

"Women clients of the ***MFI Al Majmoua*** *in Lebanon are regularly invited to join field trips to visit wholesale suppliers, where they learn more about the variety and specifications of the products they are trading, and where Al Majmoua arranges discounts."*

[3] There are a small number of specialised microfinance rating agencies providing financial and in some cases social ratings, which analyze an MFI's social performance.

[4] The minutes to this meeting can be found on the SPTF website.

The Triple Jump Social Performance Questionnaire and Scoring Tool

The Triple Jump SPA tool was developed in cooperation with Oxfam Novib in 2008 in order to assess all MFIs in the ASN-Novib and Oxfam Novib Funds. In addition to the motivations described above for focusing on Social Performance Assessment, Triple Jump had a number of additional motives for designing and implementing the TJ SPA tool. These were:

(1) To start a dialogue about the different aspects of Social Performance Management with our clients, particularly MFIs operating in isolation and less informed about social performance;
(2) To stimulate MFIs to think about what they can do to fulfil their own mission and increase their impact;
(3) To raise awareness about the Client Protection Principles and to encourage MFIs to endorse and implement the principles[5];
(4) To identify weaker areas as a potential (reputational financial) risk; and
(5) To document (and analyse) the social performance of our portfolio.

The TJ SPA tool is designed as a matrix based on the Social Performance Pathway and a number of output dimensions. The questions in the TJ SPA tool are divided into categories that cover the three initial stages of the Social Performance Pathway: Intent, Implementation and Results. Each of these areas receives a separate score, however the "Results" category has a slightly heavier weighting in the final score as we believe that the actual results achieved by an institution are more important than policies or good intentions.

Based on the issues considered most important by our shareholders, we organized the second part of the output of the TJ SPA Scoring Tool along six dimensions: Human Resources (HR), Outreach, Gender, Social Performance Information, Client Protection and Client Satisfaction. Table 1 shows the matrix structure of the tool, as well as one example from each category.

Table 1: Set-Up of the Triple Jump Social Performance Assessment Tool (TJ SPA)

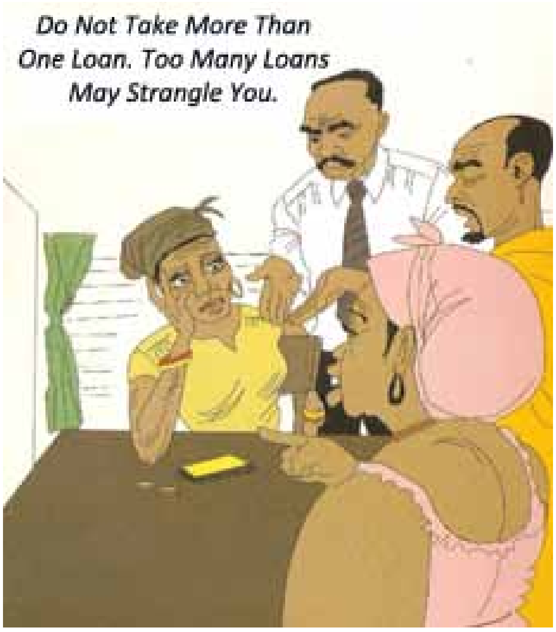
Dimension \ Pathway	Intent	Implementation	Results
Client Protection	Example from the category **Implementation/Client Protection**: Are all prices, terms & conditions conveyed to clients in plain-language fashion that clients are likely to understand?		
Client Satisfaction	Example from the category **Results/Client Satisfaction**: What is the client drop-out rate?		
Social Performance Information	Example from the category **Implementation/Social Performance Information**: Does your MIS contain indicators related to your social objectives?		
Outreach	Example from the category **Results/Outreach**: What is the percentage of clients from socially marginalized and/or excluded groups?		
Gender	Example from the category **Intent/Gender**: Are policies in place to ensure that women clients and female staff are not discriminated against?		
Human Resources	Example from the category **Results/Human Resources**: What is the average rate of staff turnover in the past 3 years?		

[5] The Client Protection Principles, launched in 2008 by CGAP and the Centre for Financial Inclusion together with a broad coalition of MFIs, networks, funders and practitioners, describe the minimum measures that microfinance institutions should take to protect low-income clients from potentially harmful financial products and to ensure that clients are treated fairly.

Three particularly important focus areas for Triple Jump are Client Protection, Gender, and Rural Outreach, as well as interest rates.

- The TJ SPA includes 10 questions on **Client Protection**, including a full calculation of the APR and EIR using the Microfinance Transparency Effective Interest Calculator. In the case of higher interest rates, an additional interest traffic light is used to assess whether there are mitigating factors that make the investment interesting to our funds in spite of the high interest rate.
- **Gender** is covered with a number of questions at the client and staff level. In the case of the Oxfam Novib Fund, an extra 8 questions on gender are included, as this is a core focus for Oxfam Novib.
- Finally, Rural **Outreach** and Outreach to communities with limited access to financial services are considered important and receives a heavier weighting.

Figure 2: Poster to Inform Clients on the Risks of Over-indebtedness (Source: Speed Ghana)

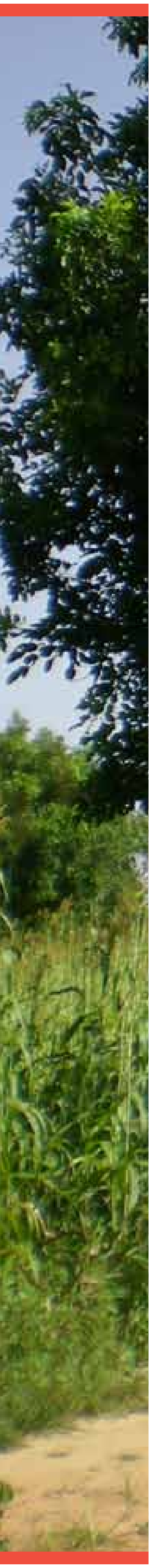


Implementation of the Tool

The Triple Jump SPA is conducted by the investment officer with the MFI's management during the due diligence visit, preferably on the last day. This is to ensure that the investment officer has already seen most aspects of the MFI, and can cross-check his or her findings with the management. Supporting documents are requested if necessary. Each answer is noted in the relevant text box, and where relevant, questions receive a score.

In general, MFIs react very positively when investment officers ask to discuss the topic of Social Performance. The Triple Jump SPA Questionnaire and Scoring Tool is an opportunity for MFIs to make their social focus more visible, and often stimulates management to mention activities which have been conducted by the MFI and are appreciated by clients, but which tend to receive less attention from investors in general. MFIs and even Banks serving the Micro- and Small- and Medium-sized enterprise (MSME) sector which are less advanced in the area of social performance are often interested to learn about what other MFIs and Banks are doing in this area. Many are keen to learn more about Social Performance and what they can do to ensure that they fulfill their social mission, increase customer loyalty and help reduce the risk of over-indebtedness.

*"In addition to credit and education services, the MFI **Pro Mujer in Peru** has basic health clinics set up in all of its branches, with a nurse or doctor on staff at certain hours during the day. The medical staff focus on prevention, and help educate clients on female health issues and reproduction."*



3 Outcome of the Tool

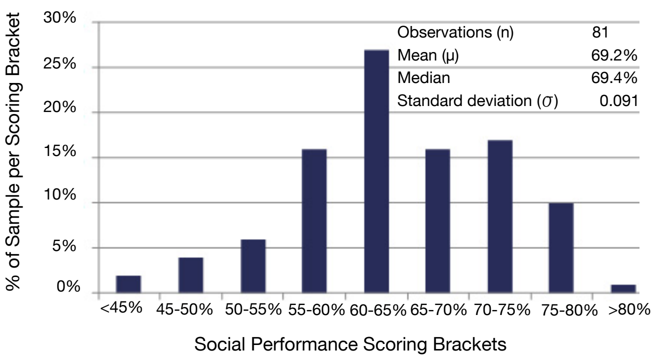
Outcome of the TJ SPA

Triple Jump combined the data from the 81 Social Performance Assessments conducted in 2009 and the first half of 2010 in a database with financial data on these same 81 MFIs. We complemented the social data with financial data in order to test for relationships between social and financial performance. As MFIs in our portfolios have to meet certain social- and financial performance standards in order to be eligible for investment, we acknowledge that our database suffers from a selection bias.

General Results

The table and graphs below demonstrate part of the output of our SPA Scoring Tool, which consists of an overall score, text answers, and the figures as shown below (Figures 3, 4 and 5). Figure 3 shows the proportion of the sample per scoring bracket.

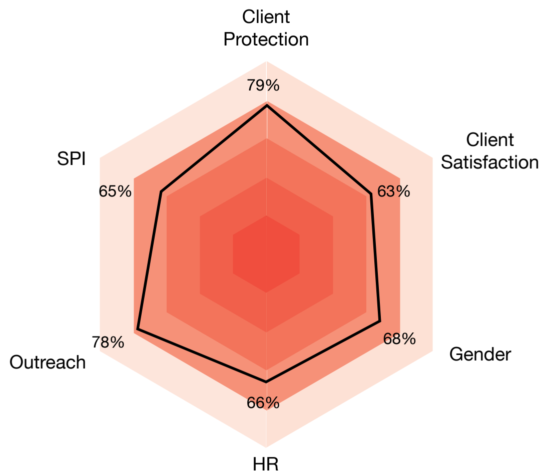
Figure 3: Distribution of Social Performance Scores



The minimum required score is 40%. Below this point, MFIs are not eligible for financing. As the graph shows, less than 10% of our sample scores less than 50% of the maximum number of points. In the upper range, we find that 11% obtains more than 75% of the maximum possible points.

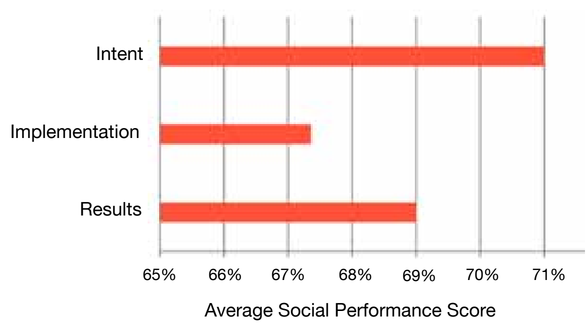
As can be seen from the radar graph below (Figure 4), MFIs in our portfolios obtain a relatively high score on client protection and outreach: on average MFIs à scored almost 80% of the maximum possible score on these dimensions.

Figure 4: Average Social Performance Score per Social Dimension



As the bar graph (Figure 5) shows, we do not find large differences between the average scores for intent, implementation and results. Intent is slightly higher, which was expected as it is to formulate plans and objectives compared to putting these ideas into practice and achieving them.

Figure 5: Average Social Performance Score per Pathway Category



Results Across Regions

As can be seen in table 2, our data does not show substantial differences in average score across the different regions, but using the Kruskal Wallis test[6], we nonetheless find the differences to be statistically significant, indicating true inherent differences between regions.

Table 2: Average Social Performance Score per Region

Rank	Region	Average Social Performance Score
1	Asia	76%
2	Middle-East and Noth Africa	75%
3	Central America	72%
4	South America	69%
5	Sub-Saharan Africa	66%
6	Eastern Europe, the Caucasus and Central Asia	66%

The differences across regions are partly in line with studies conducted by *Incofin*[7] *(2009)* and *Cerise (2010).* Incofin found that MFIs in Sub-Saharan Africa exhibited the lowest average level of social performance and Cerise found MFIs in Eastern Europe and the Caucasus to have the lowest social performance on average.

In our portfolios, MFIs from Sub-Saharan-Africa and MFIs from Eastern Europe, the Caucasus and Central Asia (ECA) obtain lower scores. In the case of Sub-Saharan Africa, we believe this is due to a higher proportion of MFIs operating in isolation, less exposed to best practices, as well as a lack of personnel trained to implement social performance measures. In the case of the ECA region, this may be due to the fact that our model rewards a low average loan size and a higher outreach to women, whereas MFIs in this region tend to have higher average loan sizes and a lower percentage of women clients in comparison to other regions.

Examining the social scores in more detail (Figures 6, 7 and 8)[8], we find significant regional differences for Gender, HR and Outreach in particular.

MFIs in the MENA and Asia regions obtain a higher score with respect to gender, while MFIs in the MENA region also obtain a very high score on HR. These positive scores may be due to the fact that we are still expanding our portfolios in these regions, leading to “cherry-picking” of the most social MFIs. MFIs in Asia and in Central America obtain high scores for outreach. This makes intuitive sense in the case of Asia, where MFIs tend to have a broad and deep outreach. The outreach score for Central America is high due to the more mature and therefore larger institutions in the portfolio, as well as a good level of rural outreach.

Figure 6: Differences Across Regions in Average Gender Score

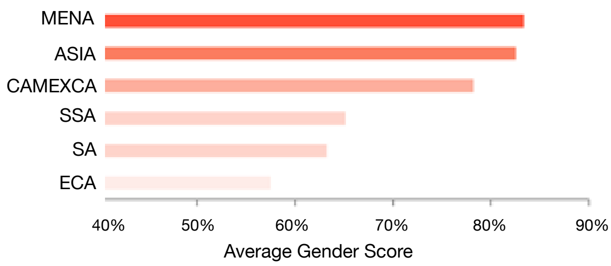
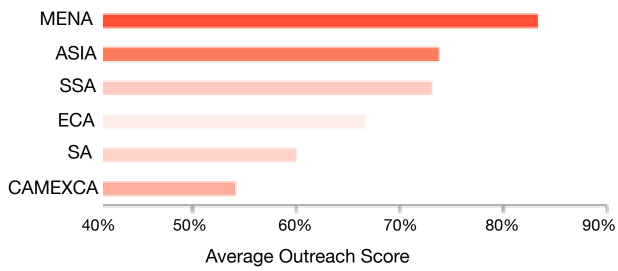


Figure 7: Differences Across Regions in Average HR Score

Figure 8: Differences Across Regions in Average Outreach Score



[6] The Kruskal Wallis Test is a statistical method for testing equality of population medians among groups in which data is replaced by ranks.

[7] Incofin (2009) MFI’s social performance mapping and the relationship between social and financial performance – evidences against the trade-off theory.

[8] ECA=Eastern Europe, Central Asia & the Caucasus, SSA= Sub-Saharan Africa, MENA= Middle-East & North Africa, SA= South America, CAMEXCA= Central America, Mexico & the Caribbean

Results Across Tiers[9]

Thanks to multiple fund mandates, each with a specific target group and risk profile, Triple Jump can provide financial services to MFIs in all stages of their development. Triple Jump clients range from NGOs receiving their first non-subsidized funding, all the way to regulated banks which intermediate savings and serve hundreds of thousands of borrowers.

Unlike the larger MFIs, which have abundant access to funding, smaller MFIs often lack access to funding because they are often considered too risky by commercial investors. We believe that by giving new and expanding players the means to compete in the market, we encourage competition and thereby contribute to making the microfinance sector more efficient. Moreover, we believe that small MFIs play an important role in terms of social impact, as they can reach clients in remote and often underserved areas.

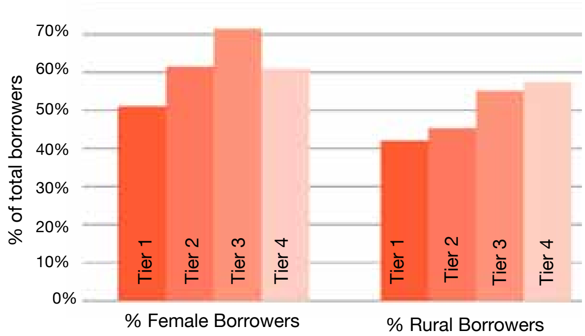
As Table 3 demonstrates, our results do not show a considerable variation in average overall social performance scores across the different tiers. This implies that smaller MFIs also reach a good level of social performance.

Table 3: Social Performance Score per Tier

	Average Social Performance Score
Tier 1	68%
Tier 2	71%
Tier 3	69%
Tier 4	67%

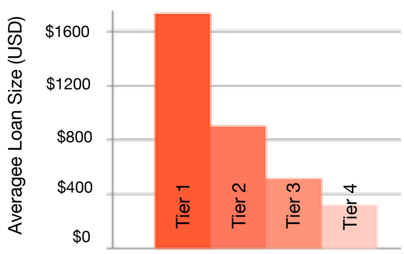
The graphs below show some of the main results from our analysis of the data collected during our surveys and in the course of regular reporting. The sample size for these graphs is larger than the sample size for the Social Performance Assessments, including 125 MFIs out of the total Triple Jump portfolio. On outreach, we find that the lower tiers outperform the upper tiers in terms of average percentage of rural borrowers and average percentage of female clients. The percentage of female clients for tier 4 MFIs is found to lie outside of the trend line, mainly due to a number of start-ups in the sample.

Figure 9: Average Percentage Female- and Rural Borrowers per Tier



We also find a strong relationship between the Tier and the average outstanding loan size, with the lower Tier MFIs providing significantly smaller loans on average. Assuming that average loan size is a proxy for depth of outreach, we may conclude that Tier 3 and 4 MFIs have a deeper outreach.

Figure 10: Average Loan Size per Tier

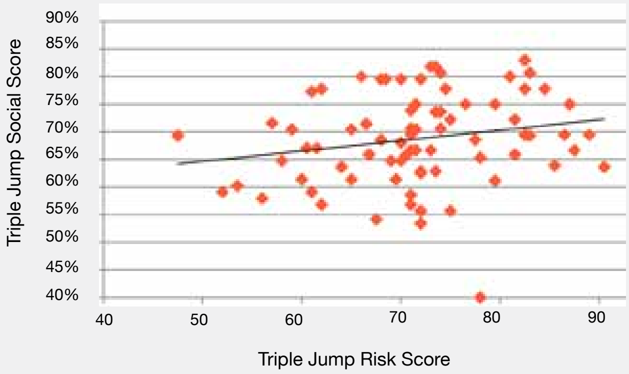


[9] The Triple Jump tier classification is based on the Gross Loan Portfolio (USD) of MFIs: Tier 1: loan portfolio above USD 50 mln.; Tier 2: loan portfolio between USD 10 million and USD 50 million; Tier 3: loan portfolio between USD 3 million and USD 10 million; Tier 4: loan portfolio below USD 3 million.

Social and Financial Performance: Synergies and Trade-offs

As part of our analysis, we examined the correlation between the different financial and social indicators in our database. Our findings are in line with conclusions from previous research on this topic. We find a positive correlation between financial and social performance, as shown by the upward trend line in Figure 11, however this correlation is not significant. Based on our sample, this implies that financial performance does not come at the expense of social performance, and vice versa.

Figure 11: Correlation Between Financial and Social Performance of MFI Clients



We also separated the different scoring components in our assessments in order to identify more specific correlations. Some of the findings from this analysis include the following:

Gender: Our data shows that MFIs with good policies, procedures and results aimed at improving the position and involvement of **women** show a significantly higher productivity and profitability. We also find that these MFIs have a better repayment rate. In addition, a higher score on the **proportion of women in management or senior positions** is positively related to a higher level of profitability, higher repayment rates and a higher level of productivity.

Outreach: An unexpected result is that **Outreach** is significantly and negatively correlated to the level of **Operating Expenses and Productivity**, meaning that MFIs with a higher number of clients, a higher rural outreach, a higher percentage of clients from marginalized groups, and a lower average loan size have a lower operating expense ratio and more borrowers per staff member. Although this is somewhat counter-intuitive, this may be related to higher efficiencies of scale and more group lending. Our findings are also in line with findings from the MIX[10] (2010) which found rural MFIs to be more efficient. They suggest that areas in which rural MFIs operate are not so dispersed as is often assumed.

Human Resources (HR): We find that good HR policies and a low level of staff turnover is negatively correlated to write-offs, meaning that better HR may lead to lower write-offs in the portfolio. This result seems plausible as happier and more experienced staff are likely to be more successful at stimulating client loyalty and loan repayment. Moreover, a higher score on overall HR is positively associated with a lower client drop-out rate, leading to the conclusion that better staff treatment leads to better staff performance.

[10] MIX (2010) Microfinance Synergies and Trade-offs: social versus financial performance outcomes in 2008. Mix Data Brief No. 7. www.themix.org

Conclusions

Triple Jump believes that the increasing focus on Social Performance as part of an overall strategy on Environmental, Social Performance and Governance (ESG), will help to ensure that microfinance stays true to its social mission. Investors can stimulate this positive development by encouraging their clients to carefully think through their mission, policies and practices, and by stimulating a strong focus on client protection. Through the development and systematic application of the TJ SPA, we believe that we stimulate our 152 microfinance partners to pay increasing attention to Social Performance. The TJ SPA is often welcomed by MFIs, as it provides them with an opportunity to make their social focus more visible.

In this document we examined the results of the Social Performance Assessments conducted by Triple Jump in 2009 and the first half of 2010. Our study confirms that working with smaller MFIs can be a good way of reaching clients in remote areas. Smaller MFIs in our portfolio do have a deeper outreach in terms of percentage of female- and rural clients, as well as a lower average loan size. Our findings also show that there is no significant trade-off between financial and social performance, which appear to reinforce one another in our sample. This is in-line with the theory that focusing on Social Performance makes good business sense.

In the future we will continue reviewing our Social Performance Assessment Questionnaire and Scoring Tool, and encourage further progress in the field of social performance assessment. We believe that more research is necessary in order to improve the quality of Social Performance indicators, to confirm the relationship between the Social Performance Pathway and Social Impact, to investigate the linkages between social and financial performance, and to further explore the topic of social performance across the different MFI Tiers.

4 Conclusions