GARBAGE IN, GARBAGE OUT? DATA QUALITY IN THE MICROFINANCE SECTOR

Quality data—accurate and useful—is critical for the microfinance sector. Financial institutions that serve low-income clients need good data to better understand women, and ensure they are achieving the financial and social returns they seek. Industry experts agree that over the past decade, the amount of data collected in the microfinance sector has grown tremendously for two reasons: microfinance institutions (MFIs) need more client data to develop and market new products and services and secondly, external stakeholders increasingly require both financial performance reporting and evidence that the MFIs have a measurable social impact on clients. This, however, has not been supported by a commensurate improvement in data quality.

While most in the microfinance sector see the value of data, and many acknowledge that quality is lacking, there has been little attention given to this issue. As part of its Gender Performance Initiative, Women's World Banking (WWB) is facilitating a dialogue on the importance of data quality and developing recommendations to address deficiencies in data collection and analysis in the microfinance industry.

To better understand this issue, WWB commissioned 10 expert interviews including microfinance practitioners, rating agencies, and funders who reinforced that data quality is a serious challenge and expounded on potential reasons. The challenges were grouped in three areas:
1) Client and staff incentives,
2) Mismatch of reporting needs among internal and external stakeholders, and
3) Inadequate information systems and processes.

This paper lays out the challenges and solutions for each area, much of it focused on the last point. WWB has put forth our findings, but asks the microfinance community for further input on these issues.

Self-reported client data and field staff incentives

The majority of data provided by clients is self-reported. Although loan officers can perform certain checks, clients may still alter their responses based on what they think is the socially desirable response or the response that will result in a desired outcome, such as a larger loan or a smaller repayment amount. Beyond business-related data, collecting personal or household data for social performance initiatives may raise issues in some contexts, where these questions are perceived as embarrassing, culturally inappropriate, or simply unexpected from a bank. These challenges are prevalent for women in particular, where confidentiality is often important.

At most MFIs, loan officers have the primary responsibility for collecting and verifying client information, yet MFI personnel often have insufficient incentives to collect accurate data, have large portfolios and little spare time, and a poor understanding of how the data is used. Loan officers often have targets for number of loans disbursed, loan size or number of clients, all of which can influence
what information they collect. Combined with weak incentives for ensuring data accuracy, this may contribute to misreporting or biased reporting. For instance, in India, where MFIs must focus on lending to clients who are below the government-mandated income level, staff have an incentive to under-report income levels to meet targets. This not only skews income data for the credit analysis process, but also impedes the institution’s ability to ensure it is serving its target market—low-income women. Until staff incentives are aligned with transparent data, there will be questions about the accuracy of client data. Similarly, clients need a reason to provide accurate data that they don’t perceive as counter to their financial goals. Loan officers can educate clients on the importance and benefits of providing accurate financial and personal information. Staff should also be trained to ask pertinent questions that enhance data collection, in a way that doesn’t intimidate women. During a recent WWB workshop, one practitioner advocated for training clients to fill out their own loan applications, both as a mechanism for improving data quality, as well as a form of financial literacy training. As women generally tend to have lower literacy levels, and in certain regions, tend to have more confidentiality concerns due to cultural barriers, trainings should also include a gender module that provides staff with specific guidelines on how to ask questions.

MFIs also need guidance and training on how to appropriately collect and analyze data. Until MFIs use data regularly in their decision-making processes, they have limited incentive to improve data quality. Establishing data governance policies which specify the type of data collected, how the data are used and who has access to which data could be one strategy for institutionalizing data quality and data use within MFIs.

Involving staff in the analysis and use of data across the institution is critical. At a minimum, senior managers should share the findings from data analysis with staff, particularly those who collect and enter the data. Knowing how and why an MFI uses the data collected will motivate staff to collect and record accurate information from clients, identify and investigate discrepancies and suggest other information that would be useful to collect and analyze. In Bosnia and Herzegovina, MI-BOSPO has instituted quarterly trainings for loan officers on financial reports and the related data. Loan officers are evaluated annually to assess their knowledge on data processes and procedures. Branch managers have noticed an improvement in the quality of the data since the training was instituted.

Mismatch of reporting needs among internal and external stakeholders
The majority of experts interviewed highlighted a gap between the information needs of MFIs and their external stakeholders as a key challenge to data quality. Currently, the reporting requirements of external stakeholders, including investors, foundations, and governance bodies, drive what data are being collected by MFIs. The result is an overabundance of data that is produced for donors and investors that is not relevant to MFIs. MFIs need information that contributes to their ability to stay in business and advance their own missions. MFIs need to be able to see a return on investment in data and not have data add costs that make them uncompetitive.

The solution may be better communication among all parties to share their information goals and agree on what is worth measuring, what is measurable, how to measure it, and over what period of time. Collaboration among stakeholders to coordinate and standardize the indicators to be tracked for all MFIs would not only allow for cross-sector comparisons, but would substantially reduce the burden placed on MFIs. A critical part of the discussion will be who will bear these costs. Globally, the industry would be well served by guidelines for investors, funders and boards to enhance their understanding of the potential uses of data and help them to set realistic expectations.

Inadequate information systems and processes
If MFIs are able to align client, staff and funder expectations, they still need a reliable way to track data. WWB has found that this is the area that needs the most attention, and if addressed, could be
where improvement would have the highest impact. Some MFIs have become burdened with outdated information management systems that were not designed to capture the data now expected by donors, investors, and others interested in social performance. Similarly, systems may be advanced but due to high costs they are not customizable to meet the MFI’s needs. For instance, fields in the loan application are not consistent with data entry fields, which allows for a significant risk of human error when inputting data. Additionally, many MFIs create their own manual systems to manage and analyze data across branches or regions, creating opportunities for errors.

The majority of MFIs use product-centric database systems, in which information is organized separately according to product: different types of loans, insurance, etc. In such a system it may be difficult to see an individual client’s portfolio. By contrast, in a client-centric system, information is organized by and linked to individual clients. Analyzing financial or other data by gender, age and other demographic characteristics is much easier in client-centric systems. For example, analysis by clients’ sex can enable institutions to better assess client needs and measure social and financial impact.

Two corresponding critical long-term steps are to enable MFIs to transition from product- to client-centric databases and to create a uniform sector-wide system. Such a switch would likely be costly and time-intensive. Currently, no MIS provider has a large enough market share to drive this process on a large scale. Regulations, perhaps akin to those for mainstream banks, and a sector-wide effort (including working with MIS suppliers) to set common structural standards for data systems may pull and push, respectively, MFIs to transition to a uniform client-centric system.

To this end, MFIs could mirror the Customer Relationship Management (CRM) systems used by mainstream banks. CRMs enable a customer-centric strategy, allowing banks to manage the complete cycle of customer interactions through central operations. Basic analytics are automated and can be performed by staff without more advanced statistical training. These systems also have data checks built-in so that inconsistencies can be easily identified and resolved. However, CRMs are extremely costly and are out of reach for most MFIs. Perhaps external stakeholders in the microfinance industry could work with MIS suppliers to develop a CRM-like system that would be accessible to MFIs at a reasonable or subsidized cost.

As we tackle data quality issues related to client data and field staff incentives, internal and external reporting needs, and particularly information systems and processes, it is critical to first understand the challenges and build awareness. A crucial next step is to promote coordination and commitment among the various stakeholders. WWB hopes that by opening the dialogue, we can together identify solutions that will enable the microfinance industry to use quality data to better achieve and articulate financial and social goals.

**NEXT STEPS**

Women’s World Banking asks for public comment on the ideas discussed in this paper.

Consider the following:

- Are there challenges or solutions that were not covered in the paper that should be addressed?
- In particular, are there solutions to the challenges related to information systems and processes presented in this paper?

To provide comments on *Garbage In, Garbage Out*, please go to [https://www.surveymonkey.com/s/ZR9K6R3](https://www.surveymonkey.com/s/ZR9K6R3)

Thank you in advance for your input.
ACKNOWLEDGEMENTS
This report is based on research done by ICRW in October 2012. The team consisted of Anne Stangl, Krista Jacobs, Laura Brady, and Anne Marie Golla. We would also like to thank Fadi Al-Tawabini (Microfund for Women), Monique Cohen (Microfinance Opportunities), Dina Konquer (Microfund for Women), Glenda Magpantay (CARD Bank Inc.), Nejira Nalic (MI-BOSPO), Micol Pistelli (MIX, Inc.), Larke Reimer (Westpac), Mark Schreiner (Microfinance Risk Management), Sebastian von Stauffenberg (MicroRate), Blaine Stephens (MIX, Inc.), and Steven Wright (Grameen Foundation) for sharing their insights and experiences with us.