



Better Data for Better Business:

How MIX's Desk Review Can Help Build a Reliable Social Performance Dataset in Microfinance



Author: Micol Pistelli

Micol Pistelli is the Director of Social Performance at MIX.

About MIX

MIX promotes responsible financial services for underserved communities through data analytics and market insight. We do this through two decision support platforms, MIX Market and FINclusion Lab. As basic infrastructure for responsible and inclusive markets, these platforms provide a necessary ecosystem to enable and inspire coordinated investment, effective policy, and positive social outcomes for the financially underserved.

Learn more at www.themix.org.

SUMMARY

Today stakeholders in the microfinance industry have access to a dataset on MIX Market that contains social performance (SP) data points of over 1,000 financial service providers (FSPs) as well as tools designed for comparative analysis on both financial and SP data. This wealth of information specifically allows impact investors to screen institutions on the basis of both their financial viability and social responsibility, empowering them to make investment decisions that are more client-centered. However, after seven years of data collection, the majority of the available SP data tends to be self-reported and may therefore compromise its usability for meaningful analysis. The lack of reliable and standardized SP information at the industry level means that investors must conduct assessments of their portfolios using disparate datasets, which often exclude key SP metrics. Relative to the number of active FSPs, social ratings are few and far between; among the FSPs that report SP data to MIX, only nine percent have shared a social rating with MIX to validate the data they reported over the past three years. The lack of a large-scale shared infrastructure for SP data validation adds costs to the industry and represents an impediment to building a more transparent and socially responsible microfinance sector.

To bridge the gap between self-reported and externally validated SP data, MIX created the SP Desk Review, the methodology of which is built on a due diligence model. While not a substitute for a rating or an onsite audit, the Desk Review's strength lies in its proven ability to verify that the SP indicators FSPs report to MIX are indeed in place. This quality-check process is primarily meant to make SP data on MIX Market more reliable and useful for analysis and decision-making. Furthermore, it has the potential to generate important additional gains for the industry: (1) FSPs devote more time and human resources on conducting operations rather than on gathering documentation; (2) investors spend less time chasing data in order to focus on using the outputs for monitoring and decision-making; (3) the industry is more transparent and clients are better served. Given that the SP Desk Review has proven to be very effective in identifying reporting errors and inconsistencies, MIX is now seeking to work with FSPs and investors to build a robust shared infrastructure for reliable SP data sharing.

SELF-REPORTED SOCIAL PERFORMANCE DATA

A MISSED OPPORTUNITY AND A COST FOR THE INDUSTRY

Since 2008, MIX has amassed and standardized social performance (SP) data from over 1,000 financial service providers (FSPs). To make use of this data for analysis and decision-making, MIX has also created a set of [benchmark analysis tools](#) that allow new dimensions related to SP practices to be incorporated to traditional risk/return assessments. The combination of such a rich dataset and interactive tools can be deployed to determine the alignment between an FSP's social mission and operations. For example, investors can more easily identify whether adequate policies for tackling over-indebtedness are in place, monitor borrower dropout rates, understand an FSP's ability to reach out to the poor, and verify policies related to social responsibility towards staff and the surrounding environment.

Even investors who are not primarily socially-oriented should welcome the advances in SP measurement. Consumer protection principles, governance structure, and human resources policies are key areas that any investor should monitor to avoid potential reputation and financial risk. Had these key areas been factored into risk management strategies and lending decisions, some of the microfinance crises that occurred in the past few years might have been avoided or, at the very least, the effects thereof may have been significantly mitigated.

In order to be relevant and useful for decision-making, data must be reliable. Despite the various advances in measurement and analysis, the reliability of SP data remains a challenge in the industry. While the vast majority of financial data reported to MIX have been audited at least once, SP data are rarely backed up by social ratings and, therefore, are largely self-reported. To date, MIX has been able to verify, to various degrees, the quality of SP data with the support of social ratings for approximately nine percent of the FSPs.

The mismatch between the high demand for SP data – as evidenced by the hundreds of FSPs reporting these indicators as well as by the growing number of investors

demanding this information – and the low demand for external data validation is symptomatic of the inefficiencies and contradictions of an industry that is largely dependent on subsidies for its information infrastructure costs.

The lack of a common infrastructure for validated SP data comes at the cost of transparency for the industry and of the usability of such data for analysis and decision-making. To give an example: if investors want to assess the poverty outreach of the institutions in their portfolio vis-à-vis that of other FSPs in the market, they can run a comparative analysis using the data available on MIX Market. However, given the high likelihood that the selected data are self-reported, investors would need to complement their analysis with a review of their FSPs' internal databases and documentation during the due-diligence phase.

The lack of a common infrastructure for validated SP data comes at the cost of transparency for the industry and of usability of such data for analysis and decision-making.

Furthermore, while a thorough due-diligence process would allow investors to trust the data gathered for their portfolio, they still would not be able to benchmark the data of their institutions against that of other institutions in the market. This results in a cumbersome and inefficient process that adds costs at all levels: FSPs spend their time reporting information to MIX for which they would eventually have to submit documentation to prospective and current investors; investors find themselves focusing more on data sleuthing than on data analysis; the industry's transparency is hampered by the lack of shared reliable information and this ultimately comes at a detriment to the quality of service and products delivered to clients.

mi Market English Guest All MIX Market Reports

Cross Market Analysis Change Report Type

1. SELECT

Search or select data points to display

Clients below poverty line

× Clients below poverty line

2. PERIOD

Select a report date range

Years 2013 - 2015

Months Jan - Dec

Limit report display by selecting below

Annual Semi-Annual Quarterly

Monthly

3. FILTERS

Filter report by key indicators

Filter Report +

4. GROUP

Group Table by

Country

Display grouped statistics as

Median

Sum / Weighted Average

Adjust data

Non-adjusted

Adjusted

Country	Fiscal Year	Period Type	As of Date	MFI Count	Clients below poverty line
India	2014	ANN	2014	10	67 %
India	2013	ANN	2013	7	65 %
Philippines	2014	ANN	2014	7	45 %
Nicaragua	2013	ANN	2013	5	5 %

The snapshot above illustrates the numbers of clients who appear to fall below any given poverty line by country. Unfortunately, due to the fact that most of this data is unverified, the utility for analysis is low.

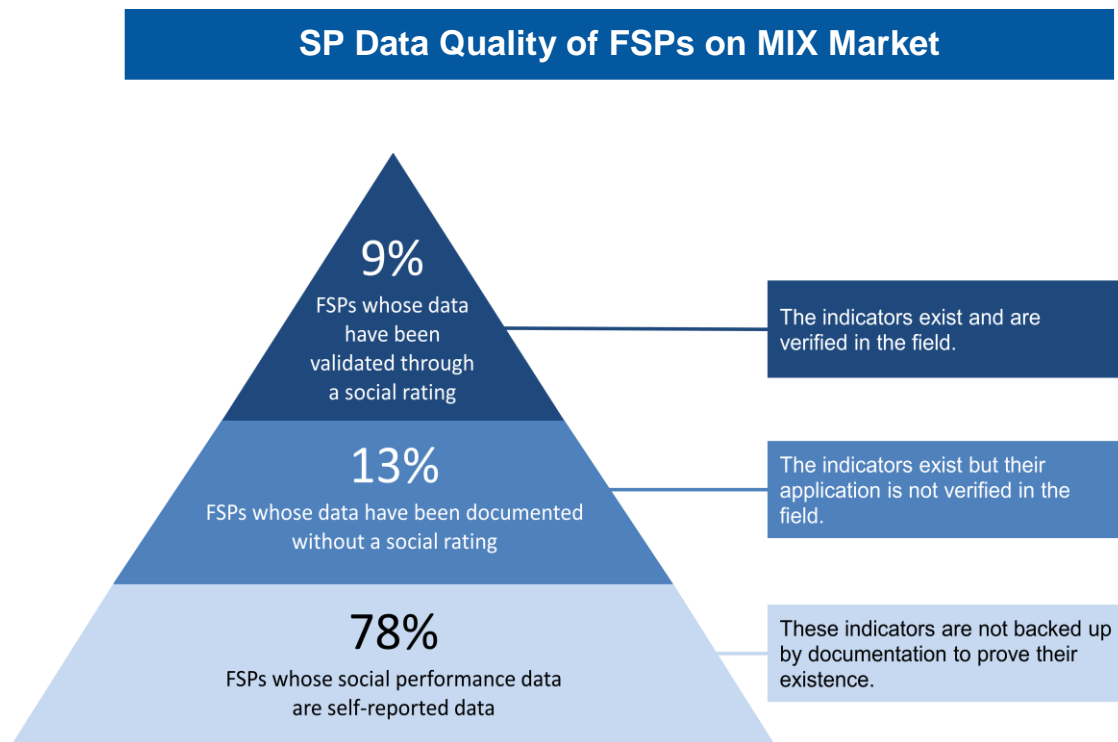
INTRODUCING MIX'S SOCIAL PERFORMANCE DESK REVIEW

BUILDING A RELIABLE SOCIAL PERFORMANCE DATASET

To address the challenge of self-reported SP data, MIX developed the SP Desk Review, which is a process that consists of collecting documents that FSPs already have on hand – including MIS reports, original policy documents, loan contracts, and marketing material – in order to verify the existence of the SP indicators that are reported to MIX. The process bears its name because the collection of these documents takes place off-site.

Rather than being a substitute for social ratings, which are conducted to validate data based on field observations and to provide recommendations to FSPs, the SP Desk Review is designed to verify the existence of the policies, products, services and studies reported by FSPs to MIX.

The quality of SP information available on MIX Market today is represented by the graph below. The self-reported data, the reliability of which is unknown, can be found at the base of the pyramid. These represent 78 percent of the institutions reporting SP data on MIX Market. The data that MIX has been able to document without the use of a rating are featured in the midsection of the pyramid. Thirteen percent of the institutions have had their data documented this way. The top section of the pyramid includes the nine percent of institutions whose data have been verified against a social rating over the past three years.



To date, MIX has verified indicators for 253 FSPs, 101 of which were validated with the use of a social rating and 152 of which were desk-reviewed with the use of a variety of internal and external documents. The following types of internal documentation have been used: source documents (database/MIS extracts or external surveys), original policy documents, training manuals, operational documents and manuals, partnership agreements, and

evaluation tools reports and studies. The following types of external documentation have been used: CERISE SPI Assessment Reports from CERISE-certified auditors, MicroSave Assessment Reports, SMART Certificates and Smart Assessments (for Client Protection Principle indicators), and Grameen Progress out of Poverty Index® (PPI® Certifications for client poverty measurements using the Grameen PPI).

Region	Number of FSPs sharing social ratings with MIX	Number of FSPs without a social rating, sharing documentation with MIX	Total FSPs whose data are verified
Africa	5	20	25
East Asia and the Pacific	13	13	26
Eastern Europe and Central Asia	17	29	46
Latin America and The Caribbean	54	43	97
Middle East and North Africa	6	3	9
South Asia	6	44	50
Total	101	152	253

INSIGHTS FROM MIX'S SOCIAL PERFORMANCE DESK REVIEW

The SP Desk Review has had a significant impact on the quality of MIX Market's SP data. **If we combine data that have been cross-checked with social ratings and documents that MIX has collected over the past three years, we find that one out of every four self-reported data point is incorrect.** On average, 28 percent of all SP data points subject to review are either removed or changed. In addition, the SP Desk Review has allowed MIX to strengthening the quality of its dataset by adding 596 data points that participating FSPs had not initially reported to MIX.

The SP Desk Review has also allowed MIX to identify data areas that FSPs tend to have trouble reporting accurately, as shown in the figure in the following page. This knowledge, in turn, has helped MIX further improve overall data quality by refining definitions and adapting collection and review strategies.

One key finding that emerged from the SP Desk Review is that all dimensions of SP are prone to common reporting mistakes. This is particularly true for the dimensions related to outcome measurement and staff incentives, for which half of the data were reported incorrectly.

A few additional findings shed light on how an investor can use information gathered from the SP Desk Review to follow-up with the institutions during the due diligence investigation:

1. Contrary to the common perception that poverty measurement is a difficult area to measure and monitor, **institutions are willing and able to provide evidence of the poverty tools and methodology used to survey their clients**, even after one or more years since the measurements were taken. Globally, over 70 percent of the FSPs that had reported poverty figures to MIX at least once over the past five years could also document the figures they reported. The supporting documentation that these institutions shared with MIX (i.e. the form(s) that loan officers used to collect poverty data, source documents showing aggregate poverty figures of clients, client poverty reports, etc.) showed that poverty data can and should be tracked and subjected to validation.
2. When reporting to MIX, **institutions tend to categorize their product offerings based on how clients use them rather than the purpose for which they were designed.** For example, an

all-purpose credit product will be reported as an agricultural loan because some clients use it to finance agricultural activities, while others might use it for other purposes. This finding highlights the reality that products are not always designed based on different uses as the self-reported data

would suggest. As such, an investor should spend time investigating whether market research was conducted to test the design and use of their suite of products.

Universal Standard of the SPTF	Data area	Percentage of self-reported data points changed after Desk Review	Total SP data points documented
USSPM 1	Social outcome measurements	53%	343
USSPM 2	Governance	37%	126
USSPM 2	Basis of staff incentives	49%	517
USSPM3	Financial products and services	19%	1476
USSPM 3	Nonfinancial services	31%	481
USSPM 4	Client protection principles	28%	724
USSPM 5	Human resource policies	13%	555
Area not tracked by USSPM	Environmental policies	30%	246

A ROBUSTNESS TEST OF THE SOCIAL PERFORMANCE DESK REVIEW

To test the robustness of the SP Desk-Review, MIX also developed an On-site Data Quality Audit in 2014. The SP On-site Data Quality Audit extends the SP Desk Review methodology beyond paper documentation by observing operational processes on the ground and interviewing key personnel at every organizational level.

The SP On-site Data Quality Audit was piloted with 13 FSPs across Senegal, Peru, and India that had previously participated in the SP Desk Review as well as those that had only submitted self-reported data. During the on-site audits, we found errors in 5% of the 148 data points that had been previously desk reviewed. It is important to note that these errors are not related to a flaw in the

methodology of the SP Desk Review, but rather are due to the lag observed between the time that an SP indicator is actually in place and the time at which an institution reported the indicator to MIX.

On the other hand, for those institutions whose data were self-reported, the on-site audits confirmed the lack of reliable self-reported data already observed through the Desk Review. To illustrate, 39% of the 210 data points that had previously been self-reported were either changed or removed as a result of the audit. All in all, these combined findings in the field confirm the robustness of the methodology of the SP Desk Review.

Universal Standard of the SPTF	Data area	Percentage of self-reported data points changed after audit	Total self-reported SP data points audited
USSPM 1	Social outcome measurements	65%	17
USSPM 2	Governance	13%	8
USSPM 2	Basis of staff incentives	61%	33
USSPM3	Financial products and services	28%	46
USSPM 3	Nonfinancial services	56%	16
USSPM 4	Client Protection Principles	39%	54
USSPM 5	Human resource policies	15%	26
Area not tracked by USSPM	Environmental policies	30%	10

WHAT COMES NEXT: A SHARED INFRASTRUCTURE

WORKING WITH INVESTORS AND FINANCIAL SERVICE PROVIDERS TO IMPROVE THE QUALITY OF SOCIAL PERFORMANCE DATA

The SP Desk Review has proven to be a low impact and efficient process for FSPs, and has even shown to have the beneficial spillover effect of improving their understanding of the industry's requirements in the area of SP management.

The microfinance industry needs a common infrastructure to ensure that reliable SP data can be available at large scale for analysis and actionable decision-making. FSPs and investors have important roles to play in building such an infrastructure by actively participating in a joint effort of SP data verification. The greater the number of investors demanding data verification from FSPs, the more efficient the process will become.

In fact, with the consensus from FSPs, MIX is planning to create a repository of documents collected through the Desk Review to which investors can access. This will have the dual purpose of reducing the reporting burden of FSPs and allowing investors to make better use of their time during the due diligence process. This would yield a win-win solution for FSPs and investors alike and represent an important step in the advancement of the microfinance industry's SP agenda.

These are the simple steps that investors and FSPs can take to help build a shared infrastructure for SP data quality:

Investors:

- ✓ Require that SP data undergo the same kind of quality review that is required for financial data;
- ✓ Adopt standard processes and tools for collecting SP information, like CERISE SPI and MIX Desk Review and demand social ratings for a deeper level of data validation in the field;
- ✓ Join shared infrastructure initiatives like the SP Desk Review to improve data quality in an efficient manner.

Financial Service Providers:

- ✓ Update information on MIX Market any time a change in operations occurs;
- ✓ Share with MIX the most recent third party validation document (i.e. social ratings, social audits, certifications) as soon as they become available;
- ✓ Share the documentation that MIX's SP Desk Review methodology requires to review your data.

FRAMEWORK OF MIX'S SOCIAL PERFORMANCE DESK REVIEW

PROCESS

Investors require FSPs to share documents with MIX for the SP Desk Review



FSPs share documents with MIX



MIX uses documentation to review self-reported data and make them available to investors

GAINS

MIX Market data are more reliable, resulting in better analysis and decision-making

FSPs spend less time gathering documents and more time focusing on operations

Investors use the outputs for monitoring and decision-making

The industry becomes more transparent and clients are better served