Selective Knowledge: Reporting Biases in Microfinance Data

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Answering surveys is usually voluntary, yet much of our knowledge about microfinance depends on the willingness of households and institutions to respond to survey questions. In this study, Financial Access Initiative Managing Director Jonathan Morduch and Jonathan Bauchet explore the implications of voluntary reporting on knowledge about the performance of microfinance institutions, specifically focusing on the MixMarket and Microcredit Summit Campaign databases. They show patterns of systematic biases in microfinance institutions' choices about which survey to respond to and which specific indicators to report. These patterns in turn affect analyses of key questions on trade-offs between financial and social goals in microfinance. The results highlight the conditional nature of our knowledge and the value of supporting social reporting.

Analyzing Databases

Two organizations have been critical in collecting large data sets on microfinance institutions: MixMarket, which to date has centered on financial data, and the Microcredit Summit Campaign, which elevates the cause of social and economic change. This analysis focuses on data for 2,072 microfinance institutions from the two organizations' databases for the years 2004-2006.

Results

While both data projects aspire to global coverage and encourage the broad submission of data, the authors found that institutions appearing in the two sets differ systematically. While 26% of institutions reporting to the Microcredit Summit Campaign also report to MixMarket, institutions reporting to MixMarket are more likely to operate in Latin America and the Caribbean or in Eastern Europe and Central Asia, while institutions reporting to the Microcredit Summit Campaign are more likely to operate in South Asia. Institutions reporting to MixMarket appear to be more financially-focused: their average operational self-sufficiency ratio is 115 percent against 95 percent for institutions reporting to the Microfinance Summit Campaign. Institutions reporting to the Microcredit Summit Campaign appear more focused on reaching poor borrowers: on average, 62 percent of their clients are poor, versus an average of 53 percent for institutions reporting to MixMarket. The reporting of specific indicators in each database follows similar trends, and the reporting of outreach indicators present more significant biases than the reporting of financial indicators. Over 92 percent of institutions reporting to the Microcredit Summit Campaign report the percentage of poor borrowers, versus less than 16 percent of institutions reporting to MixMarket. Due to these biases of self-selection into databases and non-random missing data, different answers are obtained when asking the same questions using data from different databases. For example, the relationship between operational self-sufficiency and the percentage of women borrowers is negative in the MixMarket data, but Microcredit Summit Campaign data suggest that both goals can be achieved simultaneously.

Policy Implications

The results indicate that neither of the two data sources analyzed here provides a comprehensive view of the state of microfinance when analyzed in isolation. Analysts need to take caution when making inferences and conclusions about the general state of microfinance and the needs of microfinance institutions. In an effort to combat these systematic biases, donors and policymakers should support institutions in using tools that provide more robust social data such as poverty assessment tools and impact measurement methodologies. Donors and researchers can also encourage non-reporting institutions to begin reporting. The authors' results suggest that doing so would enrich—and likely reshape—understandings of the current microfinance landscape.