Benchmarking poverty outreach with the PPI

GAIN INSIGHTS THROUGH OBJECTIVE COMPARATIVE ANALYSIS

Benchmarking is the comparison of an organization's results to an industry standard or best practice. It is a popular method used by organizations to assess their performance and gain valuable insights into their relative performance.

The degree to which a program is reaching poor households is known as "poverty outreach"; high poverty outreach implies that the program is valuable to poor households and delivered appropriately. There are three dimensions of poverty outreach:

- Concentration, the percentage of clients or customers who are poor;
- Scale, the absolute number of clients or customers who are poor; and
- Penetration, the percentage of poor in a region served by the organization.

This guide will focus on the first dimension, poverty concentration.

This simple guide builds upon findings from the following two reports that explore concepts of poverty outreach in depth, particularly in the context of microfinance:

- **Poverty Outreach of Selected Microfinance Institutions in the Philippines**
- **Microfinance: A Poverty Lens on Financial Inclusion**

For pro-poor organizations, reaching and retaining poor households are important social performance goals that should not be taken for granted. The PPI uniquely allows its users to benchmark its poverty concentration to objective data, such as national and regional poverty rates, and to more nuanced figures developed internally. Doing so enhances the power of poverty data to drive strategic decision planning and ultimately improve the lives of the poor.

Reasons to benchmark poverty concentration

There are four main reasons that organizations benchmark their poverty data:

1. To assess their client targeting strategy in an objective manner;
2. To inform strategic decisions about resource allocation;
3. To improve the delivery and design of products and services; and
4. To report performance to outside parties, including investors and donors.

Organizations that strive to reach the poor often benchmark their poverty data as a means of assessing their ability to do so. When an organization's regional poverty concentration is significantly higher than that region's poverty incidence, the organization has one valuable, objective indicator of good social performance. At most pro-poor organizations, the percentage of clients who live below a particular poverty line should be at least as high as the percentage of households that live below the same line. If not, the organization should evaluate its targeting methods, product design, client eligibility requirements or any other hindering factors in reaching poorer clients.

Organizations also benchmark poverty data to understand the effectiveness of targeting programs over various regions. Frequently, PPI users find that targeting performance is very strong in one or more regions while

substandard in others. In evaluating the causes of this imbalance, management can consider shifting resources to markets that appear underserved.

When organizations fail to meet their desired poverty concentration, it is important to understand whether products and services are adequately tailored to be both desirable and useful to the poor. For example, if an organization develops a product specifically aimed at the poor but finds that its poverty concentration is far below the regional benchmark, it has reason to suspect that the product is falling short of meeting the poor's needs. Perhaps the product's cost is too high or efforts to reach rural households, which tend to be poorer, have been insufficient.

Finally, organizations benchmark their results in order to report on performance to outside parties. This is often for reputational purposes; confidence in an organization that strives to reach the poor grows when its ability to do so is proven. In addition, some investors require benchmarking as part of their evaluation of potential and current investees.

How to use the PPI to benchmark

Once representative PPI data are collected, either through census data collection or random sampling, the data are aggregated to calculate poverty rates. (Visit **povertyindex.org/guide** for information on calculating poverty rates.) Using the PPI, organizations can calculate poverty rates for their entire customer or client base, but they're also empowered to calculate these rates for sub-groups of their client population.

When dividing households into sub-groups to determine their respective poverty rates, note the confidence interval for each grouping.

You can determine confidence intervals using the Sample Size Calculator, available for each PPI on its respective webpage.

Comparing performance in different regions or countries

One simple yet informative way to disaggregate poverty data into sub-groups is by regional location. This allows organizations to determine the regional poverty rates of their clients.

Every PPI has its own PPI Design Documentation[1], a detailed technical description of the design and construction of the PPI, written by **Mark Schreiner** of Microfinance Risk Management, L.L.C. In the appendix, you will find a number of oftentimes overlooked but nonetheless valuable tables and figures with information that facilitates detailed data analysis. The data required for regional benchmarking are located in a set of tables that provides national and regional poverty rates. Typically, both household-level and person-level poverty rates are given.[2] For most PPIs, poverty rates are further broken into urban and rural poverty rates.

As with any comparative analysis using the PPI, reference only the regional rates published in the PPI Design Documentation–not rates published elsewhere, even those that are more recent or are for different sub-geographic regions–unless you are certain the rates are comparable. Other poverty figures may be based on a different definition of poverty, as governments update definitions of expenditure or the definition of a poverty line over time. Furthermore, the reported poverty rates may be calculated slightly differently from poverty rates derived for the PPI.

PPI data should always be benchmarked against comparable figures. Typically, the best rates to use when benchmarking are those for a sub-geographical region within countries, such as states, departments or provinces.

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[1] The design documentation is available on each PPI's webpage at **www.povertyindex.org**

[2] If your organization does not deliberately calculate person-level rates, i.e., it uses the poverty rates from the PPI Look-up Table or uses outputs from **TaroWorks**, then you may confidently reference the household-level poverty rates.

It may be tempting to compare poverty concentration to a country's national poverty incidence, but doing so may be misleading. Let's use Colombia as an example to understand why. Colombia's poverty rate for the national poverty line is 33.3%; however, the poverty rate across the country varies from a low of 19.6% in Tunja to a high of 47.7% in Quibdó. Assume that an NGO has offices in both of these cities and determines that its poverty rates in each are 20% and 45%, respectively. If these rates were benchmarked against the national rate, 33.3%, then the NGO's operations in Tunja would be mistakenly assessed as performing poorly, whereas those in Quibdó would be mistakenly considered to be performing quite well. If instead the offices were benchmarked against data for their respective cities, performance would be correctly evaluated as average, with Tunja performing slightly better than Quibdó.

Let's expand this example across eight cities in Colombia. Figure 1 below shows each city's poverty rates in green and each office's poverty concentration in those cities in blue. Note that if operations in each of these cities were compared to the national average, offices in Villavicencio and Cartagena would be considered to have fairly average poverty concentration, even though the office in Villavicencio actually has a much higher poverty concentration than the city's poverty incidence. Figure 2 offers another way to chart benchmarked data.

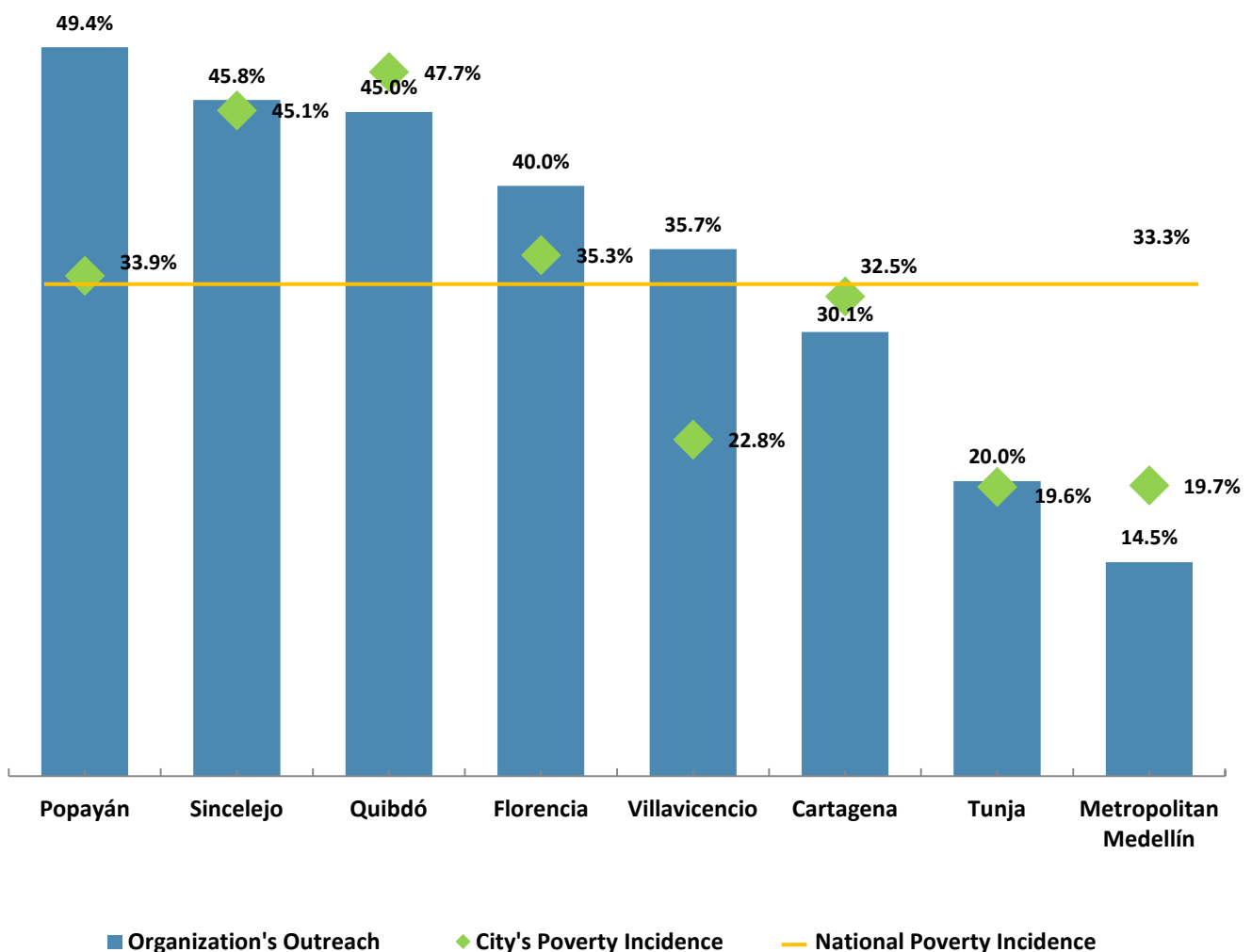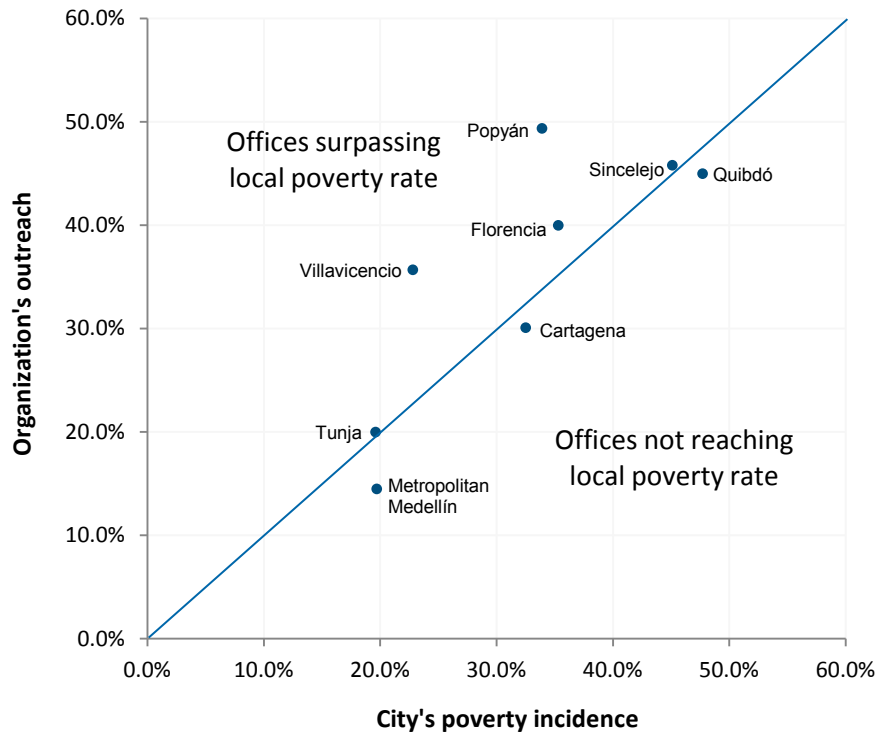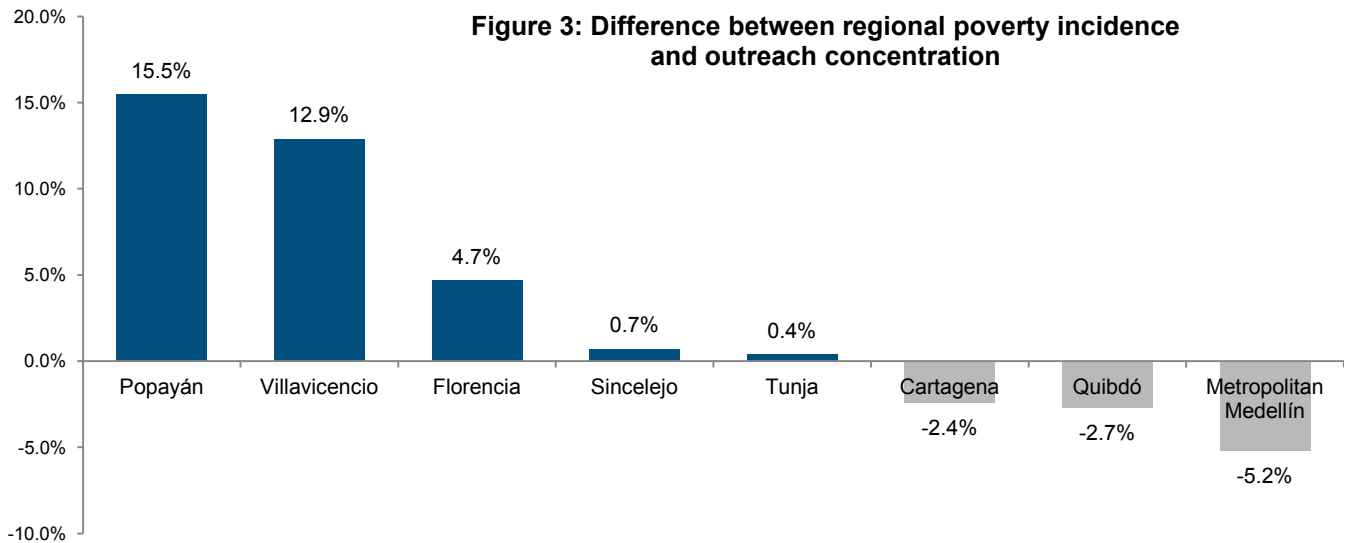**Figure 1: Poverty rates by region (national poverty line)**

Figure 2: Poverty rates by region (national poverty line)

Assessing differences between poverty incidence and poverty concentration

It's easy to see which offices are exceeding their respective city's poverty rate and which aren't, but how can each office's performance be quantified relative to the benchmark? One approach, used in Figure 3 below, is to simply subtract each city's poverty incidence from the office's poverty concentration. Using this method, Popayán is outperforming all others.
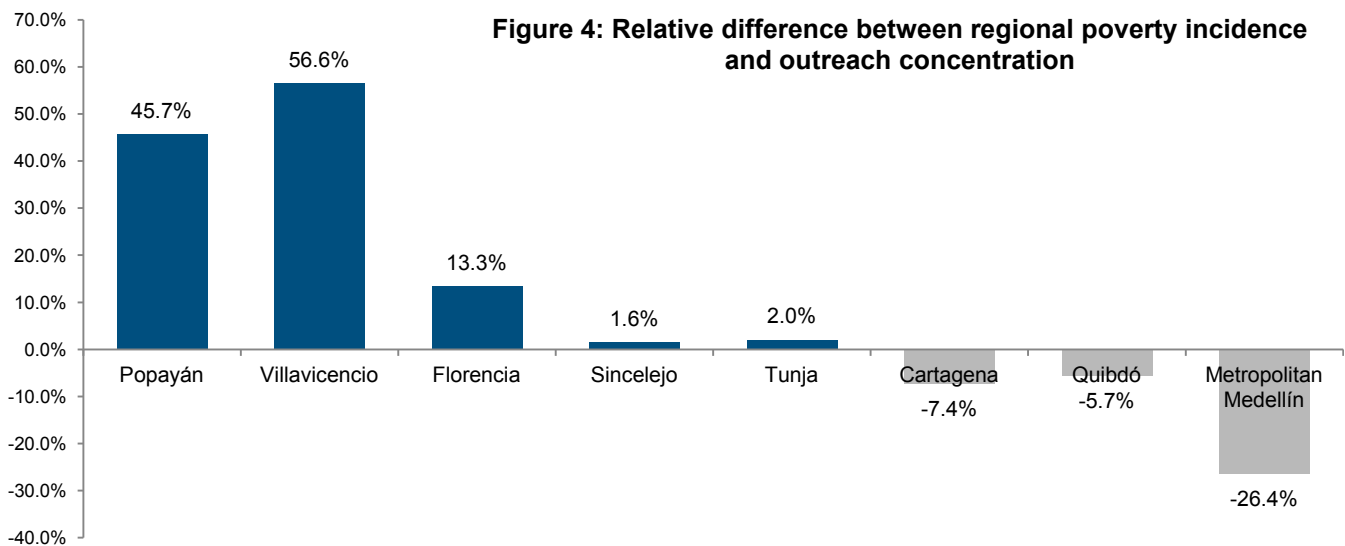

Figure 3: Difference between regional poverty incidence and outreach concentration

While simple subtraction is a suitable method, it does not consider the relative difficulty of targeting poor in each of the cities. Offices in cities with higher poverty rates will have a relatively easier time reaching the poor than offices in cities with low poverty rates because there are more poor households to serve. To account for this, you can determine a relative difference by using the following formula:

$$\frac{(Organization's\ Poverty\ Concentration\ in\ Region - Poverty\ Incidence\ in\ Region)}{Poverty\ Incidence\ in\ Region} = Relative\ difference$$

The relative difference for each city is shown below in Figure 4, with the ordering of the cities the same as in Figure 3. Accounting for the city's poverty incidence, Villavicencio is the best performer.

Figure 4: Relative difference between regional poverty incidence and outreach concentration

Considering other benchmarks

Up to this point, we have considered only national and regional rates as possible benchmarks. For organizations just beginning to benchmark poverty data, such rates are the most straightforward to use when assessing performance. In addition to these, organizations commonly use the following bencharks for poverty data:

▶ Peer-derived benchmarks;

▶ Comprehensive benchmarks; and

▶ Externally imposed benchmarks.

Peer-derived benchmarks

Often organizations will compare their poverty concentration to that of a peer or peers. Doing so may uncover valuable insights into the effectiveness of your program that comparison with regional rates may not bring to light. Additionally, since peer-derived benchmarks ostensibly use recent data, they are less susceptible to economic changes over time than regional poverty rates published in the PPI Design Documentation.

Organizations' poverty rates at the institution level can be found for many microfinance institutions on **MIX Market**'s website or on organizations' own websites, where more detailed poverty rates may be published. You

may also request more detailed poverty concentration information from the organization itself. Offering to provide your own poverty data is one way to encourage sharing. Additionally, networks and cooperatives may be able to facilitate the construction of peer benchmarks, allowing for the participation of many organizations.

Remember that it is important to benchmark using comparable rates. Organizations should only be assessed relative to similar organizations working in the same region. Organizations operating in different provinces should not be expected to have the same poverty rates.

Comprehensive benchmarks

Organizations frequently set their own benchmarks, going beyond regional rates or rates of peer institutions. Several factors should influence the determination of comprehensive benchmarks, including:

- **Location:** As discussed above, location of operations is a significant benchmark and it must be considered when creating an internal benchmark.

- **Historical rates:** Historical rates allow an organization to use past performance indicators to inform how the organization can expect to do in the future.

- **Organization's mission:** Some organizations cite specific poverty rates in their mission statements. This is itself a benchmark.

- **Peer performance:** As described above, organizations may wish to compare their performance to that of others.

- **Sustainability:** Organizations should balance their social performance with the sustainability of their operations. There are often barriers to reaching poorer clients in remote areas, ranging from poor infrastructure to internal conflict. When an organization operates in regions with poor who are difficult to reach, maintaining low poverty concentration relative to the regional poverty incidence may allow service to poor households who would not otherwise be reached.

- **Product and service offerings:** The qualities of products and services will influence their desirability among the poor. In addition, eligibility requirements that hinder the participation of poorer clients, such as having an existing business or having a particular profession, can systematically exclude some poor and will impact the poverty concentration that an organization can feasibly expect to have.

While not all of the above need to be factored into an appropriate benchmark or set of benchmarks, there must be sound logic behind their development. Additionally, avoid inflating benchmarks beyond what reasonably can be expected simply because higher poverty concentrations seem more desirable. If after careful consideration of the above a relatively low poverty rate seems appropriate, setting a higher benchmark can position the organization for failure or worse, unethical practices aimed at meeting the unrealistic benchmark.

Externally imposed benchmarks

Sometimes organizations are asked by third parties, such as investors and donors, to meet certain benchmarks as a condition for continued support. This is done in an effort to ensure that organizations truly are poverty focused. The determination of imposed benchmarks varies among requesting organizations from a percentage of a country's poverty incidence under a particular poverty line to benchmarks that consider more complexity.

Because no organization operates within the same context as another, it is important that organizations be transparent and vocal about why they are or are not meeting certain benchmarks. An organization that does not meet imposed benchmarks may have valid reasons and should be ready to provide sound justification for why the benchmark was not reached.