



THE FUTURE OF VFM

*A consideration of the challenges and potential solutions
for improving its measurement and application*

A thought piece



Introduction

Value for Money (VfM) continues to be a hot topic within the development sector. As a response to the intensified scrutiny of aid expenditure, it's an approach that seeks to maximize benefit when only limited resources are available. The aim of VfM is to help both donors and beneficiaries of aid to monitor, measure and quantify the (social) returns on an investment.

Problematically though, it is an imperfect science and can be quite controversial. The methods used to demonstrate how the best outcomes have been achieved without wasting resources are often viewed as reductive or burdensome. Meanwhile, in the absence of (and sometimes even *with*) defined metrics, targets and benchmarks, VfM risks being subjective.

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Over the last five years, LAMP Development has been working with development programmes in health, education and nutrition in a number of countries in Africa to foster and implement VfM monitoring arrangements. During the course of which we have conducted a number of VfM analyses. The aim of this paper is to highlight some of the challenges we faced – challenges now facing others – and to offer our thoughts on how to tackle them. Drawing on our experience on the ground, we've used the lessons we learned to identify opportunities to strengthen VfM measurement and application in the future. Used well, we have found that VfM can be an important tool for managers looking to improve the delivery of aid programmes.

The challenges

What are the challenges faced, and how can these be tackled?

Challenge *'VfM is reductive'*

Projects we work with often complain that a VfM assessment is unable to capture all the benefits of the project. For example, when a health or education programme uses an economic (e.g. cost-effectiveness or cost-benefit) analysis to assess whether the benefits outweigh the cost of investment. These types of economic analyses are designed to assess monetary and quantifiable benefits only, thus disproportionately valuing benefits that can be measured. This is problematic as many of the initiatives in place are specifically designed to bring impact in non-financial or unquantifiable ways, e.g. a strengthened health system or improved self-esteem.

Challenge *'VfM reporting is burdensome'*

Developing and implementing a VfM assessment framework is often regarded as an additional reporting burden. In our experience, this doesn't need to be the case as it can be easily integrated into routine monitoring. Integral to this is building understanding across the project when it comes to demystifying VfM. It is crucial, for example, to select useful measures that answer any questions being asked, whether by the management, the funder, or the sector.

Challenge *'VfM is subjective'*

Due to the absence of a standardised assessment framework, VfM judgements are often considered highly subjective. Whether it's the fact that VfM assessments are based on comparisons and ratios; or that they must always take a specific perspective – e.g. that of the UK taxpayer, the UK Government (DFID, non-DFID), or the beneficiaries of the aid programmes (institutions or individuals) – an element of subjectivity is inevitably involved. In addition to which, what is considered 'good' VfM is itself not standardised. For example, even if there is agreement when it comes to the aims and objectives of a project (e.g. the need to reduce maternal mortality), there may be differences in opinion as to how this should be achieved. Or, even if it's been agreed which option is the most cost-effective, that chosen may not be politically or socially acceptable thus rendering the 'good' VfM judgment obsolete.

Challenge *'Data on benchmarks and comparators is not available'*

Partly linked to a general paucity of data and research in developing countries, data on benchmarks and comparators is often lacking. This can be frustrating for implementers who wish to understand how their VfM indicators compare with other similar projects. It also runs the risk of comparing 'apples with pears'.

Challenge *'VfM requires specialist skills and additional resources'*

There is a risk that VfM assessments require evaluators with specialist skills and/or access to data that is not readily available. If a programme conducts an economic analysis to compare with the original investment appraisal (for DFID programmes this is the economic case within the business case), the necessary skills may not be readily available within the team, and neither might the data nor assumptions to replicate the model. Also, the design of the programme may have been adapted since the original investment appraisal so a new analysis will need to be developed.

Challenge *'What is the benefit to the beneficiaries?'*

Assuming beneficiaries have been involved in the design of programmes, a VfM assessment also needs to consider how the programme has delivered VfM for the beneficiaries as well as funders. In terms of the results chain, one could argue that beneficiaries will be more concerned about a programme achieving outputs and outcomes, whereas donors are more mindful of avoiding waste at the economy and efficiency stage. However, communities will also be very aware of inflated prices or the use of external contractors instead of local resources, and so it is always important to consider beneficiaries at each and every stage of the results chain.

Challenge *'VfM is only about economy and cutting costs'*

There is a concern that VfM is just about cutting costs and ensuring that procurement is as competitive as possible. It is perceived that the quality and outcomes of the project will suffer because there is little emphasis on the results of the project.

Our solutions to these challenges

As of the UK 2015 International Development Act, VfM is a legal requirement. As such, it urgently needs to be incorporated into donor-funded programmes in a way that is both practical and not burdensome. It is a particular issue for programmes the object of which is to focus resources on vulnerable populations in-need rather than wasting time and resources completing resource-intensive reporting and evaluations. How can demands for transparency and accountability be met without diverting resources away from reaching those most in need?

At LAMP Development our first-hand experience has given us valuable insight into the benefits, as well as the frustrations, of implementing VfM. The organisations we work with often want a better theoretical understanding of VfM as well as practical advice on how to enhance VfM within their programmes.

Way forward *'VfM is reductive'*

It is difficult to capture all the benefits of a programme. There is much value in measuring those that can be quantified, but it is also important to remember that an economic assessment should sit within a broader range of project appraisal methods. These might include a review of the existing evidence base, political factors and financial feasibility to determine, alongside the economic case, whether an initiative should be started, continued or ended.

Our approach to establishing a framework to make a VfM assessment is to include a balance of quantified and monetized metrics as well as qualitative evidence. This helps to capture some of the non-monetary benefits and tell the story around achieving VfM. Qualitative data, including case-studies, needs to be collected and analysed systematically (e.g. using semi-structured interviews and the coding of data) in order that it can function as robust evidence.

The questions a VfM assessment is asking should be able to be answered in such a way that is understood not just by economists but also by the people implementing the project. As such, answers to questions like Has the intervention delivered benefits that outweigh the costs? Could it be done/have been done for lower cost? Can we compare to alternatives – could we have achieved the same results for less cost? can be answered by economic analysis, but, in order to answer them more fully, particularly in a way that's more meaningful to the implementers, there is also room for qualitative evidence.

Way forward *'VfM reporting is burdensome'*

The addition of VfM reporting to a programme is often considered a lot of work for not much return. Rather than selecting fixed measures of VfM, we work with organisations to select metrics that they as implementers will find helpful, and encourage them to measure and then discuss the success of the performance rather than seeing it as something set in stone – either a pass or a fail. A good VfM framework should provide opportunities for learning as well as acting as a mechanism for accountability.

It is also made easier if the right building blocks and basics are in place. Cost data needs to be collected by input and output/activities. M&E systems need to collect robust effectiveness data

appropriate to the level of experimentation of the project: *is this an experiment or does it use a tried and tested approach?* There should also be agreement on the value of impact.

We need to acknowledge that VfM analysis includes elements from across disciplines: economics, programme management and governance, and social research/impact measurement. Economists will always question whether a VfM assessment is robust enough. Where sufficient data does not exist to conduct analysis, it is necessary to gather evidence, thus moving into the realm of social research. This is often viewed as burdensome by project management teams, but accomplished in the right way, it can prove a valuable tool for maximizing impact.

Way forward *'VfM is subjective'*

Given the not inconsiderable challenges facing VfM when it comes to the issue of subjectivity, we have found it is crucial to work closely with the programme and the DFID SRO to develop an assessment framework. The rationale for selecting metrics should be clearly stated, and the process involves drawing on best practice, DFID guidance, and general relevance to the specific programme. This way the analysis and findings can be used to inform ongoing programming. We would argue that comparison of options rather than simply delivering a 'yes/no' judgement provides valuable information to feed into discussions and decisions on project and intervention appraisal.

Way forward *'VfM requires specialist skills and additional resources'*

Given it is important to respond to the question *'Does this project still represent good VfM?'* at least on an annual basis, what tools can be used to measure VfM throughout the programme cycle? It is acknowledged that projects differ, not only sector-by-sector but also in design. For example, even within the Education sector some projects are more focused on strengthening key elements of the system, while others focus on providing education in emergencies. Some programmes are more innovative and use pilots, while others will be based on scaling up interventions to a national level. So although guidance exists by sector, there is still an important need to tailor this to each individual project. Rather than issuing prescriptive tools, alongside building more generic skills and capacity, the ongoing updating of guidance is a more appropriate approach. This includes familiarity with VfM and economic appraisal concepts, analytical skills (both financial and results), and critical reasoning, all of which can be complemented further by worked examples and templates for calculating metrics. A good example is the MSI calculator, which enables Family Planning projects to calculate the number of DALYs averted and number of 'lives saved'.

Although using standardized reporting tools would reduce the reporting burden and avoid the time-consuming process of developing a new measurement approach each time, this would be highly reductive (see challenge number 1). Using standardized reporting tools needs to be handled with care and undertaken alongside a breadth of other VfM measures, all of which together can be used to make an overall VfM assessment.

In addition to the analytical skills required to generate VfM analysis and data, further skills are required to interpret the results in the context of programme management. This includes being familiar with concepts used in analysis, being able to make judgements on the basis of the data, and knowing when and how to use the information to improve the (cost) effectiveness of the programme.

Way forward *'Data on benchmarks and comparators is not available'*

Benchmark data can be hard to find. However, many aid programmes have vast databases of cost and results data so there is ample opportunity to simply define the standard set of indicators of a suite from which appropriate ones can be selected. These standard indicators can then be used to build up a repository of comparative data. Importantly the definitions and calculation methodology needs to also be available so as to ensure that as far as possible 'apples and apples' are compared, rather than 'apples and pears'. Then any differences can be further explained by context and performance information.

Way forward *'VfM is only about economy and cutting costs'*

Although this is a common perception, VfM is about far more than just economy. Donors such as DFID emphasise that VfM includes efficiency and effectiveness. It is about getting the best results just as much as it is about achieving the lowest costs. As such, it is important to recognize the different levels of analysis that can, and should, be undertaken. One can simply compare unit costs of inputs, but it is just as important to keep an eye on the overall impact and outcomes. VfM also depends on the specific stage the project is at. In the proposal and setting up stage, the economy unit cost is crucial. Then, once they are in place, systems and processes need to be embedded that continue to keep an eye on unit costs and track progress alongside results. Analysis of efficiency unit costs can inform results based management (and budgeting). Effectiveness should be evident both at the design stage, and then again when there is data available on outcomes.

Conclusion

Although VfM is associated with several challenges, there is substantial scope for VfM to play a useful role in the implementation of development programmes. In LAMP Development's experience we have found it helpful to remember these key aspects of VfM:

- VfM is not an exact science and it needs to be considered differently throughout the project cycle.
- At its best VfM is a balance between objectivity and subjectivity, measures need to be fixed though not reductive, but there must also be room for flexibility and bespoke design.
- VfM analysis doesn't need to be complicated, in fact the more it can be understood and applied in practice, the more it serves to improve VfM rather than being a standalone reporting exercise.
- Requirements for VfM act as a useful programme tool – it builds on a financial management system to track the cost of activities and enhances result monitoring to measure outcomes and attribution.
- It helps to ask 'Is this good VfM?' during the course of design and implementation – alternative approaches might achieve the same for less money, or more for the same.
- Furthermore, documenting VfM is an opportunity to add to the evidence-base on effectiveness, particularly with the addition of cost data to the outcome results.

APPENDIX A – References

DFID's Approach to Value for Money, 2011

DFID's Briefing Note – Indicators and VfM in Governance Programming, 2011

DFID's Smart Guide – Approach to Value for Money, 2015

ICAI's Approach to Effectiveness and Value for Money, 2011

OECD Value for Money and International Development – Deconstructing myths to promote a more constructive discussion, 2012