

# CONSULTATION DRAFT

## VALUE FOR MONEY AND INTERNATIONAL DEVELOPMENT: DECONSTRUCTING SOME MYTHS TO PROMOTE MORE CONSTRUCTIVE DISCUSSION

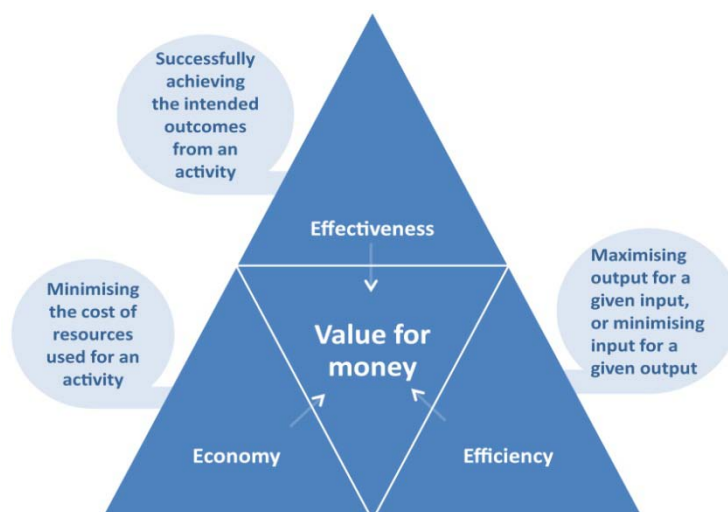
This paper seeks to deconstruct some myths around “value for money” and promote a more constructive discussion about the relevance and limitations of the concept to development co-operation. It takes as its starting point the fact that few people disagree that we want development funds to be used as effectively as possible. We all – donor agencies and governments, tax payers, partner country governments and citizens - want aid to work as well as it can. We all know that aid budgets are limited and so need to be well targeted and managed. So it is surprising that the concept of value for money in development has caused so many waves. This paper argues that once we untangle the confusion around what value for money really means it is clear that, as a concept, value for money is relevant to development co-operation. The challenge then is in applying this concept in a productive and pragmatic way, so that it can be a tool for development co-operation and not a straitjacket.

### WHAT IS VALUE FOR MONEY AND WHY IS IT ON THE AGENDA?

Value for money is a term or concept, which is about getting the best balance between three things: economy, efficiency and effectiveness (figure 1). The term is heard most often in the Anglo-Saxon world, particularly in the UK, where it is the term used as a framework in assessing cost effectiveness across the public sector. It is not a tool or a method, but it can provide a way of thinking about using resources well.

It has risen up the agenda for a number of interrelated reasons. Firstly, the development community has in the past been driven by very different performance criteria than other areas of public spending: by how much it spends, sometimes overshadowing the more fundamental question of what the funds achieve. Linked to this, there is an increasing demand for aid agencies to understand and be able to demonstrate the value for money of their work to those who are paying the bills, i.e., tax payers. Thirdly, a number of aid sceptics have claimed that aid doesn’t work, that it is wasteful and should be downsized or abolished. Their claims may not always be evidence based, but the aid community nevertheless needs strong evidence to demonstrate the validity of aid, that it is well managed and not wasted and that aid managers are constantly seeking to improve it.

**Figure 1: Value for Money and the 3Es**



Source: Based on definitions from UK National Audit Office

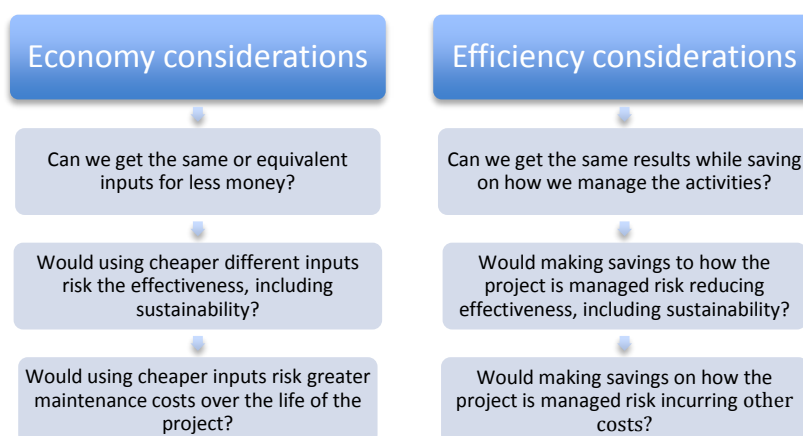
## UNTANGLING THE CONFUSION

Ill-informed discussion has led to confusion about what value for money should mean and to what extent it is relevant to development co-operation. This has led to a “dialogue of the deaf” between some development practitioners, who dismiss VFM as not relevant, practical and even inhumane, and policy makers who want to see clear numerical evidence of best possible value for money in all areas of government expenditure, including development co-operation. As is often the case in such polarised debates, the reality is somewhere between the two extremes. In order to pave the way for better discussion we need to deconstruct some misunderstandings or myths about value for money so that we can go further in applying the concept in a useful way in development co-operation.

## VALUE FOR MONEY IS NOT THE SAME AS EFFICIENCY...

The first myth we need to deconstruct is that value for money is synonymous with either “economy” (which means reducing inputs) or “efficiency”. It quite simply is not the same. Value for money is about getting the right balance between three things - economy, efficiency and effectiveness - and it cannot be assessed by looking at only one of these dimensions in isolation. Reducing the costs of inputs and making efficiency savings can either support, or undermine value for money. (Figure 2 shows a simplified logical flow for looking at the relevance of economy and efficiency for effectiveness and therefore value for money for a specific project).

**Figure 2: Considering economy and efficiency as part of value for money**



Nor is value for money about monetising everything and applying cost-benefit, or cost-effectiveness, analyses. These are tools which may be relevant to assessing value for money in some cases, but value for money is a much broader concept. In some contexts applying value for money may not relate to tools and calculations but to applying a way of thinking to designing, programming and reviewing development co-operation (Box 1 provides some definitions).

## ...AND IT IS CONCERNED WITH GETTING GOOD RESULTS

Effectiveness (as in successful achievement of intended outcomes) is not at odds with value for money, but rather, is an important component of it. If the effectiveness of an activity is notably reduced because of a small cost saving, value for money is reduced. Similarly, while an activity may be very cheap and run efficiently, if it doesn't achieve results it is not value for money. The quality of the outcomes is fundamental to understanding whether something is value for money.

When it comes to talking about “aid effectiveness” as defined in the Paris Declaration, the focus of the principles is on reducing inefficiencies in how aid is managed. Reducing inefficiencies can pave the way for increased effectiveness. Rather than a contradiction between the concepts of aid effectiveness and value for money, there is synergy.

#### BOX 1: SOME BASIC DEFINITIONS

**Economy:** Minimising the cost of resources used for an activity, while having regard to appropriate quality.

**Efficiency:** An efficient activity maximises output for a given input, or minimises input for a given output and, in so doing, pays due regard to appropriate quality.

**Effectiveness:** Successfully achieving the intended outcomes from an activity.

**Value for money (VfM):** The optimum combination of whole-life cost and quality (or fitness for purpose) to meet the user’s requirement. It can be assessed using the criteria of economy, efficiency and effectiveness.

**Cost benefit analysis:** A method to evaluate the net economic impact of a project. Expected benefits are estimated, and monetized, with inflation accounted for, and offset against project costs. The approach is most commonly used to inform decisions to invest in major infrastructure projects, in both developed and developing countries.

**Cost-effectiveness analysis:** This method is used where monetizing outcomes is not possible or appropriate, most commonly in health. Common measures include quality adjusted life years. Organisations that use it include the World Health Organisation, which has developed a series of tools and software to aid analysis.

*Source: Adapted from definitions from the UK National Audit Office and the EU Sourcebook on Evaluating Socio-Economic Development*

### VALUE FOR MONEY IS RELEVANT TO DEVELOPMENT CO-OPERATION...

The second area of confusion is the extent to which value for money is relevant or appropriate in the context of development. At one end of the debate are those who say we need clear metrics for everything, at the other are those who argue that development is fundamentally different to other areas of public spending that value for money is not helpful, or that talking about it dehumanises the beneficiary. The reality is somewhere between the two extremes. It is rare that a simple formula can tell you whether a certain investment is a good idea or not, there are often too many contextual and intervening factors.

The complexity of the real world applies, not only to development co-operation but also, to other areas of social or public spending. The argument that development co-operation is categorically different because (i) it is just a small part of a complex picture and (ii) it takes a long time to see the benefits, is spurious since both these issues are also challenges to understanding the results of domestic social spending in the most developed and wealthy countries of the world. Residents in developing countries have as much right to good use and management of resources intended to benefit them as do residents in the richest countries.

### ...BUT IT HAS ITS LIMITATIONS.

The world is complex, understanding the contribution that aid can make to complex development processes is difficult. This problem also applies to complex areas in developed countries. However, there are two key differences that make assessing value for money harder in the development context than elsewhere. The first is the availability of reliable information, notably statistics. In some developing countries, statistics are often of too poor a quality to make any reliable assessment and there is rarely a history of investment in research or history of looking at cost effectiveness within public spending, so few comparators, metrics and ways of creating proxies. The second issue that makes development co-operation different is the lack of agreement on value for money for whom, of what and by when – as issue this paper will go on to discuss. In particular, in international development the question of value for money from whose perspective is important since the immediate beneficiaries and funders are separate groups.

## VALUE FOR MONEY FOR WHO?....

There is a valid concern that value for money is a donor preoccupation and that what it may mean for a donor is not the same as for partner countries or for individual beneficiaries. Different stakeholders always have different interests. This paper is unashamedly written from the donor perspective. As stated at the outset, the donor focus is on getting value for money for its tax payers, but, what about the views of beneficiaries and partner governments?

One genuine difference between international and domestic public spending is that while domestically, beneficiaries and tax payers are broadly the same people, in international development spending these two groups have never met. This disjuncture has two main implications.

The first implication is that it has led to some indecision amongst donors about to whom they are accountable, and whose voice is important in holding them accountable. There has been a recent upsurge in donors' attempts to listen to the political voice of their core funding consistency. It is not so clear if the political voice of beneficiaries is also receiving increased attention, despite the fact that end users can provide the best information about effectiveness (including relevance and sustainability). In many cases end users are not well enough represented to make their voice heard.

The second implication is that - because the results of the spending are not experienced first-hand by tax payers, the beneficiaries are not people they know and the results are taking place far away - there is demand for detailed information back home. But that doesn't necessarily mean that these tax payers want to see that a complicated equation has been applied to every decision. They want assurance that the people managing their taxes have thought about getting the most out of the money they have been entrusted with, that they have made decisions based on clear criteria and evidence, that they manage risk and monitor and evaluate to ensure best possible outcomes.

While it is important to agree whose perspective on value for money we want to understand it is also possible to over emphasise the difference. In reality, everyone wants results and few object to using less money to achieve the same result through increasing efficiency. While partner countries are less interested in the value for money a donor is seeking to achieve at the portfolio level, they have similar interests in getting good results and doing so as efficiently as possible in individual projects and programmes in their country. From the perspective of individual beneficiaries they are concerned with the benefits for their communities; sometimes short and sometimes long term. The value for money of an activity or programme can only be judged against intended objectives. These objectives should be clearly stated and shared by donors and partners. If they are not shared this is a broader problem, likely to make both aid effectiveness and value for money harder to achieve.

## .....AND VALUE FOR MONEY OF WHAT EXACTLY?

Another area of confusion in this discussion relates to what we want to understand the value for money of. While some people are talking about value for money at the level of the entire global portfolio, others are talking about individual activities, or different levels in between those. It is worth distinguishing between three main levels: - portfolio, country and project (see box 3) - not only for conceptual reasons but because saying anything meaningful about value for money at different levels also requires different approaches. At the higher level, there is also a question of division of labour and co-ordination as one donor may decide that filling a gap left by others will allow them to make a greater contribution to development results and rather than working in crowded sectors or countries. This co-ordination discussion has to take place irrespective of the value for money considerations of donor portfolios or of individual projects.

Across these three levels there are also particular activities where prioritising value for money is both important and relatively straightforward to apply, notably in procurement and administration costs.

- Thinking about value for money in procurement means you consider both price and quality, usually best assured through an open and transparent process. Those that tie their procurement to home companies reduce the likelihood they will achieve value for money - some studies estimate that tying can increase costs by between 15%-30%. In addition, understanding the value for money or even actual costs of in-kind technical assistance can be especially difficult, and consultancy costs also justify close scrutiny.
- Administration costs, including staffing, buildings, travel often receive more attention than programme spending. It is important to ensure processes are not wasteful but there are risks in focusing exclusively on administration costs. First, if taken too far, stripping support services to their bare bones can reduce quality. Second, it can distract attention from programme spending which may have hidden administrative costs and inefficiencies on a much greater scale.

**TABLE 1: DIFFERENT LEVELS OF DEVELOPMENT CO-OPERATION WHERE VALUE FOR MONEY IS RELEVANT**

LEVEL	EXAMPLES
<p><b>The global portfolio</b></p> <p><i>At this level donors can consider value for money in making decisions about how to allocate their overall budget and resources. Some are concerned that applying a value for money mind-set at this level will encourage donors to avoid riskier countries and sectors. However, that this depends on how objectives are defined. If the donor has an objective of conflict prevention or reaching the poorest people in the world then working in fragile states makes good sense. However objectives are defined and however other foreign policy interest intersect them, it is important is that seeking value for money is a consideration.</i></p>	<p>UK MCC World Bank</p>
<p><b>Country programmes</b></p> <p><i>At this level a key consideration is how different parts of a programme fit together and how they dovetail with other activities. The components of a country programme should add up to more than the sum of its parts. All those parts should contribute to an overriding objective. A country programme should also seek to capture synergies and make connections including with what other actors are doing – the link here with the Paris principles is clear. Indicators of poor value for money at this level may include where a donor has different actors operating in silos, or where there is not an overarching strategic framework, which brings individual activities together.</i></p>	<p>UK World Bank AusAid (ODE)</p>
<p><b>Individual projects and programmes</b></p> <p><i>It is at the level of individual projects most people think about value for money. It is also at this level that cost benefit analysis (where all benefits are given a monetary value), cost effectiveness analysis and other complicated tools may be relevant. In the majority of cases a less ambitious assessment of value for money will be more feasible.</i></p>	<p>WHO ADB USAID JICA IFC</p>

### ....AND ACHIEVING VALUE FOR MONEY BY WHEN?

Another area of confusion in this debate is that between the short-term and long-term perspectives. By when should results be achieved? By when should the benefits of an intervention be realised in order for the costs to be justified? Some fear that applying a value for money perspective will lead to short-termism. But there is no rule about timescales. The timeframe in which donors or partner governments expect to see returns to their investment should be defined in each case, in development most objectives are multi-year and some types of interventions take much longer to bear fruit than others. The obvious exception to this rule is humanitarian assistance, which requires short time horizons while trying to link to a longer term perspectives.

### IT DOESN'T NECESSARILY HAVE TO LEAD TO RISK AVERSION, BUT IT CAN DO...

While applying value for money shouldn't have to lead to a risk averse culture in development co-operation, there is a danger it could do so if donors set their parameters in a risk averse way. For example:

- Defining value for money at the portfolio level simply by allocating aid to the “best performing” countries, will mean the more difficult contexts, such as fragile states lose out. However, by looking at where funds can reach most poor people, where need is greatest and, where conflict prevention can save millions in conflict and post-conflict costs, as well as at the risk of *not* working there, it can

be good value for money to invest in those countries.

- Insisting on exact measurements of efficiency, unit costs, cost benefit in all projects, can exclude types of projects where these things are harder to measure. This will mean donors will focus on the things that are easier to measure rather than those which are most needed or even most effective. It can also discourage innovation, since it tends to be the tried and tested types of project, with comparators and data, picked for ease of measurement rather than expected effects. Ultimately, this type of risk aversion can be very damaging to value for money.

In contrast, by forging a stronger link between risk analysis (which has also been historically weak in development co-operation compared to the private sector) and value for money considerations this potential for risk aversion can be reduced.

### **GOING FORWARD: APPLYING A CONCEPT NOT A STRAITJACKET**

This paper stops short of prescribing exactly how individual organisations or governments should apply the concept of value for money. Rather it has sought to deconstruct some myths and highlight the relevance and limits of the concept of value for money when it comes to development co-operation. The intention is that this spurs on more discussion about the next steps in practice. It has argued that value for money, as a concept can be useful and relevant to development co-operation, so long as we understand its limitations and apply it pragmatically, not fanatically.

Applying the concept is possible and useful but it is also subjective and different donors can, and do, do so differently. For some donors the particular term may not be useful as others are already in use. Whether we talk about value for money or something else, the crucial starting point is to define (i) clear objectives and (ii) clear parameters (such as acceptable timeframes and levels of risk) in each case and at different levels. Indeed, what in effect this paper has emphasised is good project planning, management and review. Adding in a value for money dimension into good project management – if it is not there already – will more often mean making a series of informed but subjective judgements rather than running a regression or equation. Yes it involves calculations, but more often of the management than algebraic variety.

But the paper has also outlined some key challenges. One is a simple question of the availability of data a practical realism. The data we can invest in and improve over time, if we make the right decisions now. The realism is something development practitioners have always had to inject into political debates about addressing world poverty. One other big issue this paper has raised is the disconnect between funders and beneficiaries. Unlike in most other areas of public spending, in international development, the funders and the beneficiaries are totally separate groups. This means donors and partner government have dual lines of accountability. We have a challenge in drawing the two together, even though both funders and beneficiaries basically want aid funds to be used as effectively and efficiently as possible.

In conclusion, this paper has acknowledged the limitations of talking about value for money in development co-operation and the challenges around data and accountability, but, it has concluded that the concept is useful as part of good project management. We want aid to work as well as possible. We want to achieve results in terms of poverty reduction at the same time as we want tax payers in donor countries to have assurance about these results. So while different donors and organisations have achieved varying levels of progress in applying the concept of value for money, whether they call it that or something else, the focus of our attention now should be on taking the discussion further in order to raise the bar in practice, and achieve as much as possible with aid funds. This paper is aimed at promoting that discussion and leaves the reader with a list of questions to take it further.

## QUESTIONS FOR DISCUSSION

- ✓ Do donors already look at value for money in their work but use another term? How do they look at it?
- ✓ Do donors know what they think value for money means for their development co-operation, and over what time period they consider it acceptable to await a return on their investment?
- ✓ What differences and similarities are there between the donor tax-payers interest in value for money and results compared to those of partner governments and their citizens?
- ✓ What can we do to increase the voice of beneficiaries in holding donors accountable for spending aid intended for them wisely?
- ✓ To what extent should the international community – donors, partner government and others - invest in improving statistics and studies that provide good comparators for information like unit costs?
- ✓ To what extent should we be seeking a co-ordinated approach amongst donors and partners in how we think about value for money in aid? Or should donors all be working separately given their own domestic demands for accountability and good value in development aid?
- ✓ Should we be focusing on one particular level (project/programme/portfolio) or are all of these relevant?
- ✓ What can we learn from how value for money is considered in other areas of public sector spending in developing countries and indeed from the private sector?

To comment on this document, please email [penelope.jackson@oecd.org](mailto:penelope.jackson@oecd.org)