

VALUE FOR MONEY

The term Value for Money (VfM) describes general principles governing good planning, procurement and management. A key concept is that in order to judge whether an intervention was worthwhile, the money spent needs to be assessed alongside what has been delivered or achieved. VfM analysis can be conducted in many ways. It can be used during planning and design, or for monitoring and evaluation (M&E).

The debate on how best to allocate scarce public resources is not new. For the past 15 years, the term **Value for Money** (VfM), sometimes also called **Value for Investment**, has been used by policymakers to describe general principles governing good planning, procurement and management. Increasingly, however, VfM has begun to refer to a more specific set of criteria applied to programmes and projects.

The term is now used widely by development actors such as International NGO umbrella networks, institutional donors, and multinational organisations such as the Development Assistance Committee (DAC). VfM is often expressed through three different criteria – **Economy**, **Efficiency**, and **Effectiveness**. UK agencies have recently added a significant fourth ‘E’ – **Equity** – which refers to the fair allocation of benefits. Frequently, these criteria serve as principles that inform the decision-making of funders. It is now common VfM practice to map the 4E framework against a standard results chain (see diagram below, based on DFID (2011)).

A key principle of VfM analysis is that in order to judge whether an intervention was worthwhile, the money spent on that intervention needs to be assessed alongside what has been delivered (outputs) or achieved (outcomes and impact). The findings of VfM analyses that determine how they relate to each other can then provide crucial information for planning and decision-making. VfM analysis can sometimes enable organisations to choose amongst interventions, based on which one can achieve the best

results with the least resources. It can also help organisations minimise costs while maximising benefits.

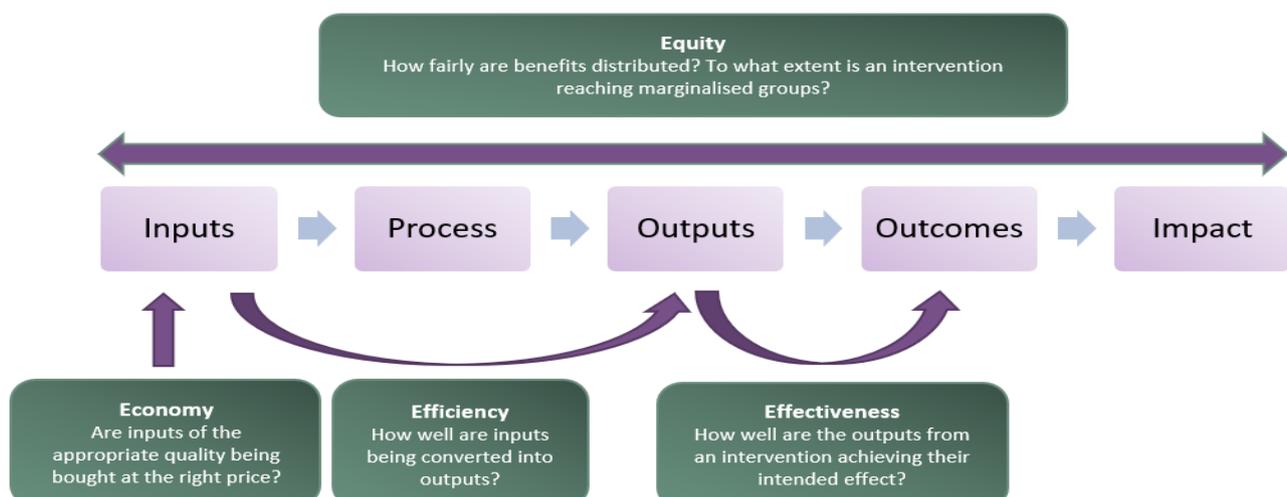
As well as benefiting programming, public pressure on CSOs is making it all the more important for organisations to credibly assess how far their projects, programmes and strategies offer value for money. VfM is now considered an essential part of evaluation practice. Including VfM in evaluation can help evaluation users achieve ‘more for less’, which means using fewer resources to achieve the same or even better results.

However, VfM is a frequently misunderstood term, often associated with complex economic analysis methods. While these may be useful in some circumstances, VfM is fundamentally based on a simpler idea. This is expressed by BOND (2012, p8) as follows:

“When designing and implementing an intervention, [CSOs should] compare the costs and benefits of different options and make a defensible case for why the chosen approach provides the best use of resources and delivers the most value to poor and marginalised people.”

The next three sections look at three different aspects of VfM analysis:

- economic analysis methods;
- VfM analysis within evaluations; and
- VfM analysis during programme implementation.



Economic analysis methods

A few basic types of economic analysis are summarised under the term 'Value for Money'. Each is used for slightly different purposes. Four of these most commonly used by CSOs are described below. These methods are easiest to use within projects or programmes with clear, defined, timebound objectives that enable real or potential benefits to be measured or assessed with a degree of accuracy.

The first two methods can be used to compare projects or programmes with different goals, or to determine how beneficial a single project or programme is.

- **Cost-Benefit Analysis (CBA)** is perhaps the best-known economic analysis method. In CBA, outputs and outcomes (benefits) are converted into monetary terms. This allows for an investigation of whether the monetised benefits of an intervention exceed its costs. Interventions can then either be ranked against each other according to their cost-benefit ratio, or they can be judged on their own merits, according to whether the benefits outweigh the costs by a sufficient amount.
- **Social Return on Investment (SROI)** works in a similar way to CBA, but draws heavily on stakeholder perspectives to turn traditionally intangible social, economic and environmental outcomes – such as women's empowerment – into monetary measures. As with CBA, SROI can be used to assess the absolute 'worth' of an intervention in monetary terms by establishing a cost-benefit ratio. SROI can also be used to choose between interventions in different programme areas (e.g. two projects or programmes with differing goals).

The second group of methods are used to compare programmes that have similar goals.

- **Cost Effectiveness Analysis (CEA)** is used to establish the relationship of costs to a unit of outcome (e.g. how much investment generates a higher 'nutrition score' for targeted children, or a specified number of new jobs). CEA is used to compare projects or programmes with very similar goals, and usually quantitative success indicators. Unlike Cost-Benefit Analysis, CEA cannot come to an overall conclusion on whether an intervention was good VfM in an absolute sense. This is because it cannot establish whether the total benefits exceed the total costs.
- **Cost Utility Analysis (CUA)** can be used where benefits are intangible, or not easily (or ethically) converted into monetary terms. CUA instead compares interventions in terms of how much satisfaction (called utility) a target group derives from the outcomes relative to an investment. CUA is often used in participatory and health research, for instance when estimating Quality-Adjusted Life Years (QALYs) which can then be compared to other interventions or a given benchmark. (A benchmark is a standard that can be used for comparison). QALYs combine the values of length of life and quality of life into a single measure.

All four methods described above are most often used during project or programme design and planning, where estimated costs can be compared to proposed benefits. However, they can also be used during programme implementation or evaluations. In some cases, this means comparing actual (rather than estimated) costs and benefits.

VfM analysis within evaluation

VfM analysis within evaluations may be based around one of the economic analysis methods described in the previous section. But it can also involve making a defensible case for why a chosen approach has provided (or is providing) the best use of resources, and has delivered value to poor and marginalised people. VfM at the evaluation stage is often used to develop a narrative around VfM that explains how a project or programme is addressing the 4Es – economy, efficiency, effectiveness and equity.

Both formative evaluation (evaluation that seeks to inform future actions) and summative evaluation (evaluation focussed on providing a final verdict on the value of an intervention) can offer space for conducting VfM analysis, which can then shape findings and recommendations. Questions related to VfM can be integrated into a set of assumptions or key evaluation questions. Some examples of possible questions are given below.

Evaluation questions related to VfM

1. What measures have been taken to ensure the quality of inputs and activities?
2. Were alternative approaches for major pieces of work identified, and if so why were they not adopted?
3. How well does the intervention complement other initiatives? Does it overlap or duplicate other initiatives?
4. How well has the intervention ensured synergies between different components of the intervention and/or other programmes?
5. Have there been multiplier effects resulting from the intervention (e.g. expansion or replication of benefits, practices or policies)? If so, what?
6. How (if at all) has social inclusion been addressed? Have barriers to inclusion been overcome? If so, have they been permanently removed or are they likely to return?
7. Is there evidence that work has been rapidly scaled up/down, commissioned or cancelled in the light of evolving evidence?
8. To what extent has work been designed with adequate attention to risks, assumptions and contextual analysis?
9. What ongoing actions have been taken to ensure the best possible outcomes, based on ongoing evidence and analysis acquired throughout the intervention?
10. To what extent was the intervention (or specific activities) worth the money spent?
11. How well have resources been used in the intervention? In what ways could they have been better used?
12. What amount of value do relevant stakeholder groups receive from the intervention? To what extent does this meet (or has this met) expectations?
13. To what extent did benefits for beneficiaries/stakeholders continue after the intervention ended?

In practice, many evaluations conduct basic financial analyses, for instance checking whether inputs were procured at a reasonable price and within budget. However, it is less common for evaluators to conduct a thorough VfM analysis. This is usually due to limited budgets, skills and/or time. Even so, it is important that evaluations designed to feed into decision-making and planning consider using different VfM approaches that can generate recommendations on how to best use available resources. Separating costs from consequences prevents evaluators and managers from seeing the full picture.

VfM analysis during programme implementation

As explained above, VfM analysis can be included within standalone evaluations. However, there are also ways of integrating VfM into ongoing programme monitoring. Sometimes these use ongoing monitoring or learning questions (such as those in the box on the previous page). They may also include economic analysis methods, such as CBA or SROI.

Perhaps the simplest method used by CSOs is to design a set of indicators relating to VfM that can be monitored on an ongoing basis. Some examples are shown in the box below.

Area	Example indicators for VfM
Economy	<ul style="list-style-type: none"> amount of economy savings achieved direct support costs as a proportion of activity spend examples of good procurement practices
Efficiency	<ul style="list-style-type: none"> cost per unit of output cost per direct beneficiary per period budget utilisation rate over reporting period
Effectiveness	<ul style="list-style-type: none"> cost for adopting new or improved practices economic return (cost-benefit analysis of separate project components) cost per unit of outcome (e.g. job created, child free from disease, etc.)
Equity	<ul style="list-style-type: none"> range of marginalised people/groups included cost of increasing participation of marginalised or excluded groups examples of barriers to inclusion being removed

A practical example of how different VfM indicators can be brought together under a single organising framework is provided by Barr and Christie (2014). The framework outlines how to strengthen the M&E and management of VfM from programme inception through implementation. In order to diagnose the strength of a programme's VfM, Barr and Christie propose a 3x3 matrix, consisting of the types of VfM indicators measured (monetary, quantitative and qualitative) and the points of reference used for comparison (external benchmarks, internal progress over time and standalone judgments). This framework is then filled in using indicators from logframes and other strategic documents. Barr and Christie emphasise that the strength of VfM assessment should increase over time, once baseline data is established and higher-level results emerge

Indicator Reference No.	Description of Indicator	Indicator Type	Measurement Type
1	Cost per £ of increased private sector investment [Effectiveness]	Monetary	Stand-alone
2	Cost per community facilitator trained, compared across States [Efficiency]	Quantitative	Comparative
3	Comparison of cost of increase in PEFA score x State [Efficiency]	Qualitative	Comparative
4	Savings from joint programme procurement [Economy]	Monetary	Stand-alone

		Measurement typology		
		Benchmark	Comparison	Stand-alone
Indicator typology	Monetary result			1, 4
	Quantitative result		2	
	Qualitative result		3	

that allow for 'hard' comparisons. A worked example of the framework is shown in the diagram above (ibid, p6). The full methodology is outlined in Barr and Christie (2014).

Another example of a simple method is a VfM register outlining where quantifiable savings have been made during the course of a programme. Below is a basic template, based on one used by the International Growth Centre (2017).

Item	Savings	Explanation and rationale
Budget policy compliance	£81,998	For financial year 2016/17, 68% of the final financial statements received for projects came in on budget ... while 30% came in with actual spend under the initially approved budget value. The average budgeted/actual spend variance was just -2%. This low variance figure suggests that final approved project budgets are typically an accurate reflection of the resources required to deliver a project, a point which is bolstered by the mandated policy for payments to be made against actual expenditure, rather than approximated costs.
Growth week	£51,721	These savings (between 2014 and 2015) largely stem from managing the event in-house, which enabled significant cost-savings of £21,000, and from a reduction in catering costs of £10,000. We also ensured that the average cost of accommodation for each attendee was in line with standard DFID requirements.

Risks and opportunities of evaluating VfM

Many people argue that a focus on VfM has the potential to increase the credibility of aid implementers' effectiveness. Similarly, it can be argued that VfM provides an incentive to organisations to be more effectiveness-oriented.

However, there has been much criticism both of the implications of the VfM agenda for how organisations work, and of how VfM has been measured and evaluated. Some consider the concept to be donor-led, doing little to benefit communities on the ground. They argue that resources are often diverted from implementation towards reporting in order to meet top-down funder requirements.

Others (e.g. King 2016) counter this by emphasising that the way in which scarce resources are allocated matters, and that it is precisely in beneficiaries' interest for the concept to be taken seriously. This may require that different stakeholders are consulted and their definitions of 'value' included in the analysis. Greater participation of all stakeholders could lead to changes in the way that VfM is defined and used.

Case study: Quantifying VfM for a complex programme

The Climate and Development Knowledge Network (CDKN) was an alliance of organisations supporting decision-makers in developing countries to plan for and implement climate resilient and low-carbon development. One of CDKN's strands of work focussed on producing demand-led policy research, with the goal of influencing plans, policies and practice – and eventually improving lives – in countries worldwide. In 2017, a consultancy firm was commissioned to help CDKN quantify the Value for Money of its research. The consultants used a type of cost-benefit analysis and assessed if the research and observed outcomes would have happened without CDKN. This turned out to be complicated for a number of reasons: the impacts of research on policy were still emerging, years after the individual projects had closed; where CDKN had seen policy and practice impacts, rarely could these be attributed solely to the research CDKN had produced; and even in cases where the theory of change was clear, causality was far from straightforward and linear.

The study found that in most cases it was not possible to quantify the research's effects on quality of life of target groups, or even on policy change. One of CDKN's principles was to commission research organisations based in the Global South as often as possible, which complicated the picture even on simpler criteria such as 'Economy'. For example, while more research time could be 'bought' with fewer resources when working with organisations in developing countries, this often involved an investment in research capacity development that did not directly translate into tangible outcomes.

In the end, the study was not able to arrive at representative judgements on CDKN's entire research portfolio. Instead, it showed that the net benefits from just two research projects, expressed in money terms, were higher than the total investment by CDKN in all the sampled projects. However, it proved impossible to externally benchmark the results due to the absence of similar studies.

Critics of VfM approaches also argue that VfM economic analysis methods usually rely on easy-to-measure and easy-to-implement activities, ignoring others with more uncertain or uncountable outcomes, or simply with outcomes that take a long time to emerge fully (see case study). Others are concerned about the drive for comparison that underlies some VfM approaches, leading to comparisons of different organisations with diverse relationships, principles and theories of change. For instance, more easily quantifiable interventions in the health and sanitation sphere may appear to deliver better VfM compared to governance work, using narrow metrics. These notions need to be interrogated rigorously.

Many argue that the fourth E – equity – is a crucial criterion to consider, above others such as efficiency. This is because an intervention may broadly have average positive effects on the target population, but upon closer inspection might have exacerbated existing power imbalances by benefiting sub-groups already doing relatively well, leaving the rest comparatively worse off.

Overall, CSOs rarely reject the entire concept of VfM and the need to analyse the relationship between costs and outcomes. Instead, CSOs worry about the way certain economic assessment methods seem to be imposed top-down, introducing a strong focus on monetisation, oversimplification and measurability.

“If a cost-effectiveness analysis says Medicine A saves more lives than Medicine B at an incremental cost of \$100,000 per quality-adjusted life year gained, how do we determine whether this is cheap or expensive?” (Fleming 2013)

Conclusions

The debate about VfM is in large part driven by the same concerns shaping the discourse about what and how to evaluate development work in general: who is in the driver's seat when determining what success looks like, how to measure it, and what makes for a 'good' or a 'bad' intervention? For example:

- Should it be funders, technical experts or local voices and interests?
- Are we striking the right balance between investing resources in analysis, learning and reporting vis-a-vis implementation for beneficiaries?
- How do we deal with programmes that are not easily evaluated?
- How do we measure the VfM of complex interventions that have no pre-defined path to

success, where interventions need to be adapted constantly to changing circumstances?

Available examples of VfM approaches applied in practice tellingly focus on less complex programmes. In the end, INTRAC believes it is worthwhile to ask and investigate whether resources are allocated in the best way possible.

But how to do this in each case, and in each evaluation, needs to be informed by more specific questions, resources and audiences. It also needs to take into account the scope for action on evaluation recommendations. VfM might at times be treated as an add-on and at other times as the driving force behind evaluative efforts.

Some Do's and Don'ts of Investigating Value for Money during M&E

Do...	Don't...
<ul style="list-style-type: none">• Be clear about how an intervention is supposed to work and what it aims to achieve.• Clarify alternative intervention options, where relevant, for tackling the same problem.• Consider what constitutes value, who decides what value is, and which criteria any VfM analysis will use.• Be clear about how much participation in the process (and from whom) is desirable and appropriate.• Consider a range of methods when assessing VfM, instead of promoting a single one that might not fit all questions, contexts and purposes.• Have a proper monitoring and evaluation framework (or plan) in place before deciding on a VfM measurement approach.	<ul style="list-style-type: none">• Ignore ethical challenges of translating some intangible benefits – such as human lives and relationships – into financial terms.• Seek to include VfM in evaluations without considering available evaluation resources and expertise (a focus on VfM may have significant budget implications for an evaluation or M&E system).• Forget that the foundation of any CSO approach to VfM needs to be a system for proper financial management. Unless a CSO can monitor costs properly it will struggle to engage meaningfully with value for money.• Become too worried about complex economic methods. There are often much simpler ways to assess VfM.

Further reading and resources

A paper in the Data Analysis section of the M&E Universe deals specifically with Cost-benefit Analysis, also touching on Social Return on Investment. There is also a short paper on 'Results-Based Management', which provokes similar debates. These can be accessed by clicking on the links below.



Cost-benefit analysis



Results-based management

Although VfM analysis need not be complicated, it is important to understand and appreciate all the different options. This paper has only provided a very brief analysis of some of the issues. Some further recommended resources are below.

- The BOND (2012) paper referenced below provides an overall introduction to the wider topic of VfM and its implications for NGOs.
- A paper by Farida Fleming called *Evaluation Methods for Assessing Value for Money* (2013) provides a good overview, and categorises different assessment methods and their respective strengths and weaknesses. It is available from the Better Evaluation website at <http://betterevaluation.org/sites/default/files/Evaluating%20methods%20for%20assessing%20VfM%20-%20Farida%20Fleming.pdf>
- The ITAD paper by Julian Barr and Angela Christie (2014), referenced below, provides helpful practical guidance on how to systematically assess the strength of VfM through a single organising framework.
- Julian King's paper (2016), also referenced below, sets out a model for evaluating value for investment, and how to apply evaluative reasoning to the concept.
- Finally, a foundational text by Levin and McEwan on cost-effectiveness analysis provides a comprehensive overview of the theory and detailed technical methods underlying VfM. (see Levin, H. M., and McEwan, P. J. (2001). *Cost-effectiveness analysis: Methods and applications* (2nd ed.). Thousand Oaks: Sage Publications.)

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