



# Value for money and international development: Deconstructing myths to promote a more constructive discussion

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This paper seeks to address confusion regarding the concept of value for money (VFM), and promote a more constructive discussion about the relevance and limitations of this concept to development co-operation. It takes as its starting point the broad consensus that development funds should be used as effectively as possible: donor agencies and governments, tax payers, partner country governments and citizens all want aid to work as well as it can and agree that limited aid budgets need to be well targeted and managed. Yet the concept of value for money in the context of development co-operation has given rise to debate and, in turn, confusion. This paper argues that once this confusion is untangled, it is clear that value for money is relevant to development co-operation. The challenge then lies in applying it in a productive and pragmatic way so that it can promote development co-operation.

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

Value for money (VFM) is about striking the best balance between the “three E’s” – economy, efficiency and effectiveness<sup>1</sup> (Box 1). It is not a tool or a method, but a way of thinking about using resources well. In the United Kingdom it is often used as a framework for assessing cost effectiveness across the public sector. A fourth “E” – equity – is now also sometimes used to ensure that value-for-money analysis accounts for the importance of reaching different groups.<sup>2</sup>

Value for money has become more prominent on the development agenda for a number of inter-related reasons. First, the development community has in the past been driven by performance criteria that are very different from those in other areas of public spending: how much is spent sometimes overshadows the more fundamental question of what the funds achieve. Second, aid agencies are increasingly expected to understand and demonstrate the value for money of their work to those who are paying the bills, i.e. tax payers. Third, a number of aid sceptics have claimed that aid does not work, is wasteful and should be downsized or abolished. Although these claims may not always be based on evidence, strong evidence is needed in order to demonstrate that aid is valid and managed well, and that those in charge of aid are constantly seeking to make it work better.

## UNTANGLING 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. Some development practitioners dismiss VFM as not relevant, impractical and even inhumane; at the same time, policy makers want to see clear numerical evidence of the 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. The following points must be made to allow VFM to be applied to development co-operation in a useful way.

### BOX 1: SOME BASIC DEFINITIONS

#### CONCEPTS

**Economy:** Reducing the cost of resources used for an activity, with a regard for maintaining quality.

**Efficiency:** Increasing output for a given input, or minimising input for a given output, with a regard for maintaining quality.

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

**Value for money:** 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.

#### TOOLS

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

**Cost-effectiveness analysis:** This method is used where monetising outcomes is not possible or appropriate, most commonly in health. Common measures include “quality-adjusted life years”.

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

## Value for money is not the same as cost-cutting or efficiency...

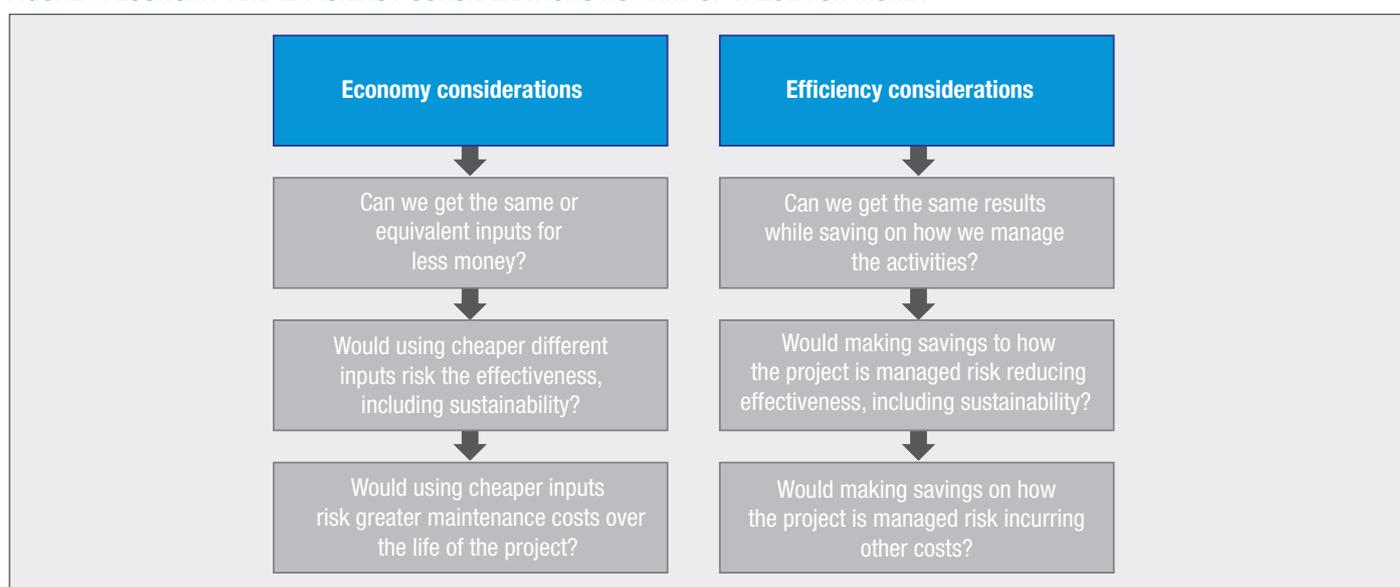
Value for money is not synonymous with either economy (i.e. reducing the cost of inputs) or efficiency. Value for money is about finding the right balance between economy, efficiency and effectiveness, and cannot be assessed through only one of these dimensions in isolation. Reducing the costs of inputs and making efficiency savings can either support or undermine value for money. Figure 2 shows a simplified logical flow of economy and efficiency considerations when determining the effectiveness and therefore value for money for a specific project.

Value for money does not need to be 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 (Box 1 provides some definitions).

## ...and it aims at achieving good results.

Effectiveness is not at odds with value for money, but rather 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 does not achieve results, it is not value for money. The quality of the outcomes is fundamental to understanding whether something is providing value. “Aid effectiveness” as defined in the Paris Declaration focuses on reducing inefficiencies in how aid is managed, which in turn can pave the way for aid to achieve good development results.

FIGURE 1: ECONOMY AND EFFICIENCY CONSIDERATIONS AS PART OF VALUE FOR MONEY



## Value for money is relevant to development co-operation...

Some argue that development co-operation is fundamentally different to other areas of public spending and that value for money is not helpful, or that it dehumanises the beneficiary. This argument states that development co-operation is different because i) it is just a small part of an intricate picture and ii) it takes a long time to see the benefits. But neither of these issues is specific to development co-operation; both are also challenges to understanding the results of domestic social spending in the most developed and wealthiest countries.

## ...but it has its limitations.

Assessing value for money is harder in the development context than elsewhere, for two key reasons. First, in some developing countries, the availability of reliable information, notably statistics, is often of too poor a quality to make any reliable assessment. There is rarely a history of investing in research or looking at cost effectiveness in public spending, so few comparators, metrics and ways of creating proxies exist. Second, there is a lack of agreement on value for money for whom, of what and by when – issues 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 not the same.

## VALUE FOR MONEY FOR WHOM?

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 what it means for partner countries or for individual beneficiaries. As stated at the outset, donors focus on getting value for money for their tax payers, but what about 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:

- Indecision amongst donors about whom they are accountable to, and whose voice is important in holding them accountable. Donors are increasingly listening to the voices of their core funding constituencies. But 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 and remain hard to reach.
- Because tax payers do not experience first-hand the results of public spending, they demand detailed information. Tax payers 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 on whose perspective on value for money to understand, it is also possible to over-emphasise the difference. In reality, everyone wants results. 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. Individual beneficiaries 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 that are clearly stated and shared by donors and partners. If they are not shared, both aid effectiveness and value for money will be harder to achieve.

## VALUE FOR MONEY OF WHAT?

Of what exactly is there value for money? For some, value for money is at the level of the entire global portfolio, for others, it is of individual activities.

It is worth distinguishing between three main levels – the portfolio, country and project level – because value for money at different levels requires different approaches (Table 1). For example, looking at unit costs may be useful in deciding between two providers of a service within a single project, but comparing unit costs between whole countries can be misleading. Similarly, it is hard to compare value for money between sectors: for example, both education and agriculture are important, but focusing on one over another is a policy decision, and not a value for money decision. There is also a question of division of labour and co-ordination: donors need to ensure they don't all put their funds in the same countries and projects if this means other key areas – perhaps the riskier ones – are under-funded. Across all three levels, areas like procurement and administration costs have long been the focus of value for money considerations. For example, studies show that when procurement is tied, value for money is reduced: some believe by 15-30%.

**TABLE 1: DIFFERENT LEVELS WHERE VALUE FOR MONEY IS RELEVANT**

Level	Examples
<p><b>The global portfolio</b></p> <p>Donors consider value for money when allocating 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, this depends on how objectives are defined. If the donor has an objective of conflict prevention or reaching the most vulnerable people, then working in fragile states can also be seen as good value for money.</p>	<p>United Kingdom (UK) Millennium Challenge Corporation World Bank</p>
<p><b>Specific country programmes</b></p> <p>A key consideration is how different parts of a programme fit together and how they dovetail with other activities, contributing to an overriding objective. A country programme should also seek to capture synergies and make connections, including with what other actors are doing. In contrast, different actors operating in silos, or the lack an overarching strategic framework bringing individual activities together may not provide good value for money.</p>	<p>UK World Bank AusAid (Office of Development Effectiveness, or ODE)</p>
<p><b>Individual projects and programmes</b></p> <p>It is at the individual project level that cost-benefit analysis, cost effectiveness analysis and other tools may be relevant. In the majority of cases a less ambitious assessment of value for money will be more feasible.</p>	<p>World Health Organization Asian Development Bank United States Agency for International Development Japan International Co-operation Agency International Finance Corporation</p>

## VALUE FOR MONEY BY WHEN?

Short-term and long-term perspectives also create confusion in this debate. 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 partners expect to see returns on their investment should be defined in each case, as some types of interventions take much longer to bear results than others. The obvious exception to this rule is humanitarian assistance, which requires short-time horizons alongside linkages to longer-term perspectives.

## REDUCING RISK AVERSION

There is a danger that applying value for money could lead to a risk-averse culture in development co-operation, for example:

- At the portfolio level, allocating aid to the “best performing” countries will mean the more difficult contexts, such as fragile states, lose out. However, by looking at where need is greatest and where conflict prevention can save millions, it can be seen as 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, encouraging a focus on things that are easier to measure rather than on what is most needed or even most effective. It can also discourage innovation, since it tends toward 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 real value for money.
- It can encourage a focus on easy-to-reach groups rather than riskier targets, such as those in harder-to-reach areas, minority groups and others – one reason why adding an equity dimension to the analysis can be helpful. Ensuring the original objectives set out who should benefit also reduces this type of risk aversion.

By forging a stronger link between risk analysis and value-for-money considerations, this potential for risk aversion can be reduced.

## APPLYING A CONCEPT NOT A STRAITJACKET

This paper has sought to deconstruct some myths and highlight the relevance and limits of the concept of value for money to development co-operation. The intention is to spur more discussion about the next steps in practice. It has argued that value for money can be useful and relevant to development co-operation, so long as the limitations of the concept are understood and it is applied pragmatically.

Applying the concept is possible and useful, but it is also subjective and different donors do so differently. 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 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 management or judgement calculations, rather than mathematical calculations.

The paper has also outlined some key challenges. One is a simple question of the availability of data: the data to invest in and improve over time, the right decisions can be made now. 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. The challenge lies 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, there are limitations to value for money in development co-operation and challenges around data and accountability, but the concept is useful as part of good project management, applied pragmatically and realistically. 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 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.

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1. These three terms – economy, efficiency and effectiveness – are used to mean three different things in this context. This is slightly different from some economic theories that consider economy and efficiency as both ways to increase the goal of productivity. In examining value for money it is important to distinguish between economy, as this refers to minimising costs, and efficiency which relates more to getting more results for those costs.

2. ICAI (2011), *Approach to effectiveness and value for money*, Report No 1, ICAI.