Value for Money and Concern

November 2011
Value for Money and what it means for Concern’s Programmes

As budgets become constrained and there is increased competition for a reduced pot of resources, development agencies are increasingly under pressure to show they are delivering Value for Money (VfM). It is becoming a means for distinguishing between programmes and projects and to help donor agencies and philanthropic funds, particularly those who come from a more private sector / business background, decide which ones to fund. Concern also has a duty to the public for funds raised from them to show that their money is making a difference, and in 2010 made a commitment to strengthen our assessment of Value for Money in all of our work making VfM a major component of discussions around financial accountability. In this regard it is essential for Concern to show that it is taking VfM seriously in its programme design and implementation. This paper makes some basic suggestions on what we can do to improve how we address the issue.

What is Value for Money

There are many definitions of VfM, used by different donors and agencies with little agreement on which one to use, but broadly they centre on the optimal use of resources to achieve the intended results. The UK’s National Audit Office (NAO), defines good value for money as the optimal use of resources to achieve the intended outcomes. The new economics foundation (nef) defines VfM as the relationship between inputs and outcomes across public services. DFID, in its recent review of UK Aid has highlighted that results, transparency and accountability are key in ensuring value for money.

Within the various discussions, it is clear there are three different levels at which we need to consider VfM, often referred to as the 3Es – Economy, Efficiency and Effectiveness. These record somewhat different aspects or elements of VfM. (The way these are inter-changed across agencies and disciplines at times contributes to confusion, and underlines the fact that the concept of VfM is still evolving.)

<table>
<thead>
<tr>
<th>Economy</th>
<th>Buying inputs at the right price</th>
<th>This is generally covered by procurement regulations reflecting whether competition in the market is delivering goods at the best price possible.</th>
<th>Buying at the right price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency</td>
<td>Ratio of Inputs to Outputs</td>
<td>Measures economic efficiency using prices to compare two or more methods of producing the same output (Cost Effectiveness Analysis)</td>
<td>Doing the thing right</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Achieving our purposes (focus on outcomes)</td>
<td>Costs the inputs and gives a value to the outcome to compare the rates of return ((social) cost benefit analysis)</td>
<td>Doing the right thing</td>
</tr>
</tbody>
</table>

However, throughout the discussions, one common trend that emerges is that ‘value for money’ is not the same as achieving the ‘lowest cost’; rather discussions around VfM means we have to focus on how we maximise outcomes for the community and the environment.

Why is it Important

Concern Worldwide has made a commitment to ensure that we are giving value for money both to our donors and to the people we target with our work. This means we need to consider VfM in our programme design to ensure that the maximum level of benefits are reaching as many of our target group (the extreme poor) as possible, in a way that increases their assets and their return on these assets, addresses inequality and reduces their risk and vulnerability. In that respect it needs to become central to our organisation-wide thinking.

Incorporating Value for Money in our programme design entails the comparative analysis of alternative courses of action in terms of their costs to bring about the same outcome or impact and needs to be integrated in both the Country Strategic Planning process and the Contextual Analysis undertaken in the development of new programmes. In that respect, VfM is a tool for decision-making. However, we need to be very careful in trying to assess or compare the costs and outcomes between programmes because of the different contexts in which they will be implemented.

There is also significant pressure from funding agencies for us to show that we are considering Value for Money in our programmes, however the lack of clarity across these agencies in terms of what they are actually
November 2011

referring to allows us the opportunity to take the lead in this discussion and show how we are considering the issue. (Other agencies such as Care and Oxfam already have positions on this).

How are we addressing this in Our Work

Though still in the early stages of addressing the issue, as an organization, we are generating an increased body of experience in looking at Value for Money, even if it is not always addressed as such, particularly related to the use of technology. The following sections give an overview of some of these experiences at each level.

Addressing the Economy Question

The issue of economy generally centres on whether we are buying inputs at the right price, and is probably the area where we have the most success in our programmes, due to our strong procurement and financial management systems.

A good example of this at country level comes from the Afghanistan team, who have started work on improving procurement mechanisms, comparing prices and sharing information on this and the quality of programme and administration / transport items with other NGOs. This also helps to reduce the possibility of fraud or cartels developing around the procurement process helping to ensure better prices and quality.

Dealing with Efficiency

Efficiency, which uses prices to compare two or more methods of producing the same output (this can also be called Cost Effectiveness Analysis), is less clearly applied in our programmes, even though we do have some examples of how this has worked.

The Conservation Agriculture Programme in Malawi was used to pilot digital means of data gathering. This entailed a large up-front investment in hardware and technical support from an external supplier. When the costs for the first year of the exercise were compared with the use of a more traditional paper based method of data collection, they were considerably higher, largely due to the large capital investment required (in terms of equipment and digitizing the questionnaire, as well as more comprehensive trainings). However, the costs in outer years were seen to drop substantially, as non-cost problems associated with paper-based surveys emerged. These included an inaccurate and unreliable flow of regular data, difficulties in making sure questionnaires are always available and transporting them back to a central location for data entry, errors in the data entry process and the time lag between collecting the data and having a final report available.

In Niger, the use of mobile cash transfers as part of the emergency response has been carefully examined by Concern and Tufts University. This analysis found that the primary costs of the programme included the value of the physical transfers of the materials and cash, as well as the cash distribution. While the manual cash distributions required transport and security costs for each cash transfer, the mobile money transfer system required the initial distribution of mobile phones, the installation of the m-transfer software, working with the telephone company (Zain) to ensure that agents were installed and trainings on how to use the phones. The analysis showed while the mobile cash transfer mechanism was more expensive during the first month of
operations – primarily due to the fixed costs of the mobile phones – the m-transfer program was half the cost of the manual cash transfer for the rest of the program. This was primarily due to variable costs related to the manual cash transfer, such as counting the cash, transport costs and security costs.

**Considering Effectiveness**

However, making a decision based solely on which option is cheaper in both the Niger and Malawi cases presented in the previous section would be misleading. This is the effectiveness argument that looks at the inputs and gives a value to the outcome to compare the rates of return.

Further analysis of the data generated in Niger (conducted by Tufts University), found a number of additional benefits that don’t emerge from the straightforward cost comparison, including:

- Reduced costs for beneficiaries to obtain the cash transfer,
- Increased diet diversity
- Reduced reliance upon negative coping mechanisms
- More diverse agricultural production, particularly new cash crops
- Increased seasonal out-migration
- Improved social communications with family members

When the results for Niger were analysed further in terms of a Cost-Benefit Analysis it was found that for every Euro spent on mobile transfer beneficiaries an extra €3.5 in benefits was provided, compared to the manual cash transfer program.

The Malawi pilot found that the more expensive digital data gathering was resulting in data being provided much more quickly, which could be analysed during the growing season and feedback provided to the team of extension workers on the ground. This has partly led to a larger crop yield in the district in question, which when converted to monetary terms, equates to €72.30 per beneficiary, which over the lifetime of the project, could lead to increase yields per district worth between €44 and 102,000, against a total additional cost of €28,000.

However, to be able to make these calculations it is important that the intervention is measuring its effectiveness.

**What do we need to consider**

Relating the cost of any input to changes at impact level is going to be a challenging job. However, there are a number of actions we can take in our programming to address the issue – some are simple measures that need to be considered in the design of the programme, others are more complex.

1. **Integrating VfM in the PCMS**

As a first step, VfM has to become incorporated in the Programme Cycle Management System, and VfM needs to be integrated in the following stages of the PCMS:

- In programme planning, as one of the means of deciding between options. The real benefit is at the end of a Contextual Analysis when we produce options for achieving the same outcomes – a consideration of VfM will allow us to make better choices to support poor people and get more value from the investment we are making.
- During implementation and monitoring to firstly track inputs are being procured in an economic manner and secondly to ensure they are being converted into outputs in the most cost effective way, eventually leading to the outcomes required. This entails constant cost benefit analysis (or put simply, the need to know what is going in to an activity so we can assess whether what is coming out makes sense).
- At the evaluation stage, which should help to assess whether funds are used appropriately and in a manner that is timely, efficient and effective and whether they have an impact on the intended target communities.

However, experience from internal reviews and external missions has shown that to achieve this, adjustments to the financial reporting system, and strengthening the monitoring systems will be necessary, as well as ensuring these are more closely linked.
2. Link finance and Monitoring Systems

VFM is the practical interface between the financial management system for a programme and the monitoring system, which records whether objectives are being achieved or not – it has been said that results and VFM are inseparable. If either is not functioning then it will not be possible to show we are providing any VFM. In this respect it is essential for those responsible for the financial management of a programme to be engaged from the start of the programme planning and implementation to ensure that the two systems can draw from each other. Specific recommendations include

- Design budgets in a way that they clearly link to activities in the log frame and that these contribute to achieving the ultimate impact of the programme, this necessitates a clear impact pathway/ theory of change to be identified.
- Ensure that programme level charts of accounts are able to reflect activities in the programme log frame.
- Collect adequate baseline and endline data for the indicators identified in the log frame so that it is possible to quantify the benefits that have accrued. (This may also necessitate having a counterfactual so that we can show what is attributable to the activities we have undertaken).

Additional challenges which may emerge from our accounting system are how to allocate personnel and administrative costs across the activities, however, it is suggested that this type of analysis be undertaken across a small sample of programmes to identify where specific gaps are.

3. Cost of Delivery to the Poorest

Concern has committed itself to targeting our work towards the extremely poor. Raising the standards of living of this group will often be more resource intensive due to the complex nature of their deprivations. The example in the figure to the left tries to show this – the extremely poor (represented as the first quintile) are a long way below the poverty line and to close this gap (A) will take more in terms of time and resources than to raise those who are just below the poverty line, shown as (B). Our own experiences from the Chemin Levi Miyo in Haiti show that how programmes are delivered, such as providing case-manager support, is perhaps the most essential component in making sure that members stay on course and achieve all the outcomes that CLM intends, and that case-manager input has been a major determinant in the trajectories of members. This has implications in terms of how trainings are organized and how realistic we need to be in terms of the numbers of people that can be reached in a particular time.

A similar concern exists in terms of delivering services in conflict and fragile states, as, most of these countries are inherently expensive to operate in, and challenging to meet efficiency and effectiveness targets.

In either of these situations, this needs to be very clearly articulated in the programme proposal and incorporated in the budget narrative to ensure decisions are not made based solely on cost figures, or that we allow ourselves to be pushed to work in easier contexts to get better results.

4. International Standards

In different fields there are a number of standard measures to allow for comparison across interventions.

One is the α (alpha) ratio used in cash transfer programmes, which records the amount of resources of the transfer values going to the beneficiary against the costs of delivering the services. This is particularly valuable
in deciding on whether to deliver food, cash or a combination of the two. (This will measure the efficiency of delivery, but not necessarily the effectiveness).

Another comes from the health sector, where the cost per disability adjusted life year (DALY) averted is a standard recommended by the WHO and originally developed by the World Bank. This is a combined indicator of the time lived with a disability and time lost due to premature mortality. It involves assigning weights to different health states and multiplying these by the number of years during which that state. When this measure is considered with the availability and costs of interventions, it leads to an assessment of their comparative cost-effectiveness.

We need to focus on including these into our programme design in areas such as cash transfers and programmes to deal with acute malnutrition; however these mainly relate to short term (emergency) interventions. There is a much murkier picture when it comes to calculating this for longer term, development programmes as the timeframes to record the benefits in become much less clear.

5. Long Term Benefits

In our longer-term development projects, we need to be careful in terms of the period we discount our benefits. We have to ask the question, is it simply the lifetime of the programme, or in the case of behaviour change do we take a longer term perspective – for instance increases in agricultural production as a result of adopting new methods, such as Conservation Farming, will have benefits for those adopting this approach for ever. This brings in the need for us to consider the application of ex post analysis and evaluation of our work.

6. Innovative Programmes

At times, we implement innovative or proof of concept programmes, such as the RAIN programme in Zambia. These will have substantial research and data gathering components, which a number of donors will not fund. In this respect we need to target how we design these programmes and where we apply for funding for programmes that include a research element, or identify donors that accept the research costs. Similar to the point made previously on longer term benefits, we should also bring out the potential for scaling up these approaches once we have gained proof that they work.

7. Technology

Technology offers us a solution to helping us do what we do better and faster (as well as cheaper, though this is not the only element for consideration) – aspects which we are increasingly gaining experience on include data collection and entry, management of stocks and cash transfers. This is in line with Strategic Objective 16 of our Strategic Plan (2011-2015), which commits us to utilise technological and ICT opportunities to improve our programming.

Conclusion

It is very important for us to start thinking about VfM in the planning and implementation of our interventions. In that respect VfM needs to take a major role in the Programme Cycle Management System (PCMS) to ensure there is a consistent story being told between the budget, log frame and narrative of the proposals. The biggest potential challenge will be to link the two major data systems in a project – finance and outcome / impact monitoring. This entails making changes to how both of these are done, but matching both to what has been identified in the log frame offers the opportunity to achieve this. It is recommended that this is piloted in a number of new programmes to see how easily this can be done.

Two other essential elements need to be remembered. First, we cannot use VfM as a means of comparing whether it is cheaper to deliver services in one country than another, there will always be elements of context to include – the real value is in choosing our options. That is not to say that having an indication of how much it costs to deliver a service in one country when compared to another is not of value. The real benefit is in analysing options for interventions in a particular country – in that regard, we should integrate this into the options stage of the contextual analysis guidelines.

The other element is that even when submitting budgets for funding there is an opportunity to explain why something may be more effective or not – this is particularly important if we are to explain why delivering services to the poorest may be more expensive. However, to do this we need to be clear on what we plan to achieve.
# Checklist – When (and how) do we need to Consider Value for Money

<table>
<thead>
<tr>
<th>Country Strategic Planning</th>
<th>Economy (Buying inputs at the right price)</th>
<th>Efficiency (Ratio of inputs to outputs)</th>
<th>Effectiveness (Achieving our purpose – focus on outcomes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do we have procedures in places (financial, procurement etc.) that will help us to deliver the programme. Do we share information on costs with other INGOs. When choosing options presented, consider issues of economy (will we be able to purchase inputs at the right price) Particularly important to consider if we are entering a new areas</td>
<td>When choosing options presented, consider issues of efficiency – to achieve the outputs we plan, is there going to be a difference in terms of the cost (ie do we consider the cost of different options in terms of achieving the same output)</td>
<td>When choosing options presented, consider issues of effectiveness (will we be able to deliver on our outcomes, and will there be a difference in terms of the cost)</td>
<td></td>
</tr>
<tr>
<td>Contextual Analysis Process</td>
<td>When choosing options presented, consider issues of economy (will we be able to purchase inputs at the right price)</td>
<td>When considering the options ask whether there are major cost implications in terms of achieving different outputs For each option, consider the cost is this the cheapest way to achieve the intended output</td>
<td>When considering the options put forward, consider how effective it will be in terms of making the necessary changes in the lives of the poor. Are we considering whether the interventions will guarantee the maximum benefit for the largest number of our beneficiaries (Cost – Benefit Analysis)</td>
</tr>
<tr>
<td>Programme Design (including PCN)</td>
<td>If this is an area we are currently operating in, how are we showing that we are operating in a manner that reduces our running costs If this is a new area, but there are other programmes (in a different sector) operating are we showing how these will work together in the delivery of the programmes if this is a completely new area, have we explained how the initial start up costs will be discounted over the lifetime of the programme and justified the initial costs</td>
<td>Have the accounts department been involved in the budgeting and planning process to ensure the financial records will match the outputs (Does the chart of accounts match the activities in the Log Frame) Does the PCN show that other options have been considered in terms of efficiency and how this one has been selected Is there a strong monitoring system proposed with clear outputs Are standard measures such as the DALYS (Disability Adjusted Life Years) and alpha-ratio being used (where appropriate)</td>
<td>Have the accounts department been involved in the budgeting and planning process to ensure the financial records will match the outcomes. (Does the chart of accounts match the activities in the Log Frame) Does the PCN show that other options have been considered in terms of effectiveness and how this one has been selected Has there been a Cost Benefit Analysis done Is there a strong monitoring system proposed with clear outcomes</td>
</tr>
<tr>
<td>Programme Implementation</td>
<td>Is there evidence of cost saving measures coming out (shared use of vehicles, joint visits to communities) How well are the procedures being implemented If we are working with partners, how are they addressing this issue, and how is it effecting our cost base Is there evidence to show that inputs are being procured in the cheapest manner</td>
<td>Is there a good system in place to track what the outputs produced are? Are the accounts department providing regular reports to programme management that match the financial records with the outputs Are the outputs being matched to the finances as part of a system of Results Based Management</td>
<td>Is there a good baseline survey carried out that identifies what the outcomes are? Are there plans in place for an endline? Are the accounts department providing regular reports to programme management that match the financial records the outcomes</td>
</tr>
<tr>
<td>Reporting</td>
<td>Are financial and narrative reports</td>
<td></td>
<td>Is data from the Baseline and</td>
</tr>
<tr>
<td>Monitoring and Evaluation</td>
<td>being provided on time</td>
<td>In the final evaluation is it possible for the accounts department to provide data that matches expenditure to outputs</td>
<td>Endline being made available for the evaluation</td>
</tr>
</tbody>
</table>

---

1. This paper was produced by Anne Marie McCarthy, Grant Coordination Unit and Chris Pain, Social and Economic Development Unit, and builds on, but takes a somewhat different perspective to, a paper produced by Robin Wilford in 2005 entitled *maximizing Value for Money for the Poor*.

2. Page 17 of the November 2010 document *Concern Worldwide Our Accountability Commitments* to date Bangladesh, Cambodia, Afghanistan, Pakistan, Zambia and Uganda have committed to this, though progress is varying across countries.


5. We’re probably suggesting a focus on simple cost-output or cost-outcome ratios to capture the mean costs of delivery (a description rather than an analysis)

6. The Malawi figures are based on an internal assessment of the benefits of digital data gathering produced by Chris Pain and Abraham Bongassie Wanta