



Country

Mozambique, Pakistan

Capabilities

Governance; Public finance; Monitoring and evaluation

In depth

OPM's approach to assessing Value for Money

In the development sector there is increasing scrutiny of 'value for money' (VfM), largely because of growing pressure on aid budgets. While the importance of VfM is agreed, current approaches to evaluating VfM are often deficient. With the support of Julian King, we have developed a new approach to VfM assessment¹ that supports transparent and well-reasoned judgements about VfM. The approach has eight steps and combines cutting-edge evaluation practice with concepts from economic evaluation to respond to donor requirements for accountability and good resource allocation, as well as to support reflection, learning, and adaptive management.

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What is VfM?

There are multiple definitions of VfM. Often it is equated with the economic concept of efficiency – with cost–benefit analysis widely considered the gold standard for measuring VfM. However, VfM can also encompass wider considerations. For example, the UK Department for International Development (DFID) defines VfM as ‘maximising the impact of each pound spent to improve poor people’s lives’, and further breaks this concept into five dimensions: economy, efficiency, effectiveness, cost-effectiveness, and equity.ⁱⁱ

The need to consider VfM arises because, when resources are invested in a particular policy, programme, or intervention, there is an opportunity cost (i.e. alternative use of those resources is foregone). Consequently, choices need to be made regarding resource allocation – with a ‘good’ allocation being one that compares favourably to its next-best alternative (as well as meeting various other requirements, such as affordability, relevance, and ethics). However, the next-best alternative is not always clear or measurable, due to the complex environments in which projects operate, and a lack of obvious plausible benchmarks. VfM assessment can nonetheless evaluate how well the available resources are being used and whether the resource use is justified on the basis of observable features

of programme delivery, short- and longer-term outcomes, and agreed definitions of what ‘good’ performance would look like.

In the international development sector, VfM has become a standard consideration of project management, driven in part by increasing scrutiny of aid budgets, but also arising from an aspiration to clarify and communicate the value of our work, and to provide insights to support learning and improvement. However, inadequate tools mean assessment often falls short of these intentions – for example, by emphasising the most readily quantifiable measures rather than the most important (but harder to quantify) aspects of performance, or by focusing on the quantification of outputs and outcomes at the expense of more nuanced consideration of their quality, value, and importance.ⁱⁱⁱ

Since 2016, OPM has been working with evaluation and VfM expert Julian King to address this shortcoming by developing an approach to VfM^{iv} that combines cutting-edge evaluation practice with concepts from economic evaluation to respond to donor requirements for accountability and good resource allocation, as well as to support reflection, learning, and adaptive management.

ⁱ King, J., and OPM (2018) ‘The OPM approach to assessing value for money: a guide’, Oxford: OPM Ltd.

www.opml.co.uk/files/Publications/opm-approach-assessing-value-for-money.pdf

ⁱⁱ DFID (2011) ‘DFID’s approach to Value for Money (VfM)’, DFID, UK.

ⁱⁱⁱ King, J., and Guimaraes, L. (2016) ‘Evaluating Value for Money in international development: the Ligada female economic empowerment programme’, *eVALUation Matters*, Third Quarter, 2016. Africa Development Bank.

^{iv} King, J., and OPM (2018) ‘The OPM approach to assessing value for money: a guide’, Oxford: OPM Ltd.

www.opml.co.uk/files/Publications/opm-approach-assessing-value-for-money.pdf

An evaluative approach for assessing VfM

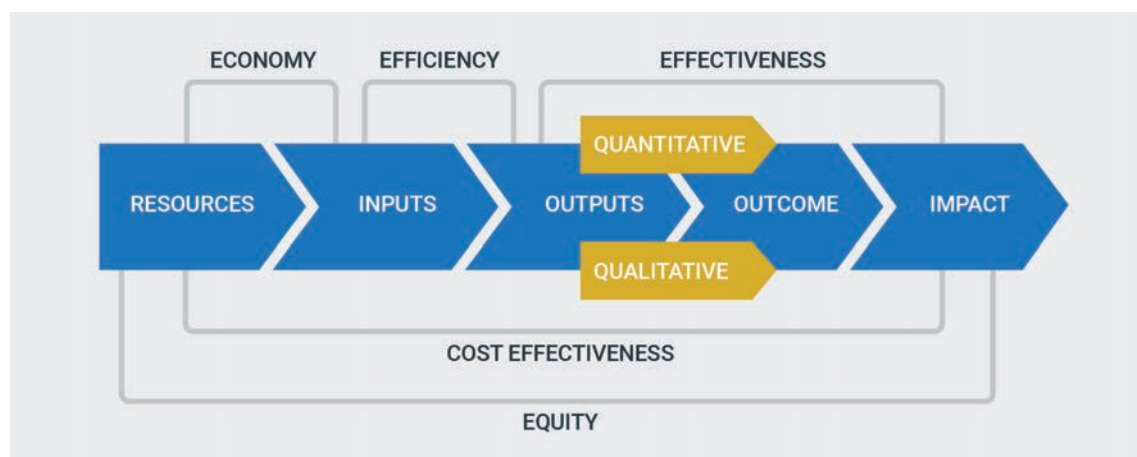
Our approach to assessing VfM treats VfM as an evaluative question about how well resources are used, and whether the resource use is justified.^v Because it is an evaluative question, answering it requires more than just measurement: it requires judgements to be made from the evidence and, as such, a robust VfM assessment needs to be clear about the basis upon which the judgements are made.

Explicit evaluative reasoning, using criteria and standards ('rubrics'), provides a framework for making sound, traceable judgements about VfM. The VfM criteria are selected dimensions of performance that are relevant to the programme – commonly economy, efficiency, effectiveness, equity, and cost-effectiveness (Figure 1) – which describe at a broad level the aspects of

performance that need to be evidenced to support an evaluative judgement about VfM.

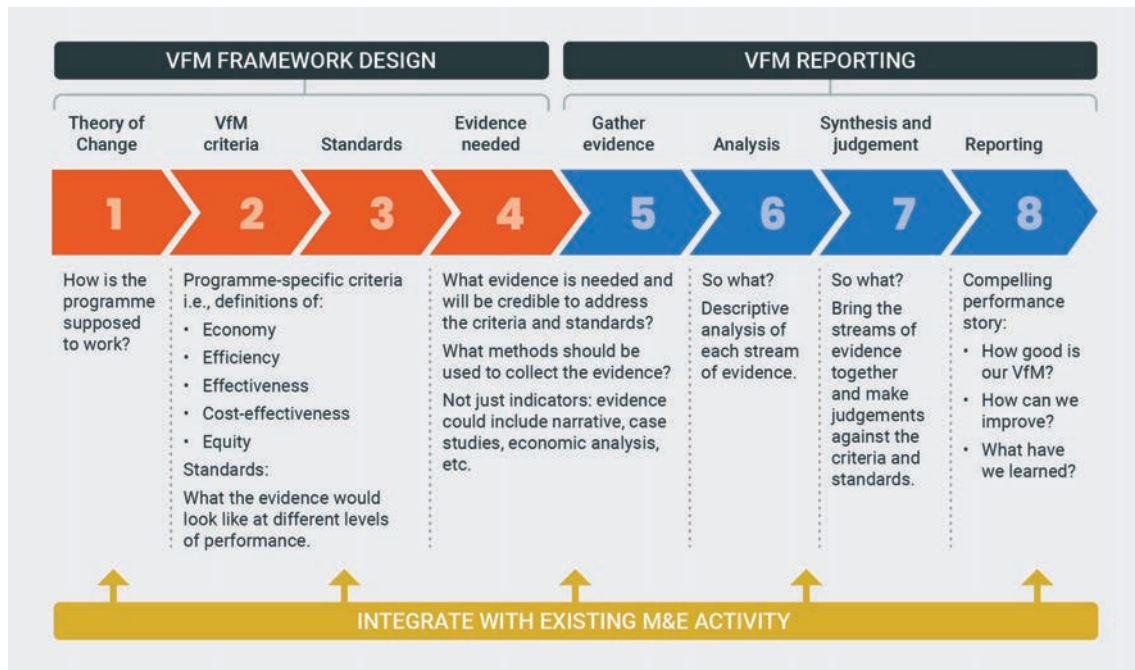
While there exists a set of well-recognised generic definitions for each of these terms, our approach begins with a process of developing programme-specific definitions for each, i.e. engaging with project stakeholders to arrive at an agreed understanding of what economy, efficiency, effectiveness, etc. mean, in the context of the programme. These are positioned alongside a set of standards which describe different levels of performance for each criterion (what does good effectiveness look like, compared with excellent, or poor, for example). This process is critical for ensuring that the evidence collected is relevant, measures the right changes, and is appropriately nuanced. It also ensures there is a transparent basis for judgement-making in VfM assessments.

Figure 1: VfM conceptual framework



^v King, J. (2017) 'Using economic methods evaluatively', *American Journal of Evaluation* Vol. 38(1), pp.101-113.

Figure 2: Overview of OPM's VfM approachⁱⁱⁱ



Rubrics for VfM assessment need not be too restrictive, however. Highly dynamic and iterative programmes, operating in complex political and market contexts, often cannot predetermine the optimal course of action. Valid judgements about VfM will need to recognise this feature of complex development programmes, determine whether adaptive management is occurring and is effective, and account for unforeseen emergent strategies. This means defining and managing VfM criteria and standards in a sufficiently flexible way.

The key steps involved in designing and implementing a VfM framework are summarised in Figure 2. Note that steps 1–4 relate to the design of the VfM framework, while Steps 5–8 relate to VfM reporting, which can only be done once the framework is agreed and in place.

Sound judgements about VfM often require more than just indicators. Examining the criteria and standards which have originated from the array of complex programmes that OPM implements and evaluates, it is clear that evidence on which VfM assessments are based will usually come from a mix of methods, including existing monitoring and evaluation (M&E) data (quantitative and qualitative), often in addition to economic analysis.

Indicator-based measurement, while making a valuable contribution to evaluating programme performance and VfM, is on its own often insufficient to support well-reasoned evaluative judgements about a complex programme.

A mix of evidence can often give us a better understanding of whether a programme is really changing people's lives, and the practices of institutions, in a meaningful and positive way. For example, qualitative evidence improves depth of understanding and helps support sound interpretation of quantitative evidence (the story behind the numbers). A mix of evidence also supports triangulation, comparing findings from different sources to identify areas of corroboration as well as perspectives that need reconciling or reframing. Economic methods of evaluation can provide strong evidence of cost-effectiveness, but need to be combined with other methods to gain an understanding of other aspects of performance, such as adaptive management and equity. VfM is an extension of M&E that adds the dimension of resource use to some measure or description of benefit, and as such VfM assessment processes should be integrated with relevant M&E frameworks and processes – both for the sake of efficiency, and to ensure conceptual alignment.

A review of recent application

To date, we have applied this approach in over a dozen different projects and programmes, spanning a range of clients, countries, sectors, and budgets. It has been used as both an internal project management tool for programmes we have

implemented and managed, as well as an external accountability tool for programmes we have been contracted to evaluate. Some examples are presented below.

a. MUVA: a female economic empowerment learning and influencing programme

MUVA is a learning and influencing programme designed to develop innovative approaches to improve female economic empowerment (FEE) in Mozambique and globally. It develops and tests innovative approaches to improve FEE, generates robust evidence about FEE effectiveness to drive policy change, and then influences others to scale them up.

MUVA uses a lean and agile approach to develop and test 16 ways to improve FEE. Each approach starts with a 'problem hypothesis' where the specific solution is unlikely to be known. The problem, for example, could be women lacking the soft skills or IT skills required by employers, or a lack of employment opportunities in poorer urban areas. The adaptive management approach involves testing courses of action in short cycles, with reflections to assess what works and what does not.

MUVA was the first international development programme to pioneer the approach to VfM documented here: it developed its VfM framework at the end of its inception phase. The MUVA VfM framework includes criteria for economy, efficiency, effectiveness, equity, and cost-effectiveness, as well as performance standards

detailing what is defined as poor, adequate, good, and excellent performance.

Evaluating the VfM of a learning and influencing programme that uses an adaptive management approach can be particularly challenging. For example:

- starting with 'problem hypotheses' rather than a predefined solution means that there are not always readily available and quantifiable metrics to measure progress that would be found in more traditional and linear projects;
- testing approaches to problems we do not know the solutions to means embracing innovation, risk, and failure. Economic evaluations rarely view the failure of an intervention as a positive, yet in a learning programme there can be as much value from pilot failure as there is from success; and
- costs-per-output or per-beneficiary can be misleading when evaluating pilots. It can be difficult to provide meaningful benchmarks, and simplified cost-per-beneficiary figures can be unhelpful.

The MUVA VfM framework addressed these challenges by developing criteria that recognise the value of learning, innovation, and influencing. The efficiency criteria, for example, go beyond focusing on the maximisation of outputs for a given amount of inputs (technical efficiency), as this could discourage experimentation. Instead, they also consider whether MUVA is investing resources effectively across its portfolio of interventions (allocative efficiency) and whether MUVA is working adaptively, responding to feedback, and exiting interventions quickly when they do not work (dynamic efficiency). Similarly, the effectiveness criteria unpack MUVA's effectiveness as an FEE programme, as a learning programme, and as an influencing programme.

The effectiveness and equity criteria also reflect the complexities and intangible benefits of female empowerment, learning, and influencing, through qualitative evidence. This provides a more informed assessment of whether MUVA is creating meaningful evidence for learning and influencing, as opposed to simply meeting targets. At a cost-effectiveness level, the VfM framework makes provision for economic evaluation of successful approaches taken to scale, modelling costs and benefits through analysis and extrapolation of pilot results.

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We invested time during the inception phase in defining what good economy, efficiency, effectiveness, cost-effectiveness, and equity would look like in the MUVA programme. This investment proved most beneficial when the time came to assess VfM, because we had an agreed and transparent basis for making robust judgements, and a clear framework for reporting VfM. It was also really valuable that the framework incorporates economic analysis at the cost-effectiveness level. There is real value in understanding cost structures and providing hard data demonstrating, for example, that if we want quality it's not always cheap, if we want sustainable systems it takes time, and if we want to work with disadvantaged populations we may need to invest more than with highly educated ones.

Luize Guimaraes, MUVA programme manager



b. Financial Sector Development Africa and the Financial Sector Development Network

Financial Sector Development Africa (FSDA), based in Nairobi, aims to reduce poverty through the development of financial sectors across sub-Saharan Africa. FSDA also provides strategic and operational support to the Financial Sector Development (FSD) Network – a group of 10 FSD programmes, including eight national programmes in Ethiopia, Kenya, Mozambique, Nigeria, Rwanda, Tanzania, Uganda, and Zambia, and two regional programmes (FinMark Trust in Southern Africa, and FSDA). FSD Network partners follow the making markets work for the poor approach. They are funded by multiple donors and have an overall budget of over US\$450 million.

On behalf of the FSD Network, in 2017 FSDA engaged OPM to develop a VfM framework.

The framework needed to:

- be practical, user-friendly, and minimise reporting burden for FSD staff;
- enable and empower FSDs to communicate clear, accurate VfM assessments;
- support a consistent approach to VfM assessment and reporting across programmes, with sufficient flexibility to accommodate differences in context and avoid making invalid comparisons;
- support and balance objectives of accountability, learning, and improvement;
- emphasise value (not just cost), and balance efficiency and effectiveness with equity;
- offer a practical approach to contribution analysis, recognising real-world capacity, data, and time constraints;

- align with FSD programmes' strategies and theories of change;
- build on existing FSD monitoring and results measurement frameworks, such as the Impact-Oriented Measurement (IOM) Guide^{vi}, to ensure conceptual alignment and appropriate use of rigorous impact evidence; and
- be useful for informing Investment Committee decisions.

To meet these needs, the VfM framework followed *OPM's Approach to Assessing VfM*. In consultation with FSDs and donor representatives, we developed explicit criteria and standards to provide a transparent basis for making sound judgements about performance and VfM. The VfM framework combines quantitative and qualitative forms of evidence to support a richer and more nuanced understanding than could be gained from the use of indicators alone. It supports consistency across the FSD Network by aligning with the IOM generic theory of change, concepts, and terminologies in a deliberate fashion. It also links explicitly to a compendium of indicators (developed by OPM in parallel with the VfM framework) to guide the selection of context-appropriate outcome (market system change) and social impact indicators. It incorporates and builds on DFID's 'four Es'^{vii} approach to VfM assessment. Alongside the VfM framework, we developed a practical VfM guide, setting out a step-by-step process and a series of data collection and reporting templates to guide FSD programmes in designing and completing a VfM assessment.

^{vi} OPM and FSDA (2016) 'Developing an impact-oriented measurement system: a guidance paper for financial sector deepening programmes', FSDA, Nairobi. www.fsdafrica.org/wp-content/uploads/2016/01/16-01-07-MRM-for-M4P-Impact-Orientated-Measurement.sv_.pdf

^{vii} DFID (2011) 'DFID's approach to Value for Money (VfM)', DFID, UK.

In 2018, we worked with FSDA to pilot the roll-out of the FSDA VfM framework and guide. By June 2018, pilots had been successfully conducted with FSD Mozambique and FSD Uganda, with two further pilots planned by year-end with FSD Rwanda and FSDA.

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Development of the VfM framework and guide has been a good investment by FSDA. FSD programmes now have at their disposal a standard, comprehensive, and effective approach to assessing VfM. Though our key desire was to have an approach

for conducting internally led FSD VfM assessments, the framework and guide can also be used by external consultants with a good understanding of the approach, who may be engaged by FSD funders to independently assess the VfM of FSD programmes. OPM has done a good job of aligning the VfM assessment approach with the IOM guidance paper and the compendium of indicators. This alignment will go a long way in helping us systematise its application, and further strengthening FSD results measurement and learning systems.

Kevin Munjal, head of monitoring and results measurement, FSDA



c. The Sub-National Governance programme, Pakistan

The Sub-National Governance (SNG) programme supported provincial and local governments in two provinces in Pakistan (Khyber Pakhtunkhwa [KP] and Punjab), to improve the delivery of basic services. Financed by DFID, and managed by OPM, the programme operated from 2013 to March 2018 in 12 districts, six in KP and six in Punjab. It supported reforms in public financial management, governance and planning, and operated a challenge fund to finance innovative service improvement pilot projects. Collectively, these diverse workstreams aimed to deliver results across three main areas:

- decisions by government based on robust evidence;
- public services that are more responsive to people's needs; and
- strengthened government capability to deliver basic services.

In its early years of operation, SNG's VfM assessments focused on economy and the VfM metrics earlier on in the results chain. However, in the fourth year a new VfM framework was developed using the approach set out here.

It responded to certain design parameters of the SNG programme, being a complex governance reform programme. Its complexity derived in part from its operating environment, working with sub-national governments in Pakistan. This required a keen understanding of the prevailing political economy in Punjab and KP, during a period of considerable decentralisation reform. The VfM assessment needed to be cognisant of the nuanced context, and assess the programme's relevance in a rapidly changing environment.^{viii}

Further complexity also stemmed from the nature of the programme itself, and the breadth of the three workstreams it encompassed (public financial reform, governance and planning, and the district delivery challenge fund). Each workstream addressed different technical areas, operated in relation to a distinct workplan, and deployed separate teams, and many of its outputs could not be defined at the outset. This meant that there were no meaningful external benchmarks against which SNG's performance could be compared; rather, the VfM assessment had to define performance standards from scratch.

By applying our approach to assessing VfM, these challenges were accommodated. For example, by ensuring that definitions of excellent/good/poor VfM were co-developed with programme teams and DFID, and endorsed upfront in advance of implementation and before the evidence was gathered, the framework provided an agreed, objective, meaningful, and transparent basis for making judgements. Furthermore, the VfM framework was flexible enough to capture responses to emergent opportunities unforeseen in the workplan, and to not unduly penalise the programme for failures where they generated learning.

In addition, the combination of quantitative and qualitative forms of evidence supported a richer and more nuanced understanding than could be gained from the use of indicators alone, which more accurately reflected the complex causal pathways and dynamic political economy in which the programme operated.

An additional challenge in assessing VfM of SNG was that the value of the programme lay not only in the achievement of the specified outcomes, but also in its capacity to generate learning to influence other relevant programmes, and its ability to be adaptive, responding to lessons learnt as well as emergent opportunities and challenges. The VfM framework was able to systematically capture this learning and the emergence of adaptive programming.



As DFID works to build prosperity and stability in Pakistan, ensuring our investments represent good VfM is at the forefront of all programming decisions. The framework presented here offers a disciplined and pragmatic approach to analysing VfM in a hard-to-quantify sector. It represents a marked step forward in our monitoring, evaluation, and learning framework, and is an important tool not only for DFID's own internal accountability, but also for our accountability to those living in poverty in Pakistan.

Feedback to the evaluators from DFID Head Office

^{viii} King, J., and Allan, S. (2018) 'Applying evaluative thinking to Value for Money: the Pakistan Sub-National Governance programme', *Evaluation Matters – He Take Tō Te Aromatawai*, 4: 2018 (in press).

Conclusion

The following key principles define our emerging approach to VfM analysis:

- Explicit evaluative reasoning, using criteria and standards ('rubrics'), provides a framework for making sound, traceable judgements about VfM.
- Programme-specific definitions of economy, efficiency, effectiveness, cost-effectiveness, and equity need to be developed, together with standards describing different levels of performance for each criterion – and agreed in advance of the VfM assessment.
- Evidence will usually come from a mix of methods, including existing M&E data (quantitative and qualitative), and often economic analysis, supplemented with additional evidence according to needs.
- The VfM assessment process should be integrated with relevant M&E frameworks and processes – both for the sake of efficiency, and to ensure conceptual alignment.
- A VfM framework should be sufficiently flexible to reflect the changing operating environment and emergent nature of strategies in complex adaptive programmes.



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