Better Value for Money

An organising framework for management and measurement of VFM indicators

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Value for money suffers from being a phrase that is more used than understood. We all instinctively believe we understand the terms since we all regularly seek value for money in the things we buy. Yet, once Value for Money attains capital letters and an acronym – VFM - putting the concept into practice becomes more elusive.

The drivers for VFM, stem from the prevailing austerity in economies of major aid donor countries. VFM has become a watchword in the management of UK public expenditure, and particularly so in DFID, where a strong political commitment to a rising aid budget has been matched by an equal determination to secure greatest value from the investment.

The '3Es definition' of Value for Money is now in common currency, providing a framework for analysis shaped by **E**conomy, **E**fficiency and **E**ffectiveness. More recently a fourth E has been added to the VFM mix in the shape of equity, conveying the message that development is only of value if it is also fair. Overall guidance on the application of the principles of the 4Es has been fairly general. VFM itself has been a principle enforced rigorously, but lacking practical methodological guidance. There continues to be patchy success in translating the 3 and 4 Es into operations.

This paper provides an organising framework that attempts to provide a means to better understand, express and enable judgements to be reached on Value for Money in development programmes.

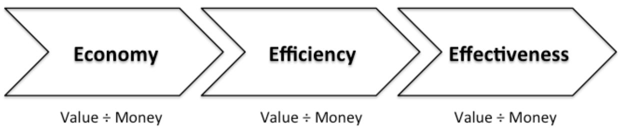
Our framework is based on, but evolves, the 4Es approach. It aims to do two things:

i) Bring the dimensions of *value* and *money* together consistently in the way VFM is considered
ii) Introduce two ways to categorise VFM indicators to help assess their utility in managing and measuring Value for Money

Bringing Value and Money together

Our analysis is that many of the implementation difficulties relating to VFM stem from a shorthand that essentially says 'economy = money; effectiveness = value'. This leads to various scalar and temporal disconnects. Structurally, one set of people (procurers, programme staff and finance and administration teams) have granular discussions about money, while a different set of people (technical advisers, team leaders, and specialist consultants) have discussions about results and value – often at a macro-scale, often to be achieved several years hence.

The message here is simply that money (i.e. cost) and value are important considerations within each of the 3Es, contributing ultimately to cost-effectiveness.



The 3Es framework relates closely to programmes' results chains. Thus, Economy concerns the cost and value of inputs. Efficiency concerns the aggregate cost of inputs that are transformed by sets of activities into outputs. And Effectiveness and cost-effectiveness are the achievement of outcomes and impact in the relation to the underlying costs associated with outputs.

Knowing When VFM is Being Offered

Once programmes are commissioned, programme managers and implementers are routinely required to report VFM in their programmes. This will occur at the end of inception, but VFM tends to receive particular attention during annual review. Implementers will often assemble a set of examples and measures into a VFM report to inform the annual review process. This risks VFM becoming an annual 'VFM exam', rather than being embedded in the way programmes are managed.

In whichever way programmes' VFM status is reported, their managers and funders need to know whether the VFM indicators used are saying something meaningful about VFM – do they present a credible picture of a programme's VFM upon which programme management decisions can be based? The following sections aim to help in the process of identifying and reviewing VFM indicators.

Categorising VFM Indicators

VFM is usually reported against a range of metrics, but grouping the reporting of VFM around the 3Es does not automatically provide meaningful information. This is particularly so if the focus is, as is frequently the case, reporting cost savings under the heading of Economy. Such practices have led to a widely held view that VFM is essentially a process for cutting costs or saving money and encourages a 'race to the bottom' irrespective of the effect on programme performance.

Our **VFM Indicator Framework** categorises results (value), against which costs can then be allocated. It employs two categories, or typologies, to structure firstly VFM indicators, and secondly VFM measurement. These categories can be applied to each of the 3Es of Economy, Efficiency and Effectiveness. The fourth E equity is addressed through the introduction of equity-focused indicators into any of the other three categories, or by disaggregating any indicator in any category as a means by which fairness can be explored.

Indicator Typology

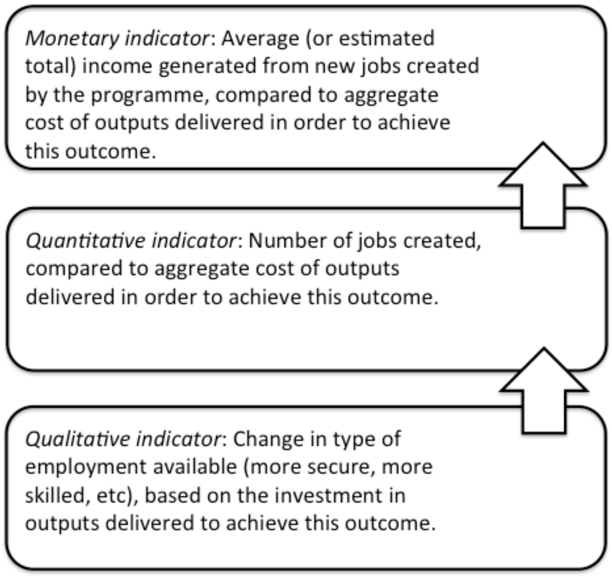
The VFM Indicator Framework is a matrix; the vertical axis relates to types of *VFM indicator*. We propose three types of VFM indicator:

⇒ *Monetary indicators* – which report the monetary value of a point on a programme's results chain (eg. an output or an outcome) – in relation to the associated cost

⇒ *Quantitative indicators* – which report how much (in numbers) a programme has achieved in relation to the associated cost

⇒ *Qualitative indicators* – which report the kind of change a programme has achieved (in descriptive terms – eg. an improvement in quality), in relation to the associated cost

Taking a job creation programme looking at the effectiveness dimension of VFM as an example:



It is important to note here that although a monetary indicator may be easier to interpret than a quantitative or qualitative one, it doesn't follow that it is always better at presenting the Value for Money of a development intervention. For example, it might be better to measure the value of an economic development programme in terms of number of new jobs created, rather than the amount of money the business start-ups make (the '£s out' per '£s in' equation). In this case, although poorer members of the community may make less money, the 'value' of providing a job (however small the income) for someone hitherto excluded from this opportunity is far greater in development terms than creating high profitability businesses or providing a job for a richer member of the community (an equity consideration).

Measurement Typology

The second axis in the matrix relates to types of *VFM measurement*. Taking the above example, reporting the number of jobs created (and the cost to achieve this) is meaningful, and easy to understand. However, just reporting a number still poses the question of whether this represents good Value for Money.

Proving x jobs at the cost of £y is a stand-alone result – those reporting the number and those receiving the report may have an instinctive sense of whether this represents VFM, but they can be helped to reach this judgement. If this result can be reported as a comparison, for example a year-on-year or, in a Federal country, a state-by-state comparison can give a point of reference that aids interpretation. Better still, if the result is compared to an established benchmark, then reaching a judgement on whether *good* Value for Money is being achieved becomes much easier.

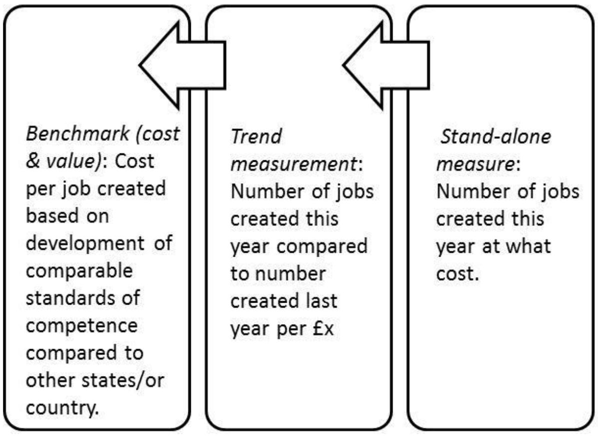
Therefore, we propose three types of VFM measurement indicator:

⇒ *Benchmarked measurement* - compares programme achievements with similar achievements outside the programme (within country or outside country). They are thus external, relative indicators, and can provide strong evidence of best value or best cost or both.

⇒ *Comparative measurement* - shows progress over time (e.g years) or space (e.g. Districts) - demonstrating cumulative effect or showing comparative improvement between "cases". They are internal, relative indicators.

⇒ *Stand-alone measurement* - shows what has been achieved within a reporting period. These are stand- alone and absolute indicators, and may be thought of as 'one-off' realisations of value. They can be compared against the planned target for that period, in which case, the value in VFM terms depends on the credibility of the original plan as both realistic and stretching.

To illustrate with the job creation example:



The Diagnostic Framework

In our VFM Indicator Framework, these two types of categorisation come together in the form of a 3x3 matrix, combining the indicator and measurement typologies:

		Measurement typology		
		Benchmark	Comparison	Stand-alone
Indicator typology	Monetary result			
	Quantitative result			
	Qualitative result			

This framework can be used by managers and funders diagnostically, to assess the strength of VFM offers. It can be used to assess:

- ⇒ the typology of indicators in use
- ⇒ the measurement approaches being adopted
- ⇒ the coverage of the 3Es
- ⇒ the incorporation of the fourth E
- ⇒ opportunities for improving the strength of the VFM offer

Systems and Processes Indicators

Many programmes cite the setting up of their M&E and financial systems as important processes which warrant an inference that VFM is likely to follow. This is a reasonable assertion in the early set-up stages of a programme. Indeed good VFM reporting will remain dependent on the maintenance of these important processes which are key components of a results-based management system. However, it is unlikely to remain a sufficient or convincing VFM "offer" as the programme progresses merely to state that these systems have been established. Once programmes are in implementation, evidence is required that the systems and processes are delivering substantive VFM across the 3 Es.

Strong VFM Offers

The thinking behind the framework is that VFM is likely to be most easily communicated, most straightforward to understand, and a strong basis for a VFM offer, when indicators are preponderantly towards the upper left corner of the matrix; i.e. when they are 'harder'. The extent to which this applies to the 3Es varies – Economy offers in which indicators are mainly qualitative, would be insufficient. Strong sets of Economy indicators ought to be primarily monetary. However, sets of Effectiveness indicators may well rely more heavily on quantitative and qualitative indicators, such as qualitative improvements in governance, or numbers of girls receiving life skills coaching. The strength of indicators sets can be shown in the framework by shading the cells using a 'traffic light' to suggest strong and weak indicators for the 3Es (*See worked example below*).

Using the Framework

The VFM diagnosis commences by tabulating all the VFM indicators a programme uses, or proposes to use. These are then divided into sets of Economy, Efficiency and Effectiveness indicators. VFM indicators may come from logframes, implementation strategies, reporting frameworks, procurement manuals, etc.

Indicators are next categorised and given a reference number. This process can be used to produce a table of indicators for each of the 3Es; or a single table housing all. Each table should have four columns (*see example overleaf)*:

⇒ indicator reference number
⇒ the wording of the indicators
⇒ its indicator type categorisation (Monetary, Quantitative, Qualitative)
⇒ its measurement type categorisation (Stand-alone, Comparative, Benchmark)

For each of the 3Es separately, the diagnostic framework is completed by recording the indicator reference numbers in their respective cells. It is then possible to make a judgement for each of the Es, and for the VFM offer overall, whether the programme is making a strong VFM offer.

It is very important to note that this is an assessment of the *strength* of a programme's VFM offer; this this is not the same as saying that the programmes *is* value for money, since it may have excellent indicators, but be performing poorly against them.

Movement within the Framework

The framework should be used with the recognition that programmes' VFM offers should improve over time. During inception periods, programmes have a greater focus on establishing their systems and processes. Therefore, early VFM offers will justifiably feature internal programme process indicators – such as establishing an M&E system. Likewise, year one indicators can by definition only be stand-alone. However from year two onwards, programmes may be expected to have an increasing proportion of comparative / trend indicators in their VFM offers. Finally, it may be possible for programmes to shift some of their indictors upwards towards monetary results over time.

For example, a programme working with civil society organisations may want to use indicators that measure the strength of a targeted CSO network. This could include the level of financial backing to the network. Initial thinking may be to use a CSO assessment tool, and score financial backing on a five-point qualitative scale, using some form of rubric to describe the points on the scale. However, once the programme has established a relationship with the CSOs, it may be possible to revise the tool and obtain information on the monetary value of their financial backing.

This is not to say that the only definition of the strength of a civil society network is its ability to raise funds. However it does provide an indicator on this which is straightforward to comprehend and provides a good basis for comparison.

Improving VFM Offers

Once the tables are complete, they can be used to assess whether:

⇒ there is adequate coverage across the 3Es
⇒ the fourth E - equity - is adequately included
⇒ there is a sufficient proportion of indicators in green cells
⇒ any indicators could be strengthened, so they are closer to the top left corner

Concluding Remarks

A strong VFM offer is dependent on good indicators and good data. VFM indicators require the integration of data from programmes M&E and financial systems. This includes the collection of cost data disaggregated at a level that facilitates programmes calculating costs per output and outcome. This is likely to require modification in the way some programme managers record costs, and in their charts of accounts.

Fundamentally, VFM still requires judgement – but strong VFM indicators make forming a judgement easier.

Worked example of VFM indicator framework:

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	

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