

## Helpdesk Research Report: Value for Money

Date: 24/09/2010

**Query:** How are other donors approaching 'value for money' in their aid programming?

Of particular interest are:

- (i.) how are other donors interpreting value for money; and
- (ii.) what tools they are using to assess value for money?

**Enquirer:** AusAID, Office of Development Effectiveness

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## 1. Overview

### Background and definitions

The concept of 'value for money' (VFM) appears to originate from the audit profession. The application of this concept to aid agencies and development work is due in large part to two key trends since the 1990s: First, following the recession of the early 1990s, citizens started seeking accountability for government spending of their taxes. Second, aid effectiveness became prominent on the international agenda (J.B.S. comments).

While there is increasing pressure to understand and apply 'value for money' in development aid, 'there are still no universally agreed definitions. Confusion persists on how the concept should and can be used' (OECD comments). The following are definitions that have explicitly been adopted. Value for money:

- 'assesses the extent to which the programme has obtained the maximum benefit from the outputs and outcomes it has produced within the resources available to it' (IEG, World Bank, 2007)
- refers to 'the optimal use of resources to achieve the intended outcomes' (UK National Audit Office, adopted by DFID)
- 'deals with what donors get back in terms of results from their funding to developing countries' (J.B.S. comments).

### Donor approaches

DFID appears to have gone the furthest among aid agencies in developing the concept of 'value for money'. It is the only agency that explicitly uses the terminology frequently in its policies and procedures and has a Value for Money department. DFID's approach to VFM involves 'assessing whether level of results achieved represent good value for money against the costs incurred: moving from "results to returns" (OECD, 2010, p.63). Processes include the use of logframes, economic appraisals and portfolio reviews. Newer initiatives include the adoption of a business case model for project approval and the development of unit cost metrics in key sectors.

Other donors, while not explicitly adopting ‘value for money’ terminology, aim to achieve VFM through rigorous economic analysis and results-based management:

#### A. Economic analysis

The purpose of economic analysis is to determine whether an activity is a worthwhile investment (whether the results from an activity are sufficiently valuable as to justify the expenditure of scarce resources) (USAID, n.d.). There are two key economic analysis tools:

- Cost-benefit or internal rate of return analysis: estimates the respective economic costs and benefits and then expresses the net benefits in terms of the rate of return on the investment (USAID, 2010).
- Cost-effectiveness analysis: compares the cost of various approaches for achieving a given objective (USAID, 2010).

The World Bank and USAID are strong proponents of conducting economic analysis as a means of measuring results and ensuring accountability to taxpayers. The basic criterion for cost-benefit analysis is that net benefits should be positive. In addition, benefits and costs should be measured against the counterfactual of not having the project; and measured against alternatives (World Bank, 2009). These aspects of looking at different possible ways to achieve a desired set of development outcomes and comparing these to actual investments made and actual outcomes achieved are essential for achieving VFM (OECD comments).

Where results are not easily evaluated in monetary terms, results can be quantified by determining real resource cost per unit of output. Where outputs are non-quantifiable, cost-effectiveness analysis can be conducted to allow for choice between competing designs on a least-cost basis (USAID, n.d.).

Although the two aid agencies are mandated to perform cost-benefit analysis, their usage has declined in both organisations. This is attributed in part to difficulty in conducting such analysis and failure to collect relevant data (World Bank, 2010). There are calls to revisit the policy and to address the challenges such that economic analysis can be increasingly applied.

Other agencies that adopt economic analysis as a means of assessing ‘value for money’ include the Asian Development Bank (conducts economic analysis at the start, during and after project implementation) and Norad (cost efficiency assessments at the project level).

#### B. Results-based management

The push for accountability of government spending and aid effectiveness contributed to the adoption of ‘results-based management’ (RBM) or ‘managing for development results’ (MfDR). RBM is an approach that focuses on achieving outcomes, implementing performance measurement, learning and adapting, and reporting performance. It focuses on actual results – the changes created by and contributed to by specific programming: ‘By establishing clearly defined expected results, collecting information to assess progress towards them on a regular basis and taking timely corrective action, practitioners can manage their projects or investments in order to maximise achievement of development results’ (CIDA, n.d., 1)

Many donors have adopted a range of tools to conduct results-based management. These include:

- Performance measurement framework/performance reviews (e.g. CIDA; Danida, USAID)
- Logic model (e.g. CIDA)
- Corporate results framework (ADB)
- Results monitoring system (World Bank)
- ‘Plan, Do, Check, Act’ cycle (JICA)

The adoption of a results-based management system is considered by many donors as a way to address ‘value for money’ (e.g. Asian Development Bank, CIDA, USAID).

## Accountability and transparency

The ‘value for money’ agenda has also been linked to efforts to improve accountability and transparency. Aid agencies and their partner countries need to be seen to be managing aid responsibility and to have accountability checks in place. This requires strengthening audit bodies, parliaments, media, civil societies and independent watchdogs such that they can hold government to account for spending (DFID, 2009; J.B.S. comments). It also involves greater transparency, in particular publishing information on projects and allocation of funds.

## **2. General literature**

### **Birdsall, N., Kharas, H. and Mahgoub, A., 2010, ‘Quality of Official Development Assistance Assessment’, Brookings – Centre for Global Development, Washington, DC**

This paper outlines a methodology to assess the quality of aid programmes across different donors: a Quality of Official Development Assistance assessment (QuODA). It seeks to address the gap in quantitative assessment that can be used comparatively across agencies. Most assessments, it argues, have thus far adopted a qualitative, descriptive approach (e.g. the DAC’s peer review process). There are also no comparable data available across agencies on the development success of projects as defined by independent evaluation offices.

The QuODA involves four dimensions or pillars of aid quality built up from 30 separate indicators (for country analysis) and 17 indicators (for individual aid agency analysis). The four pillars and 30 indicators are:

**Pillar 1 - Maximizing efficiency to get high value for money:** This aims to measure the link between development assistance and poverty-reducing growth of each donor (“poverty bang-for-the-buck”)

Indicators:

- Share of allocation to poor countries
- Share of allocation to well-governed countries
- Low unit administrative costs
- High country programmable aid share
- Focus/specialization by recipient country or sector
- Support of select global public good facilities
- Share of untied aid
- Stability of net disbursements

**Pillar 2 - Fostering institutions:** This aims to measure the extent to which aid fosters partnerships and local institutions, including those of civil society

Indicators:

- Share to recipients’ top development priorities
- Avoidance of project implementation units
- Share of aid recorded in recipient budgets
- Aid to partners with good operational strategies
- Use of recipient country systems
- Coordination of technical cooperation
- Share of scheduled aid recorded as received by recipients
- Coverage of forward spending plans

**Pillar 3 - Reducing the burden on recipients:** This aims to measure the extent to which aid policy and design imposes or minimizes administrative cost burdens on recipient governments

Indicators:

- Significance of aid relationships
- Fragmentation across donor agencies
- Median project size
- Contribution to multilaterals
- Coordinated missions
- Coordinated analytical work

- Use of programmatic aid

**Pillar 4 - Transparency and learning:** This aims to measure the extent to which donor operations are transparent and provide opportunities for learning

Indicators:

- Member of the International Aid Transparency Initiative (IATI)
- Recording of project title and descriptions
- Detail of project descriptions
- Reporting of aid delivery channel
- Share of projects reporting disbursements
- Completeness of project-level commitment data
- Aid to partners with good M&E frameworks

The 30 indicators are of three types:

- Indicators where the literature (or common sense) suggests that they are an *intrinsic good* in and of themselves (e.g. the superiority of untied aid)
- Indicators that are proxies for some *latent variable* that is considered important but that is not directly observable and cannot be directly measured (e.g. transparency)
- Indicators that are considered *inputs* into some desired outcome and are shown to be linked in empirical academic results

All of the 30 indicators are converted into standard normal variables with the mean equal to zero and the variance equal to one. The means and variances are computed for the countries and agencies. By taking the means and distributions from 2008 (the current exercise) as the base year, the study aims to be able to show changes in the indicators in the future.

### 3. Donor literature – bilateral approaches

#### DFID

**OECD-DAC, 2010, ‘The United Kingdom: Peer Review’, Development Assistance Committee, OECD, Paris**

<http://www.dfid.gov.uk/Documents/publications1/OECD-DAC-UK-Peer-Review-Report-July2010.pdf>

This qualitative peer review by the OECD-DAC includes discussion of DFID's 'value for money' approach to drive development effectiveness and greater efficiency'. It states that: 'DFID is pioneering a value for money approach, *looking to move beyond measuring and managing for results to being more explicit about assessing whether the level of results achieved represent good value for money against the costs incurred*: moving from "results to returns" (p. 63). It highlights the following points:

- Areas of programme where DFID will be spending around GBP 1 billion per year (e.g. health, education and governance) are subject to rigorous value for money portfolio reviews.
- The Investment Committee is driving increased analytical activity on value for money across the organisation, on both allocation policy and the portfolio in aggregate. For example, DFID is currently considering how to improve the measurement of value for money at project level including using unit costs in key sectors that are amenable to this approach.
- DFID is also taking forward a new approach to procurement following a Procurement Capability Review carried out across UK government departments.

The peer review recommends that although the value for money approach is valuable for ensuring efficiency, "DFID should be cautious in applying the value for money approach, ensuring that decisions like delivering bigger but fewer programmes and closing projects which are not fulfilling their objectives are adjusted depending on contexts and do not weaken DFID's long-term approach to development" (p. 64).

The review also notes that DFID is giving greater emphasis to managing for development results. The objective is to use evidence more effectively in order to ensure the maximum impact of the aid

programme and to demonstrate its effectiveness. DFID has been seeking to address the need for better quality statistics and information, stronger commitment to evidence-based policy making, robust systems for monitoring and evaluation, and strengthened mechanisms to hold governments and donors to account.

**DFID, 2009, 'Eliminating World Poverty: Building our Common Future', White Paper, DFID, London**

<http://www.dfid.gov.uk/Documents/whitepaper/building-our-common-future-print.pdf>

Chapter 7 of this White Paper outlines DFID's plan to ensure Value for Money. This includes:

- Allocating UK aid where it has most impact: decisions should be guided by three principles: levels of income per person (the poorer the country the higher the aid); population size; and confidence on whether the aid resources will be used effectively (based on assessments of country policy and institutional performance).
- Transparency, scrutiny and accountability: improving transparency (e.g. by publishing information on projects) will help partner country governments to better plan and manage aid; and citizens in both donor and partner countries to track spending and hold their governments to account. Accountability also requires strengthening of audit bodies, parliaments, media and civil societies that can hold government to account.
- Improving efficiency: programmes should be chosen and designed so they provide maximum value for money. The right systems and skills to make such decisions need to be in place. In particular, DFID aims to: drive stronger cash management in the multilateral organisations it funds; focus communications efforts; improve value for money in the research budget; reviews spending portfolio to identify savings; build the evidence about what works; and focus efforts.

**HM Treasury, 2009, 'Value for Money Update', HM Treasury, London**

[http://www.cabinetoffice.gov.uk/media/203122/value\\_for\\_money.pdf](http://www.cabinetoffice.gov.uk/media/203122/value_for_money.pdf)

This report includes discussion on DFID's efficiency savings through a variety of reforms, including:

- Improving procurement practices: DFID strengthened post-contract negotiations while stepping up quality standards agreed with contractors.
- Making substantial savings in back office functions: DFID reduced UK based staff numbers by over 15 per cent. Other back-office costs were reduced by transforming business processes and developing new corporate systems; and
- Increasing the effectiveness of individual projects: In March 2005, 62 per cent of DFID's projects were assessed as wholly or largely meeting their objectives, but by March 2008 this figure had reached 80 per cent.

Further Value for Money savings have been identified across DFID's budget, including:

- Where countries can deliver development on their own or others are better placed to assist them, DFID has exited those countries and closed offices
- Sharing offices - DFID and FCO are now sharing offices in 31 countries
- Shifting more resources towards countries where its aid will have the greatest impact in terms of reducing poverty
- Driving further efficiencies in the back office including by implementing IT systems for programme and financial management
- More effective, focused central communications work and using more efficient web and social media
- Strengthened partnerships on research and analytical work and
- Improved procurement and management of policy and research contracts

**Mitchell, A., 2010, 'Secretary of State for International Development Andrew Mitchell's Speech to Oxfam and Policy Exchange' 3 June, Royal Society, London**

<http://www.dfid.gov.uk/Media-Room/Speeches-and-articles/2010/Full-transparency-and-new-independent-watchdog-will-give-UK-taxpayers-value-for-money-in-aid-/>

This speech outlines plans for promote transparency and to promote independent aid watchdogs in order to ensure that the government can be held accountable for its spending on aid and that UK taxpayers receive value for money.

**Poate, D. and Barnett, C., 2003, 'Measuring Value for Money? An Independent Review of DFID's Value for Money (VFM) Indicator, Public Service Agreement 2003–2006', Evaluation Report EV645, DFID, London**  
<http://www.oecd.org/dataoecd/60/56/35245771.pdf>

This study examines the use of scoring by DFID to report performance against the Public Service Agreement (PSA) Value for Money (VFM) indicator. The indicator has two parts:

1. an objective for increasing overall value for money; and
2. a measure of progress against it.

Value for money under the 2003–2006 PSA is achieved in DFID when:

1. The proportion of DFID's bilateral programme going to low income countries increases from 78% to 90% (measured from records of new commitments); and
2. There is a sustained increase in the index of DFID's bilateral projects' evaluated success (based on scored assessments by DFID staff. Success is defined as the proportion of projects scoring 1 and 2 out of a 5-point scale).

## **USAID**

**OECD-DAC, 2006, 'The United States: Peer Review', Development Assistance Committee, OECD, Paris**

<http://www.oecd.org/dataoecd/61/57/37885999.pdf>

This qualitative peer review by the OECD-DAC includes discussion of the Department of State and USAID's results-based framework for development. It states that 'the US Government sees results-based management of its bilateral system as synonymous with aid effectiveness and the best way to address Congressional insistence on "value for money"' (p. 14). This contrasts with the view of the DAC, which sees aid effectiveness as an international issue, involving interaction between partner countries and the donor community, as much as a bilateral one.

USAID has been the pioneer in helping to set up the standards of a performance system for US development operations since the mid-1990s and continues to pursue an active agenda of performance management practices. For the last decade, USAID has maintained a performance monitoring system that included: a USAID-specific, multi-year strategic plan; an annual performance plan; and regular annual performance reports. More recently, USAID developed the 'Mission Management Assessment' to track performance (see p. 52). Under this approach, assessment teams composed of senior officers in key operational areas (senior management, administration, finance, programming, contracting) use a peer review approach to evaluate the effectiveness of field operations and to identify "best practice" in both programme and internal management. This approach to performance monitoring has led to a strong focus on establishing clear performance frameworks and generating data for these and a movement away from the use of evaluation as a management tool within USAID.

**USAID, 2010, 'Measuring Effectiveness to Improve Effectiveness', Briefing note, no. 5, Country Compass USAID**

[http://www.countrycompass.com/\\_docs/policy\\_briefs/Briefing\\_Note\\_5\\_Effectiveness.pdf](http://www.countrycompass.com/_docs/policy_briefs/Briefing_Note_5_Effectiveness.pdf)

This briefing note discusses USAID's approach to assessing the effectiveness and impact of programmes to promote economic growth. Each field activity is designed to incorporate a monitoring plan and a results framework that links project inputs to outputs, intermediate results and assistance objectives (a "managing for results" approach). This includes a set of measurable performance targets and the systematic collection of information on progress in achieving them.

Beyond the reporting on project-level results, USAID undertakes annual or semiannual portfolio reviews to check performance against the intended results. For a subset of projects, particularly where the review finds a need for additional information, USAID conducts independent evaluations. USAID currently does not have a standardized methodology for evaluation. While output indicators are generally straightforward measures of progress in carrying out project activities, indicators used to track intermediate results are very diverse.

One broadly accepted approach for applying a common yardstick to different types of aid projects or activities is cost-benefit analysis, which *estimates the respective economic costs and benefits and then expresses the net benefits in terms of the rate of return on the investment*. This analysis can be compared across competing uses of budget resources. It is often difficult in practice, however, to place an economic value on programme benefits. In such cases a common alternative is to apply cost-effectiveness analysis, which compares the cost of various approaches for achieving a given objective. This metric cannot be compared across programs with different objectives. USAID's ADS 202: Economic Analysis of Assistance Activities (see document below) recommends such methodologies as a non-mandatory approach for "determining whether an activity is a worthwhile investment for the country, i.e., whether the results from an activity are sufficiently valuable as to warrant the expenditure of scarce resources." These techniques have rarely been used, however, in recent years. There is discussion on revitalizing the approach.

The briefing note also outlines the approach of the **Millennium Challenge Corporation**. It requires partner countries to conduct an *ex ante* economic analysis of each major component of a proposed compact to demonstrate at the outset that expected results justify the proposed investments. The analysis focuses on estimating the expected rate of return on the investment of MCC funds for each major programme element. Elements with a rate of return below a specified threshold are generally returned to the sender for revision. The MCC also requires an independent *ex post* evaluation of the economic impact of each compact, using rigorous methods wherever possible.

It is important to note that the MCC's rigorous approach to economic analysis and impact assessment tends to concentrate resources on activities for which an economic analysis can be applied most readily, such as infrastructure investments. The approach is also technically demanding and costly – and may only be justifiable for large scale projects rather than smaller interventions.

The note concludes with some findings and recommendations, which include:

- At the design stage, even low-cost applications of standard tools for economic analysis would help to maximize prospective benefits by weeding out projects or project elements that appear to be less effective in terms of likely costs and benefits.
- At the close-out stage, more frequent and systematic use of independent evaluations (including rigorous impact evaluations) would provide much better information about how well various interventions have worked and why.
- In addition to getting better information, efforts are also needed to strengthen systems for organisational learning in order to take full advantage of the information that is generated. This would allow for better overall program performance -- and more effective use of the aid dollar for promoting growth and prosperity.

#### **USAID, n.d. 'Economic Analysis of Assistance Activities', ADS Supplementary Reference: 202, USAID, Washington, DC**

The purpose of economic analysis as outlined in this guidance note is to determine whether an activity is a worthwhile investment for the country (whether the results from an activity are sufficiently valuable as to justify the expenditure of scarce resources). Economic analysis also allows activity designers to select the least-cost design from among alternative options, as well as to choose among different activities in the same sector or in different sectors.

The note states that cost-benefit analysis must be conducted to determine the economic viability of individual activities designed to have quantifiable economic results or outputs (e.g. agricultural, industrial and infrastructure activities). Where results are not easily evaluated in monetary terms, results can be quantified by determining real resource cost per unit of output. Where outputs are non-quantifiable, cost-effectiveness analysis should be conducted to allow for choice between competing designs on a least-cost basis.

Although USAID does not have a rigid methodology for economic analysis, the guidance note discusses some general features of any such analysis:

- The primary task of economic analysis is measuring the costs and benefits in terms of a common yardstick - (1) measuring the real value of any result (comparing real benefits with real costs); and (2) comparing results across time.
- Economic analysis should be distinguished from 'financial' analysis, which requires a time discounting factor. If the present value of benefits is substantially larger than the present value of the costs, then the activity is profitable.
- In economic analysis the objective is to determine the social profitability of an activity. Analysis must be broadened to take account of price distortions (taxes, subsidies, etc.) in the directly affected markets, plus externalities (net benefits or net costs) that occur in other markets as a result of the project.
- Once economic costs and benefits have been calculated as flows over time, an internal rate of return can be calculated in order to determine whether a given activity is economically worthwhile.
- Where a project is expected to produce benefits in terms of poverty alleviation, the analysis should attempt to quantify such benefits *vis-a-vis* a "without project" alternative.

### Sida

**OECD-DAC, 2009, 'Sweden: Peer Review', Development Assistance Committee, OECD, Paris**  
<http://www.oecd.org/dataoecd/27/37/43278517.pdf>

This qualitative peer review by the OECD-DAC includes discussion on Sida's shift to results-based management. It aims to move away from reporting how much has been spent on what and where, towards demonstrating what has actually been achieved. Some key activities underway to entrench results-based management include:

- The establishment of a Quality Assurance Committee to review each new proposal over 100m SEK (USD 15 million) for results orientation
- Procedures for external reporting
- Annual reviews of progress, rather than just a completion report (required by Sida's new three year operational planning tool). These reviews will allow teams to identify where and why something may be going off track or where indicators are inappropriate, and to develop remedies
- A country reporting matrix which compels country teams to identify indicators to assess progress at both country and at sector levels and to monitor them annually

### JICA

**OECD-DAC, 2010, 'Japan: Peer Review', Development Assistance Committee, OECD, Paris**  
<http://www.oecd.org/dataoecd/45/52/45470028.pdf>

This qualitative peer review by the OECD-DAC includes discussion on the Ministry of Foreign Affairs (MoFA) and JICA's policies and procedures for accountability, evaluation and managing for results. While the MoFA and JICA conduct their own internal evaluations, Japanese overseas development assistance is also scrutinised by the Japanese Board of Audit for regularity, efficiency and effectiveness.

JICA has established a database of evaluation lessons which staff can search by keyword. Identifying such lessons when designing new projects has been mandatory since 2004. In terms of results-

based management, JICA has adopted the cycle, "Plan, Do, Check, Act". Teams in JICA are now encouraged to base project design on the ultimate delivery of a service, rather than to see the successful completion of a project as an end in itself. Results-based management is still in its early stages at the programme level.

### **Danida**

**OECD-DAC, 2007, 'Denmark: Peer Review', Development Assistance Committee, OECD, Paris**  
<http://www.oecd.org/dataoecd/46/35/39166375.pdf>

This qualitative peer review by the OECD-DAC includes discussion on Danida's move toward a results-based management system with stronger focus on quality. Since 2003, Danida has had a performance management framework focusing on results. The three main objectives are to: enhance the quality of development cooperation through a focus on results; to improve management and continuous learning through better information and monitoring; and to strengthen accountability through performance assessments and measurement. New tools have been developed to further strengthen the performance framework, including guidelines for project management that apply to all programmes exceeding DKK 5 million.

The review outlines the core tools for the results-oriented management system at the country programme level. They include, at the embassy level:

- Annual assessment of a country programme: This self assessment includes reporting from programme assessments done in connection with programme reviews. It includes a qualitative review of i) the situation in the country; ii) general budget support; iii) programme development, covering all sectors as well as cross-cutting issues and priority themes; and iv) reporting on Danida's Anti-corruption Action Plan.
- Performance reviews of the bilateral development co-operation programme are carried out every two years by the Quality Assurance Department: These peer reviews assess whether practices and activities agree with stated policies, goals, plans and procedures. They cover the internal organisation and management system, the aid effectiveness agenda and financial management.

In addition, at the programme and project level, results-monitoring includes:

- Annual progress and financial reports on programmes and projects;
- Annual programme reviews, which are mainly policy-oriented and focused on the overall implementation of national sector policies, strategies and programmes, and on the performance and relevance of Danish support;
- Programme and project completion reports finalised at the end of a programme phase or project; and annual assessment by independent auditors of all Danish supported programmes and projects, and a final audit at the end of all programmes and projects

**EQI, 2008, 'Value for Money Audit of Projects', Final Report submitted to DANIDA, Environmental Quality International, Cairo**  
<http://www.eeaa.gov.eg/esp/images/Documents/Reports/Audit/DANIDA%20Value%20for%20Money%20Audit%202008.pdf>

This report on the Environment Sector Programme is an example of a Value for Money audit. The report showed that the funds for the programme were utilized for their intended activities, benefiting targeted communities through interventions in various sectors and geographical regions. The report reviews quality of work, procurement, and contract management of the 13 projects audited in December 2008. The audits were carried out through literature reviews, interviews and field visits.

### **CIDA**

**CIDA, n.d. 'RBM Tools at CIDA: How-to-Guide', Canadian International Development Agency, Ottawa**

[http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUImages/Public\\_Engagement/\\$file/RBM-How-to-Guide-e.pdf](http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUImages/Public_Engagement/$file/RBM-How-to-Guide-e.pdf)

This toolkit provides guidance on the use of CIDA's three main results-based management (RBM) working tools: the logic model; performance measurement framework; and risk register. It describes RBM as an approach that focuses on achieving outcomes, implementing performance measurement, learning and adapting, and reporting performance. It focuses on actual results – the changes created by and contributed to by specific programming: 'By establishing clearly defined expected results, collecting information to assess progress towards them on a regular basis and taking timely corrective action, practitioners can manage their projects or investments in order to maximise achievement of development results' (p. 1). The following is a brief description of the three CIDA tools:

- Logic model: this model (also called a 'results chain') depicts the causal relationship between inputs, activities, outputs, and the outcomes of a given policy, programme or investment.
- Performance measurement framework: performance measurement is undertaken on a continuous basis during implementation of investments in order to gather 'real-time' information (use of resources, extent of reach, and progress towards achievement of outputs and outcomes). This allows for any necessary corrective measures to improve performance.
- Risk analysis: a risk register lists the most important risks, the results of their analysis and a summary of risk response strategies. The register is continuously updated and reviewed for the duration of the project. The aim is to allow for more informed decisions in managing risks.

#### **4. Donor literature – multilateral approaches**

##### **World Bank**

**World Bank, 2010, 'Cost-Benefit Analysis in World Bank Projects', Fast Track Brief, Independent Evaluation Group (IEG), World Bank, Washington, DC**

[http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/CF83C56C2C21A14E8525779200783AF2/\\$file/FTB-FY2010%20CBA\\_desk-to-desk\\_06\\_29\\_10.pdf](http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/CF83C56C2C21A14E8525779200783AF2/$file/FTB-FY2010%20CBA_desk-to-desk_06_29_10.pdf)

The brief provides a summary of the recent IEG report, 'Cost-Benefit Analysis in World Bank Projects'. It states that cost-benefit analysis has been integral to the operations of the World Bank – and has demonstrated commitment to measuring results and ensuring accountability to taxpayers. Although the Bank is mandated in its Articles of Agreement to conduct cost-benefit analysis (in order to determine the economic rate of return), the study finds that the percentage of projects that are justified based on cost-benefit analysis has been declining. This is due in part to difficulty in conducting such analysis, failure to collect relevant data, and to perceptions of poor utility since such analysis is often prepared *ex post*, after the decision has already been made to proceed with the project. Of the projects that do provide cost-benefit analysis, they often lack transparency. Other weak points include: comparison against alternatives; consideration of the public good under benefits; and measurement of benefits against a without-project counterfactual.

Where *ex ante* project analysis is conducted, it is usually based on the assumption that everything will go as planned, which is not necessarily the case. The study suggests an alternative: to present the expected economic returns, based on the assumption that new projects would achieve the average results measured in previous similar projects, unless changes are made to the project design that warrant revision.

The study concludes by advocating for the World Bank to revisit the policy for cost-benefit analysis and to define it in a way that recognises the difficulties in quantifying benefits in some types of projects, while maintaining a high level of rigour in justifying projects.

**World Bank, 2009, 'Evaluation of Cost-Benefit Analysis in Bank Projects: Approach Paper', World Bank, Washington, DC**

[http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/CFC469FDE491DB64852576B7007B5621/\\$file/CODE2009-0083-Evaluation%20Cost-benefit%20Analysis%20Bank%20Projects.pdf](http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/CFC469FDE491DB64852576B7007B5621/$file/CODE2009-0083-Evaluation%20Cost-benefit%20Analysis%20Bank%20Projects.pdf)

Reiterating World Bank policy that economic analysis must be conducted for every investment project in order to determine whether the project creates more net benefits than other options, this paper provides an overview of cost-benefit analysis:

- Cost-benefit analysis includes all relevant benefit flows, including those that are difficult to measure quantitatively.
- The basic criterion is that net benefits should be positive. In addition, benefits and costs should be measured against the counterfactual of not having the project; and measured against alternatives. Where benefits are not measurable, the analysis should show that the project is the most cost effective alternative (cost effectiveness analysis, which is a subset of cost-benefit analysis).
- Analysis should also assess sustainability and risks associated with the project.

**World Bank, 2009b, ‘Annual Review of Development Effectiveness: Achieving Sustainable Development’, Independent Evaluation Group, World Bank, Washington, DC**

[http://siteresources.worldbank.org/EXT2009ARDE/Resources/arde09\\_web.pdf](http://siteresources.worldbank.org/EXT2009ARDE/Resources/arde09_web.pdf)

This review finds that although there has been a much greater focus at the World Bank on results in recent years, there is still a long way to go to demonstrate a real change in measurable outcomes and impacts. It outlines progress in the following five areas:

- The monitoring and evaluation initiatives
- The IDA15 Results Measurement System
- Impact evaluation initiatives
- Real-time project information
- Economic cost-benefit analysis.

Some of the key points from the review include:

- The use of cost-benefit analysis has declined and there is a need to revisit when such analysis is most appropriate to adopt such analysis, in comparison with other tools such as impact evaluation analysis.
- There is progress towards a consolidated ‘results monitoring platform’ to strengthen monitoring and reporting of outcomes. A key component is the adoption of ‘core sector indicators’ (standardised indicators for each sector that are comparable and aggregable at various levels).
- There is a need for more ‘meaningful, accurate, and decision-relevant’ information on performance in order to support the managing for results agenda.
- The Results Monitoring System for IDA is an ambitious effort to measure development results in a coordinated fashion and aggregate them in a way that is relevant to prospective IDA donors. The initiative has made progress but faces ongoing challenges to full implementation.

**Independent Evaluation Group and Development Assistance Committee (DAC) Network on Development Evaluation, 2007, ‘Efficiency or Cost-Effectiveness’, Chapter 11 in Sourcebook for Evaluating Global and Regional Partnership Programmes: Indicative Principles and Standards, IEG–World Bank, Washington, DC**

<http://siteresources.worldbank.org/EXTGLOREGPARPROG/Resources/sourcebook.pdf>

This chapter provides definitions and guidance on efficiency and cost-effectiveness methodologies.

Definitions (see p. 65):

- Efficiency is the extent to which the program has converted or is expected to convert its resources/inputs (such as funds, expertise, time, etc.) economically into results in order to

achieve the maximum possible outputs, outcomes, and impacts with the minimum possible inputs.

- Cost-effectiveness is the extent to which the program has achieved or is expected to achieve its results at a lower cost compared with alternatives. Shortcomings in cost-effectiveness occur when the programme is not the least-cost alternative or approach to achieving the same or similar outputs and outcomes.
- Value for money is a concept related to cost-effectiveness. It assesses the extent to which the programme has obtained the maximum benefit from the outputs and outcomes it has produced within the resources available to it.

A range of analytical approaches may be considered to assess efficiency or cost-effectiveness.

These range from:

- Cost-benefit or internal rate of return analysis (more elaborate)
- Cost-effectiveness analysis (more limited than above)
- Cost comparison (simple and quick)

At a minimum, the evaluation should measure and analyse the programme's costs in broad categories and categorize and list the programme's activities, outputs, outcomes, and other benefits, even if these cannot be valued in monetary terms.

The chapter provides guidance on: costs to include in the analysis (financial, economic and social costs – including labour-in-kind and opportunity costs); qualitative assessments where it is not possible to achieve quantifiable measurements; comparing alternatives; and conducting analysis from both beneficiary group and donor perspectives.

**World Bank, 2007, ‘Results-Based National Development Strategies: Assessment and Challenges Ahead’, World Bank, Washington, DC**

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:21790579~pagePK:41367~piPK:51533~theSitePK:40941,00.html>

The review discusses a results-oriented framework: a country-level results-based monitoring and evaluation system that produces data on progress toward desired inputs, outputs, and outcomes that are outlined in the national development strategy. Three assessment criteria are used to assess whether a country has such a framework (see pp. 4-5):

- Quality of development information: the country's development data are timely, relevant, and comprehensive and are generated by a lead statistical institution.
- Stakeholder access to information: information on the national development strategy and the budget, and statistical and other monitoring data are widely accessible within the country.
- Coordinated country-level monitoring and evaluation: the country's system integrates statistical and monitoring data produced by line ministries and local governments to monitor outcomes, outputs, and inputs; this monitoring and evaluation system is used by both country policymakers revising strategy and assigning budget allocations and by external development partners in reporting to their headquarters.

**USAID, 2010, ‘Measuring Effectiveness to Improve Effectiveness’, Briefing note, no. 5, Country Compass USAID**

[http://www.countrycompass.com/\\_docs/policy\\_briefs/Briefing\\_Note\\_5\\_Effectiveness.pdf](http://www.countrycompass.com/_docs/policy_briefs/Briefing_Note_5_Effectiveness.pdf)

This briefing note discusses USAID's approach to assessing the effectiveness and impact of programmes to promote economic growth. It includes a brief section that explains the World Bank approach to measuring effectiveness – lead by the Independent Evaluation Group. Key points include (see pp. 5-6):

- The Bank conducts *ex ante* economic analysis as a yardstick for ensuring that expected net benefits are positive. This analysis often influences the design of the activities.

- The Bank conducts *ex post* economic analysis on a subset of activities after the close of a project. Conduct of this type of analysis has declined, however, possibly due in part to difficulty in quantifying economic benefits in many activities.
- Given this difficulty, the IEG has other yardsticks that are used in all *ex post* evaluations to establish at least qualitative comparability. The IEG rates the overall performance of each project on a scale of 1 (highly satisfactory) to 6 (highly unsatisfactory), on the basis of an analysis of efficiency, efficacy, and relevance of the activities.
- The IEG evaluations are similar to those conducted by USAID in that they combine subjective judgments and data analysis and focus mainly on results rather than outcomes or impacts. Unlike USAID, however, the IEG is much more systematic in evaluating projects that are closing and in standardizing the results.
- The Bank's approach is also very different from USAID's contractor performance ratings, in that the IEG ratings are based on an independent review.

### **Asian Development Bank**

#### **ADB, 2003, 'Economic Analysis of Projects', Operations Manual, Section G1/BP, Asian Development Bank, Manila**

The purpose of economic analysis of projects, as outlined in this manual, is 'to promote the identification and selection of public investments that will lead to a sustainable improvement in the welfare of beneficiaries, and a country as a whole' (p. 1). The economic analysis of projects begins at project conception, is developed during project preparation, is monitored during project implementation, and is reviewed after project completion. This is done through a project completion report and, if appropriate, a project performance audit report to ensure that investment resources are used in a manner that is economic, efficient, and sustainable.

Economic analysis is carried out to assess the economic viability of a project in the context of a country's macroeconomic goals, performance, and outlook, and in the context of the goals, performance, and outlook of the relevant sector. All technically feasible alternative ways of achieving a project's objectives must be considered so that the least-cost technically feasible alternative can be identified. If this alternative is not selected, other economic principles must be applicable.

If benefits cannot be valued, economic costs are assessed against project objectives to minimize the resources required to achieve the objectives. Where the outputs of a project can be quantified but not valued, economic efficiency can be assessed in terms of cost-efficiency alone.

Economic analysis should include the following elements:

- Review of macroeconomic context
- Review of sector context
- Demand analysis
- Identification of project rationale
- Identification of project alternatives
- Identification and comparison of project costs and benefits
- Assessment of project sustainability
- Distribution of project effects
- Sensitivity and risk analysis
- Identification of indicators for project performance monitoring system

#### **ADB, 2003b, 'Financial Management Systems, Financial Analysis, and Financial Performance Indicators', Operations Manual, Section G2/BP, Asian Development Bank, Manila**

ADB requires the use of financial analysis and an assessment of the financial policies and the capacity of the financial management systems practiced or proposed by the borrower or executing agency. Financial analysis is to be undertaken so that the financial viability of the project and, in appropriate cases, of the executing agency, before, during, and after the investment in the project is established to the satisfaction of ADB. Financial performance indicators should be formulated with

consideration to the sector, the project, the executing agency, and ADB's requirements for financial viability for a revenue-earning project and its executing agency.

Financial analysis should include the following elements:

- Sector analysis
- Analysis of the executing agency
- Analysis of the project (through discounted cash flow analysis; assessment of project cash flows; risk assessment)

## 5. Additional information

This query response was prepared by **Huma Haider**: [huma@gsdrc.org](mailto:huma@gsdrc.org)

### Experts consulted

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### Selected websites visited

African Development Bank, Asian Development Bank, Center for Global Development, Cida, Danida, DFID, Eldis, Google, Google Scholar, GSDRC, Human Security Gateway, Ingenta journals, ITAD, LSE, Managing for Development Results, Norad, OECD, Overseas Development Institute, Sida, World Bank, USAID

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