Measuring Value for Money and Using Value for Money Analysis

In brief

SAVI, a DFID funded programme implemented by Palladium, has established its own framework for assessing Value for Money in annual performance – in relation to expenditure, economy, efficiency, effectiveness and equity.

Routine tracking and analysis of expenditure and economy ensure that inputs are supplied and services delivered to partners in line with SAVI’s core values, whilst also meeting DFID requirements and competing effectively within the development sector. Analysis of efficiency and effectiveness compares results, and associated costs, between Outputs, across states and over time, through retrospective outcome mapping.

These measures have served SAVI well. Internally, they assist in making critical management decisions relating to programme, team and staff performance. Externally, they provide further evidence of the value of SAVI’s alternative approach, and form an important part of communicating SAVI results to wider audiences of development practitioners and policymakers.
DFID started looking at programme performance using Value For Money (VfM) indicators from the early 2000s. However, the financial crisis of 2008, the subsequent ring-fencing of the overseas aid budget and increased scrutiny on how this was spent, gave a significant boost to VfM considerations. All aspects of DFID’s performance became the subject of VfM analysis, and responsibility for ensuring VfM in programme delivery was placed squarely on the shoulders of DFID suppliers and programme managers. VfM analysis of programme performance on measures of economy, efficiency and effectiveness became an official DFID requirement in late 2011, three years after SAVI had started.

Programmes were provided with VfM guidelines, including a broad framework for analysis and general advice:

“The VfM agenda involves a culture change across DFID. The increased transparency and scrutiny means we need to be prepared to be challenged on what we do and how we do it. This means that we have to be confident in the decisions we have taken and how we implement. We have to be sure that we have adequately considered the costs and benefits of what we plan to do and that we have a solid evidence base to demonstrate why what we’re doing will achieve the expected results. We also need to manage our implementation well and take corrective action where necessary. When working with partner organisations we need to ask additional questions to help take account of the different type of objectives and ways of working that other organisations may have. Ultimately, it all comes down to maximising the impact of each pound spent to improve the lives of the poor.”

However, there was a lack of practical guidance and experience on how to measure VfM, not least in the context of governance and conflict management programmes. Standard VfM measures worked for managing expenditure and economy – but did not apply to efficiency and effectiveness in achieving Outputs and Outcomes. Governance reform processes are not linear, and they cannot easily be planned or monitored against pre-determined Outcomes, or in monetary or quantitative terms. Measuring VfM is both a conceptual and a methodological challenge. Compounding these challenges, SAVI was also breaking new ground in its approach to supporting partners and governance reform processes. Rather than providing grant funds to CSOs – the usual way of supporting demand-side governance – SAVI staff aim to facilitate locally-led, politically smart ‘learning by doing’ and ‘iterative adaptation’, working with a variety of local actors in a wide range of constantly changing contexts.

With support and understanding from DFID Nigeria, and technical direction from Itad – a lead adviser to DFID on VfM, working at the cutting-edge of this new discipline in the development sector – SAVI has been able to develop conceptually and methodologically appropriate tools and analytical frameworks for a practical assessment of VfM in this complex, dynamic context.
**Value for money framework**
SAVI uses the ‘3Es’ framework as the basis of its VfM approach, in line with DFID guidance. Figure 1 sets out how these three measures relate to each other, as well as to programme Costs, Inputs, Outputs and Outcomes.

**Figure 1: 3Es value for money framework**

In recent years, two further dimensions have been added – a fourth ‘E’, to encourage the measurement of ‘equity’ in benefits deriving from programmes, and ‘sustainability’ to examine the potential longevity of benefits. In SAVI, equity and sustainability are core to the programme’s Theory of Change, and are measured as a sub-set of ‘effectiveness’. At the opposite end of the spectrum, ‘expenditure’ has also taken on a VfM dimension, as programmes are required to spend in line with DFID’s increasingly constrained annual budget projections.

**Measuring VfM at different levels**

**Categorising expenditure data**
The defining principle of SAVI’s VfM system is that expenditure is tracked and, as far as possible, allocated to sub-Outputs in the results framework. This can then be aggregated to determine the cost of delivering Outputs and Outcomes. The financial management system provides a full breakdown of expenditure by week, month and year for each budget line in SAVI’s chart of accounts, and allows analysis by state, Output and sub-Output.

**Categorising data on expenditure**
- Expenditure is broken down into four main spend categories: support to partners’ activities (24 per cent), technical support to partners (49 per cent), operating costs (22 per cent), and management costs/milestone payments (5 per cent).
- Wherever possible, expenditure is disaggregated by year, by state, by Output and by sub-Output. Currently 67 per cent of all expenditure is disaggregated in this way. The remaining 33 per cent, which is not state or Output specific, is apportioned equally between states, Outputs and sub-Outputs on annual basis.
- All long-term and short-term staff inputs are systematically assigned to states, Outputs and sub-Outputs through mandatory use of timesheets requiring daily allocation of time spent accordingly.
- Total expenditure by year, by state, by Output and by sub-Output is mapped onto the programme’s results framework, to enable direct comparison with technical performance against annual monitoring and evaluation targets.
Measures of VfM economy

Achieving economy in the cost, quality and fitness for purpose of inputs is systematically checked and analysed on a wide range of indicators. These include:

- **Office costs**: procurement of office service contracts (e.g. internet, security, etc); regular update of suppliers lists (e.g. hotels, car-hire, driver training, etc); good maintenance, retention and recycling of re-usable assets such as office furniture, generators and vehicles, both during the life of the programme and at the end of the programme.

- **Staff and consultants**: the ratio of national to international staff and consultants, and use of different fee bands, are assessed annually ensuring high ‘value to cost’ ratios.

- **Cost share arrangements with other programmes**: these include shared offices, shared security and management services; cross-programme consultancy hire; joint activities; and knowledge sharing on programme management and administration including financial accounting, procurement procedures and compliance mechanisms.

Examples of VfM economy are gathered and reported quarterly by state teams and the national team, accumulating over the course of a year for use in annual VfM analysis.

Measures of VfM efficiency

In the absence of official guidance, measuring VfM efficiency and effectiveness in achieving Outputs and Outcomes has required greater innovation. None of SAVI’s VfM efficiency or effectiveness indicators are standard measures used by other DFID programmes, nor do any of them measure results against benchmarks. The focus is on practical fit-for-purpose measures which provide data to improve programme management. This largely involves comparing performance across states against indicators in the results framework, and also on a number of broader process-based performance indicators.

Measures of VfM efficiency relate to the delivery of Outputs. In SAVI Output indicators focus on the effectiveness of partners as agents of citizen voice. These are measured through composite indices, measuring partners’ performance on a range of aspects of their internal and external functioning (referred to below as their ‘score’). VfM efficiency measures include:

- **Expectation of annually diminishing cost of delivery based on scale-up and transfer of learning**: Long-term historical trend analysis and comparative analysis of ‘score versus spend’ on each Output indicator is used to assess the cost of delivery in each state, and to compare ‘new’ states to ‘old’ states.

- **Expectation of an improving ratio of long-term staff and consultants to short-term staff and consultants**: SAVI has a philosophy of investing in people, and prioritises long-term staff and consultants in preference to short-term. Short-term staff and consultants have higher daily and transactional costs. Too much use of short-term staff and consultants results in lack or loss of momentum in partner engagement and is less efficient.

- **Expectation of an improving ratio of programme staff to partners**: There is an expectation that the number of partners and partnerships will increase relative to the number of staff over the life of the programme.

- **Expectation of an improving ratio of partners’ financial, personal, in-kind and technical contributions to their own activities as a measure of their diminishing dependency on SAVI resources**: Partners’ contributions to their own activities provide evidence of diminishing dependency on SAVI. They also make it possible for SAVI to deliver Outputs at lower cost. Partners’ contributions are difficult to quantify without reducing every partner contribution to a monetary value. This would have the negative effect of over-emphasising the role of finances, and unduly focussing the attention of staff and partners on the financial dimension of their relationship and of partners’ initiatives. To avoid this, SAVI staff are encouraged to gather retrospective efficiency case studies looking at technical, time and in-kind as well as monetary contributions. State teams report these quarterly and they are used by the national team for annual VfM analysis.

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1 SAVI was set up in five states in 2008, expanded to three more in 2011 and two further states in 2013. This has provided ten learning laboratories, and two opportunities to start from scratch benefitting from earlier learning.
Measures of effectiveness

VfM effectiveness relates to the cost of achieving Outcome and Impact level results. In SAVI these higher level results are tangible examples of state government responsiveness to their own citizens, with evidence of attribution/contribution from SAVI partners and SAVI’s way of working. They are also demonstrable changes in the overall effectiveness of civil society, media and state politicians as agents of citizen voice. The systems SAVI has devised to measure VfM at this level include:

- **VfM effectiveness results case studies**: Every year, SAVI produces a series of VfM effectiveness results case studies highlighting demonstrable changes in state government policy and practice, quantifying the value of the benefits to the extent that this is possible (see following section on categorising VfM findings). These results case studies also set out the back story, including the role played by partners and the role played by SAVI (linking Outcome level change to Output level change). From these, estimations can be made of the value of SAVI and of partners’ contributions. In our follow up programme, we will be working on an approach which provides more robust analysis of costs and contributions in relation to benefits.

- **Evidence of ‘sustainability’:** Evidence of processes of change and reform that are self-generating, and not dependent on external support is also provided in the narrative of results case studies. Comparative analysis is made between results on the basis of whether they are ‘new’ or ‘continuation’ results reflecting momentum in processes of change. Results are also categorised as SAVI-supported ‘demonstration’ results or ‘replication’ results achieved by partners without direct SAVI support, as an indication of their self-sustainability and further replicability.

Categorising VfM findings

We categorise VfM findings using a framework devised by Itad.

Figure 2: Simple framework for categorising SAVI’s VfM indicators:

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<thead>
<tr>
<th>Indicator topology</th>
<th>Strength of measurement typology</th>
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<tbody>
<tr>
<td></td>
<td>Benchmark (external relative)</td>
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<tr>
<td>Monetary result</td>
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<td>Qualitative result</td>
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<td>Programme process</td>
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Case examples from 2015 of VfM efficiency in terms of partners’ contributions

- **Katsina** – SAVI-supported media and civil society partners anchored and met the full cost of a 60-minute live phone-in political programme engaging candidates for state governor on governance issues, saving SAVI 1.76 million naira (£7,040) on airtime costs.

- **Kano** – SAVI-supported Advocacy Partnerships conducted town hall meetings on a range of themes including civic education, quality education, girl’s education, and the role of citizens in budget processes. They funded this through their own financial and in kind contributions saving SAVI 1.125 million naira (£4,500).

- **Lagos** – SAVI-supported media organisations (Radio Continental, Eko FM, Traffic Radio and Rainbow FM) aired 15 series of a five minute civic education programme at their own cost. These activities saved SAVI 29.6 million naira (£118,368).

- **Niger** – SAVI, with its media and civil society partners, formed a combined forum for civic education towards enlightening citizens during the general election; SAVI contributed about 33 per cent of the cost of producing and airing all jingles – the partners contributed the rest. This has saved SAVI a total of 14.1 million naira (£56,378).

- **Enugu** – SAVI partners are becoming more independent as they have begun to take responsibility for certain costs. The State House of Assembly conducted induction for members of the sixth House of Assembly at cost of 6 million naira (£24,000), without any contribution from SAVI.

Our experience is that external analysts (DFID and reviewers) are principally looking for results in the top left quadrant i.e. monetary indicators of value for money that can be benchmarked against an external comparator – in all three aspects of economy, efficiency and effectiveness. These are seen as the most objective and robust measures of programme performance.

In SAVI, this is easiest with measures of economy. Many of SAVI’s measures of VfM economy in relation to office and staffing costs are standard and some attempts have been made to use benchmarks for comparison to other DFID programmes in Nigeria – where comparative data is readily availability and accessible. It is most difficult in SAVI with efficiency measures. Whilst the majority of these measure quantitative trends, the processes they are examining are particular to SAVI as a programme, and there are few obvious means of external benchmarking.

SAVI’s VfM effectiveness indicators measuring tangible results from better governance processes in the form of case studies vary considerably in type. Individual examples fall under all three sub-categories of external benchmark, internal trend and stand-alone, and all four types of indicator – monetary, quantitative, qualitative and programme process. For example:

- ‘Advocacy by civil society groups leads to Jigawa State Ministry of Education hiring 4,500 new teachers to tackle shortages’ – would be categorised as a stand-alone quantitative result.
- ‘10,000 beneficiaries receive equipment from Katsina State Government to boost small-scale businesses in the State’ – would also be categorised as a stand-alone quantitative result, but if the monetary value of this equipment or the value of increased small-scale business it generates could be calculated/estimated, this would be a stand-alone monetary result.
- ‘Kano State Executive Council approves a total of 41 million naira for people with disability in 44 Local Government Areas’ – this contains both monetary and qualitative values, in which case it would be categorised under the higher of the two, as a stand-alone qualitative result.
- ‘Participation of Citizens Groups in parliamentary budget oversight ensures that Yobe State Government sticks to 2015 budget ceilings for the third year running’ – would be categorised as a qualitative trend result. But, if the financial savings or benefits of this result could be calculated from one year to the next, it could be categorised as a monetary trend result. And if we were able to compare this with the national annual average for Nigerian states, it would then quality to be categorised as a monetary benchmark result.

Using VfM data

VfM measures in SAVI serve a dual purpose. They deliver external programme accountability, as required by DFID. But also, critically, as our VfM measures have become more sophisticated, we have been able to use them to highlight and address internal accountability challenges. Externally, we have been able to use VfM data to provide evidence of the value of SAVI’s alternative approach when communicating results to wider audiences of development practitioners and policymakers.

Use of expenditure data

VfM analysis of expenditure data has become routine. First and foremost, this serves to reduce variance from spending forecasts. In a context where state teams have limited control over the timing and amount of expenditure on programme activities (because these support partners activities, and partners activities change in response to shifting momentum and opportunities), analysis of past expenditure helps to predict future spending and risk of variance. Weekly tracking and timely communications help SAVI’s finance team to minimise as far as possible the variance across states. This helps us to keep overall programme expenditure in line with DFID’s quarterly projections, and inform DFID in advance on likely over- or under-spend. (For further information see SAVI Approach Paper 12: Managing Programme Finances).

Use of economy data

Seeking out the most reasonable deals from vendors and from staff and consultants is routine in relation to all procurement decisions. SAVI’s preferred suppliers list is updated quarterly, with spot checks to guard against favouritism. Any spending over 100,000 naira (£400) goes to a procurement committee, in each state office and in the national office, to check against VfM criteria. A division of labour on procurement ensures that fund request approval, purchase and record-keeping are never done by the same individual. All staff are required to make conflict of interest declarations to guard against nepotism in procurement and recruitment decisions. The use of online information management systems helps to promote greater transparency and accountability in procurement decision-making, and enhances external oversight, record keeping and historical analysis.

VfM on procurement of staff and consultants starts with the procurement process for the whole programme. DFID approves the CVs and fee rates of key staff and consultants and there are further spot checks during external annual audits commissioned by DFID. SAVI seeks short-term consultants who provide the best VfM – with a preference always for local over national, and national over international candidates. Quality assurance measures include tight Terms of References, immediate feedback on inputs, and sign off on a checklist of pre-agreed input deliverables before the consultant can invoice the programme for their services.
Use of efficiency data
We use cross-state comparison of VfM data to analyse and promote efficiency. State performance is influenced by a range of factors. These include the political economy of the state, the capability and motivation of local partners, and the cost of operating in the state. It is also affected by the SAVI state team and its individual members, and their interpretation of SAVI’s approach to engaging and supporting partners. SAVI staff have considerable freedom to make decisions on partners to work with, and on ways of supporting these partners. This freedom and flexibility is a critical part of being locally-led, politically smart and adaptive, and essential to effectiveness – but decisions made by state staff are not necessarily always well informed or consistent with SAVI’s philosophy.

By moderating for external factors, we are able to use VfM efficiency data to indicate whether very good or poor performance in a particular state is due to factors within the control of the state team. Very high or low ‘score versus spend’ ratios in a particular state or Output trigger an internal investigation by the core technical team. This looks into contributing factors – to learn from them and scale them up where positive things are happening, or to take remedial action where state team actions are negatively impacting on programme performance.

Use of effectiveness data
VfM effectiveness data informs higher-level programme decision-making on an annual basis. Case study evidence of Outcome level results (state government action in response to citizen demand influenced by SAVI partners) is analysed against ‘score versus spend’ on Output indicators (which reflect improvements in partners’ functionality and effectiveness). By contrasting Outcome results with the approaches taken in practice in each state, we are able to analyse programme performance overall and identify trends over time. This helps us to challenge or validate our Theory of Change and build up a picture of the relative effectiveness of each state teams’ implementation of SAVI’s technical approach.

Cross-state comparison bears out SAVI’s expectation that those state teams who engage in continuous participatory political economy analysis with their partners and actively support partners’ diminishing dependency on programme resources, increase their potential of achieving sustainable and replicable results. It also demonstrates that replication and sustainability derives from empowering partners to engage independently with government decision-making processes on their own terms – rather than providing them with a donor-dependent, donor-brokered, enabling environment.

This evidence and analysis has been invaluable in communicating SAVI learning to DFID, and helping DFID advisers in Nigeria and internationally to understand and value SAVI’s alternative approach.

Future directions
SAVI is transitioning to a successor programme in mid 2016. This will build on learning from SAVI, follow a similar technical approach, and seek to ratchet up tangible impact on peoples’ lives. In relation to measuring and using VfM data, we will explore ways to accommodate or overcome some of the challenges we experience with current measures. These include:

- The fact that not everything we measure is in our control, because of the way we work by proxy through partners. Measuring the attribution/contribution of our partners (and through this, the role of SAVI support) to observed Outcome level results, relative to that of other actors and factors, is immensely time consuming, and not necessarily the best use of staff time. The concept of ‘partner’s contribution’ is itself problematic. This is about many things – including their conviction, sacrifice, commitment, capacity and confidence – and cannot be reduced to their monetary contribution.

- Governance reform is a long-term process, with short-term achievements potentially triggering much more significant longer-term reforms. Demonstrating impact is comparatively easy in the short-term, but harder once possibly more significant ‘knock on’ results and processes start spinning off in all directions.

Our approach is likely to involve better factoring in of these limitations to reduce their distortion of findings and analysis. This will involve better communications of these limitations – recognising that measuring VfM is not a science and will never be perfect or flawless; and development of alternative measures that may be less comprehensive but have fewer limitations, are more robust and less open to speculative analysis.
Practical tips and conclusions

• Measuring VfM at different levels of result – Output, Outcome and Impact – not only serves external accountability purposes, but also facilitates internal learning, internal accountability, effective management processes and quality control.

• If used well, a 3Es VfM framework supports programme staff to stand back from the detail and look at the bigger picture – looking at interlinkages between Outputs and Outcomes, across states and over time.

• In the absence of benchmarks, having ten ‘learning laboratories’ (ten states to test our approach in) enables us to use comparative analysis. This gives us a good indication of what is working well and not so well, as a starting point for further investigation.
The State Accountability and Voice Initiative (SAVI) is a DFID-funded programme working in ten Nigerian states promoting a culture of constructive citizen engagement in responsive state level governance. Decision-making in SAVI is largely decentralised to state level, and state staff are supported and trained to be facilitators and mentors of locally driven change. Through providing behind the scenes support, SAVI is equipping groups of citizens, the media and state legislatures with the confidence and credibility to play their part in governance in politically smart and effective ways.

SAVI’s Knowledge Tree depicts how the programme works. The roots are the core values that inform everything that SAVI does. The trunk is made up of four inter-related processes that give structure to all aspects of the programme. Left hand branches describe SAVI’s working relationships with partners. Right hand branches concern internal functioning and relations with DFID.

This paper is one of a series explaining these different processes and relationships.

For more information, visit our website: www.savi-nigeria.org/approach