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# The Value-for-Money Discourse: Risks and Opportunities for R4D

IDRC's Donor Partnerships Division engages regularly with many different donors. The value-for-money (VfM) discourse, which is growing in prominence throughout society, is also increasingly affecting what matters to donors.

This emphasis on VfM represents both a challenge and an opportunity for research-focused organizations working in international development. The R4D community needs to learn to demonstrate the VfM of research in tackling the factors that stifle social, economic and political stability and inclusive growth.

This brief examines the VfM discourse, including VfM in international development and the challenge of articulating VfM in R4D. It then provides four practical measures R4D can use to articulate VfM on its own terms, and provides some questions that can help in assessing VfM in R4D. Linkages are provided to a <u>larger study</u> for those interested in greater depth.

#### The VfM discourse

Shifts in ideology and practice in Europe and North America over the last 50 years have resulted in an increased emphasis on fiscal accountability, return on investment (RoI), quantifiable targets, and indicators of impact. These macro-level trends have contributed to the emergence of VfM.

The term VfM originates from the audit profession (GSCRC 2010), rising to prominence as a result of increased auditing

across society (Power 2007). The term is now common in both private and public sectors, and is becoming synonymous with accountability and transparency.

VfM has become the term of choice when the public and private sectors wish to demonstrate (to the electorate or shareholders respectively) that they are working to reduce risk, curtail unnecessary spending, and avoid the waste of funds.

VfM is likely to remain at the top of the political agenda for the foreseeable future (Tibbett 2011).

#### VfM and international development

Not surprisingly, the growing importance of VfM across society has implications for the way international development is conceptualized and practiced. There is a growing expectation for aid agencies to demonstrate their accountability to those providing their revenue – ultimately the tax payers.

According to the OECD (2012 p.1), "A number of aid sceptics have claimed that aid does not work, is wasteful and should be downsized or abolished. Although these claims may not always be based on evidence, strong evidence is needed in order to demonstrate that aid is valid and managed well, and that those in charge of aid are constantly seeking to make it work better."

The challenge of articulating value through the VfM lens

It is important to demonstrate that aid and R4D are worth it. However, it is not clear how best to express that worth, because VfM is interpreted in many different ways.

The UK and DFID are considered by many as leaders in using and defining VfM (OECD 2012). The most widely cited explanation comes from the UK National Audit Office, which identifies three components, known as the three E's:

- Economy is a measure of costing inputs and resources – what goes into providing a service or an intervention.
- 2. *Efficiency* is a measure of productivity how much you get out in relation to what you put in.
- Effectiveness is a measure of the relationship between intended and actual results, using both qualitative and quantitative measures to demonstrate the ability to deliver objectives.

The OECD has identified a fourth E:

 Equity ensures that VfM analysis accounts for the importance of reaching different groups.

Many other <u>bilateral donors</u> who refer to VfM in their discourse do not have an explicit definition of the term and consider its meaning self-evident.

NZAID describes VfM as "achieving the best possible development outcomes over the life of an activity relative to the total cost of managing and resourcing that activity and ensuring resources are used effectively, economically and without waste."

South Africa has chosen to approach the definition of VfM as a mutual, negotiated process between donor and the recipient country.

This lack of a common definition reflects the reality that donors are often reluctant to provide internal guidance on VfM because it is not just one system but rather a "constant, critical, robust appraisal of why you're doing what you're doing." (Interview, DFID economic advisor)

For some donors, VfM is simply new terminology to express <u>old messages</u>. For others, VfM is a radically new monetized approach driven by privatization and audit culture to assess change and value, and ensure Rol.

Regardless of where VfM sits on the <u>spectrum</u>, it is clear that VfM is the established strategy for justifying on-going spending (Norton 2012), and is likely to remain at the top of the international development agenda for the foreseeable future (Gilligan 2012, Hope 2012).

## Four ways R4D organizations can employ VfM

The validity of R4D is not inherently threatened by the VfM discourse, but its <u>prominence</u> does require new, creative forms of engagement. Here are four ways in which R4D organizations can respond effectively to the VfM discourse.

### 1. <u>Setting customized VfM parameters and</u> processes for R4D

The present ambiguity surrounding the application of VfM provides an opportunity for the R4D community to shape the agenda and define it on favourable terms. VfM can become a constructive tool with clear parameters that promotes and builds evidence for R4D.

In order to do this, it is important that the R4D community is equipped with the tools to critique certain interpretations of VfM and engage with alternative definitions and approaches.

Several leading INGOs adopted a proactive approach to interpreting the VfM discourse by framing and articulating it on their own terms. The R4D community can learn from the example of these INGOs. Their principles are summarized below, each of which is adaptable for the R4D community:

- Start planning for measurement from the outset
- Focus on measuring long-term change over short-term change
- Measure what matters rather than what is easy to measure
- Measure what is valuable to beneficiaries
- Recognize that sound internal management and business practices are part of VfM
- Work with the most vulnerable, even though this is inevitably more costly
- Commit to collaboration and do not allow VfM to lead to greater competition among donors and other strategic partners
- Engage in carefully reasoned risk, and balance this with potential impact
- Recognize the importance of efficacy and equity, alongside economy and efficiency

Eyben and Guijt (2012) make a useful contribution as they state, "We need better ways of 'measuring' transformation – to assess in ways that are respectful, fair and useful about the changes being experienced and can enable the design of programmes that support positive social change."

SIDA has demonstrated encouraging activity in this regard in the transformational positioning of their R4D programmes. They are committed to using funds for building research capacity at developing world universities and have emphasized that they consider the most effective way to ensure strong RoI is to prioritize building research capacity in the

developing world (SIDA 2009, Gansberghe et al 2011, Thulstrup et al 2006).

#### 2. Articulating R4D VfM through Theory of Change (ToC)

Theory of Change (ToC) identifies what needs to take place in order for objectives to be met and intended impacts to occur. It is used in project and program planning, monitoring and evaluation, especially in cases focused on social change.

ToC provides a way to engage with the VfM discourse. Firstly, having a well-articulated ToC enables the development of effective indicators and demonstrates a causal pathway through a program. Secondly, it takes complex social change processes and expresses them clearly and logically. Thirdly, it pushes stakeholders to articulate goals early in the process and tie these to associated measurable indicators.

The combination of these three factors means that ToC provides a useful foundation for building the systematic evidence base that is required in demonstrating VfM.

A departure from more simplistic assessments of value, ToC enables complexity to be embraced, using holistic evidence and legitimizing uncertainty and multiple causalities (James 2011, Vogel 2012).

The reflective nature of ToC is also significant for research organizations. In order to ensure VfM, donors are increasingly demanding for ongoing research and analysis during program implementation to ensure they stay effective in specific contexts.

As Tembo (2012 p. 34) explains, "The starting point (of a project)...is often broad theory and assumptions as to how change happens. The hope is that repeated cycles of action and reflection...will improve ways of working in different contexts and hence the efficiency, effectiveness and impact of interventions."

## 3. <u>Approaching hard-to-measure contexts</u> with Contribution Analysis

The value of certain development interventions is more easily assessed than others, and researchers tend to prioritize those areas that can be assessed quantitatively.

So how do we value things that are hardest to measure, such as advocacy (Tibbett 2011), conflict-affected states (Maxwell 2012), capacity building (Datta et al 2012), and governance (Barnet et al 2010)?

Mayne (2008) argues that in such areas it is more appropriate to think in terms of contribution analysis rather than direct causality – exploring to what extent the program in question contributed towards the change seen.

Contribution Analysis may be especially useful when assessing VfM for complex interacting systems and in R4D evaluation. This approach has been used by two different organizations and promoted by Outcome Mapping methodology.

BOND, a UK-based NGO network, has produced the 'Improve it Framework' (2012) to enable NGOs to assess, manage and report their effectiveness in different hard-to-measure contexts.

Concord, the European-wide NGO confederation for relief and development (2011), has undertaken considerable work to model the efficiency of advocacy and campaigning, demonstrating their value in spite of the measurement challenges.

## 4. Addressing and valuing risk through a portfolio approach

Many donor organizations have wellestablished commitments to investing in R4D, recognizing the inevitable risks associated with it. Those who do often recommend the way to approach research VfM is by having a portfolio of projects with different risk ratings, with the expectation that some high-risk projects may do very little, but others could be game changers. This enables engagement in innovative or 'frontier research' within a larger portfolio, to present a balanced approach to investing in knowledge for development.

In light of this, there may be an opportunity to consolidate the importance of R4D by transitioning to a VfM assessment process which is based primarily on portfolio, rather than individual programs. This process would embrace risk, and recognize that failure is a vital part of the learning process (Collier 2008, Laugharn 2012).

While some individuals in donor agencies demonstrate high-risk appetite, it is rarely institutionalized by the major bilateral donors. Donor requirements for front-end planning usually include a set of activities, intended results and a logical framework against which performance will be monitored and evaluated.

Still, there are some international foundations that embrace more innovative, risk-taking approaches. They make the case that even in the midst of widespread failure, new knowledge is created and therefore the investment may still be worthwhile (Laugharn 2012).

For example, the fourth value of the Gates Foundation (2012) is innovation:

"We believe that many of the most intractable problems can only be solved through creative and innovative solutions. In pursuit of these, we embrace risk and learn from failure, helping others to avoid the same pitfalls in future. We strive to remain focused, strategic and calculated in our risktaking, as we challenge convention, question assumptions and confront stereotypes."

#### **Assessing VfM in research**

The following questions can be asked at the outset of an R4D program in order to ensure shared expectations about how VfM is assessed. The criteria should be determined collaboratively at the outset of a research project, and later when assessing VfM retrospectively.

- 1. How will we know if the research process has been efficient? Consider cost, time, and resources.
- 2. How will we know if the actual research outputs matched the intended outputs?
- How will we know if the research has provided quantitative VfM? This could include search engine results, citations in journal publications, coverage in media outlets, and mentions in policy reports and conference papers.
- How will we know if the research has provided qualitative VfM? This could include evidence of increased awareness, influence in policy making, anecdotes, and stories of impact.
- How will we assess the VfM of the broader outcomes and impacts? This could include contribution to desired change, gathering the community's

perspective, and consulting recognized 'wise heads' (sector leaders) who can understand the research context and give their qualitative assessment.

References are available here.

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