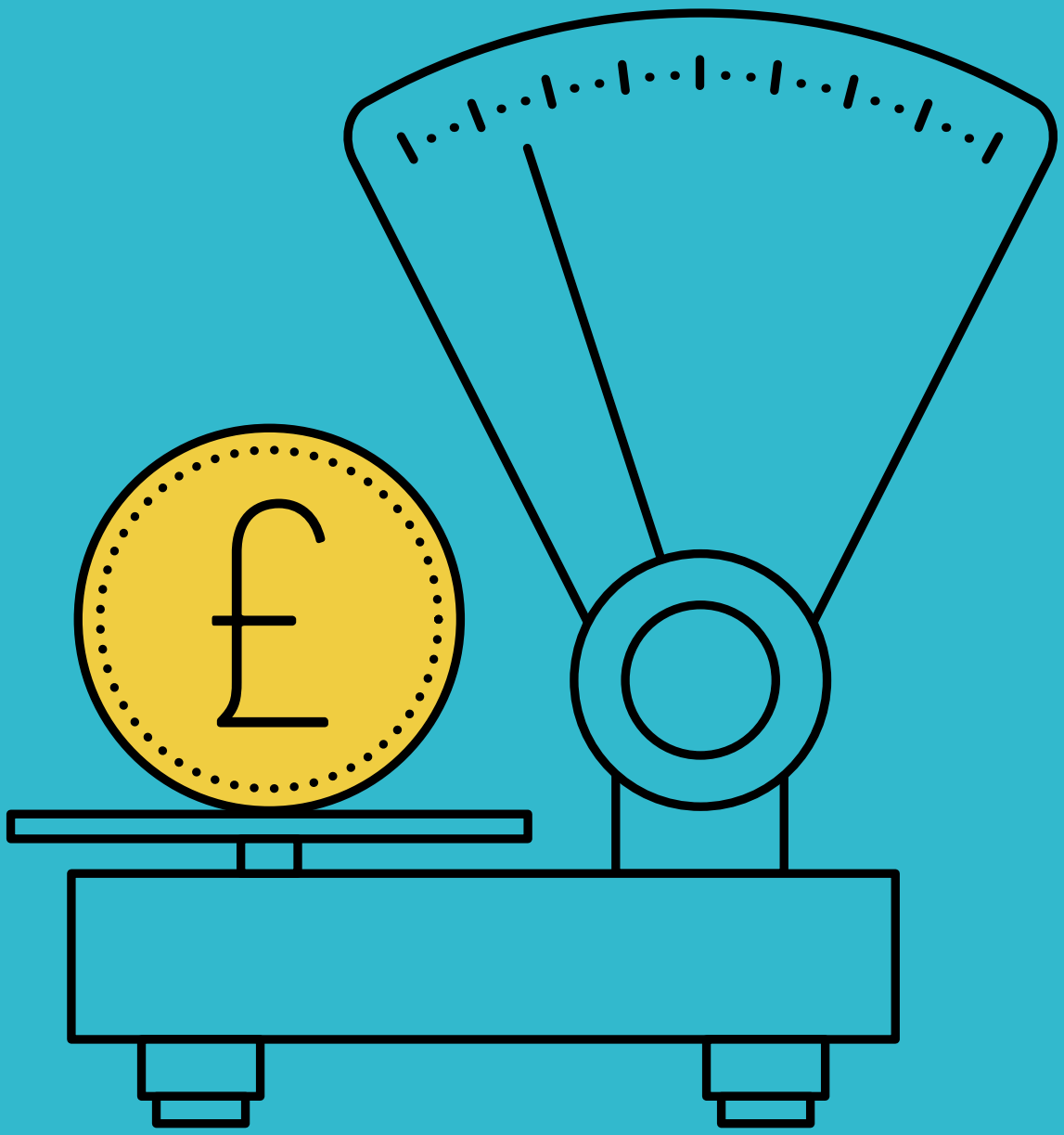
Assessing and Managing Value for Money

Lessons for NGOs



Summary Paper – written by Mango and the Value for Money Learning Group of the PPA Learning Partnership

October 2016

The PPA Learning Partnership and the Value for Money Learning Group

The PPA Learning Partnership is an initiative of the UK's Department for International Development (DFID) and NGOs in receipt of strategic, flexible funding called "Programme Partnership Arrangements". The Learning Partnership was established in 2011, and comprises a number of thematic learning groups engaging in peer learning and exchange on priority issues of interest to staff among PPA-holders and DFID. Since 2016, the Learning Partnership has been hosted by Bond, and membership of many learning groups has extended beyond PPA-holders.

The Value-for-Money (VfM) Learning Group was established in 2011 to provide a platform for PPA-holders for experimentation, learning and exchange on how to approach VfM in their work.

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How to find out more

The full report *Assessing and Managing Value for Money: Lessons for NGOs* is available on the Bond website: **www.bond.org.uk/resources/assessing-and-managing-value-for-money-lessons-for-ngos-full-report**

For more information on the VfM Learning Group please contact **NGOeffectiveness@bond.org.uk**

Further information on specific tools and approaches used by members of the VfM Learning Group can be requested directly from the relevant organisations named in this paper, or via the email address above.

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1. Introduction

In 2010, the UK's Department for International Development (DFID) adopted a strong focus on achieving Value for Money (VfM) in its aid spending, defined simply as "maximising the impact of each pound spent to improve poor people's lives". Soon after, in 2011, a new round of strategic, flexible funding – Programme Partnership Arrangements (PPAs) - was provided by DFID to a cohort of leading international NGOs. To help NGOs step up to the challenge of defining, managing and measuring value-for-money in practice, and in the absence of established guidance on this, a peer learning group on VfM was established within a broader Learning Partnership between DFID and its PPA-holders.

After five years of peer exchange, practical experimentation, and iterative learning on an often challenging and contested issue, the Value for Money Learning Group in 2015 commissioned and participated in research by Mango to reflect upon the development of VfM practice in the humanitarian and development sector.

In drawing upon the wealth of practical experience generated by members of the VfM Learning Group and exploring the variation of VfM interpretations and practices, this research aims to inform three key audiences:

- NGOs interested in initiating their own approach to VfM assessment;
- NGOs keen to enhance or diversify their organisation's VfM proposition;
- Donors keen to gather insights from NGO practice, either to inform funding parameters or to develop their own measures of VfM.

This summary provides a synthesis of the main paper, covering:

- How VfM has been defined and perceived by NGOs;
- The approaches to VfM adopted by different organisations; and
- Practical lessons on applying a VfM approach.

2. Methodology

In order to establish different experiences to date, Mango surveyed the members of the VfM Learning Group and conducted in-depth, follow up interviews. Based on these findings, a conceptual framework was developed which highlights the requirements that need to be in place in NGOs to address VfM at both programme and organisational levels. Finally, there was a call for case studies to illuminate the various facets of that framework (explored below).

The findings are not assumed to be representative of the sector. They are a reflection of the VfM Learning Group's efforts to explore VfM to date. By selection, these are organisations who have pioneered work in this area, having both benefited from donor support in developing their VfM proposition and having been held accountable for demonstrating progress in this area.

3. Value for Money: Definitions Approaches and Perceptions

The simplicity of the term 'value for money' belies the diversity of practical interpretations of the concept. At its best, it is a fully integrated, value creating, impact enhancing practice that is informed by various sources and stakeholders, which supports ongoing organisational and programmatic improvements. It is integral to organisational performance.

However, there are also fears that it can be interpreted narrowly to focus on cost-minimisation, or on short-term rather than long-term value, or to justify doing what matters to those providing aid rather than those receiving it.

It is the diversity of interpretations, perhaps, that explains why there is such a range of practices across the sector. Adopting the concept of VfM is an iterative process.

The majority of NGOs define VfM by using the "4Es" framework of the UK's Independent Commission for Aid Impact (ICAI):

ECONOMY getting the best value inputs	**EFFECTIVENESS** ensuring that the outputs deliver the desired outcome
EFFICIENCY maximising the outputs for a given level of inputs	**EQUITY** ensuring that the benefits are distributed fairly

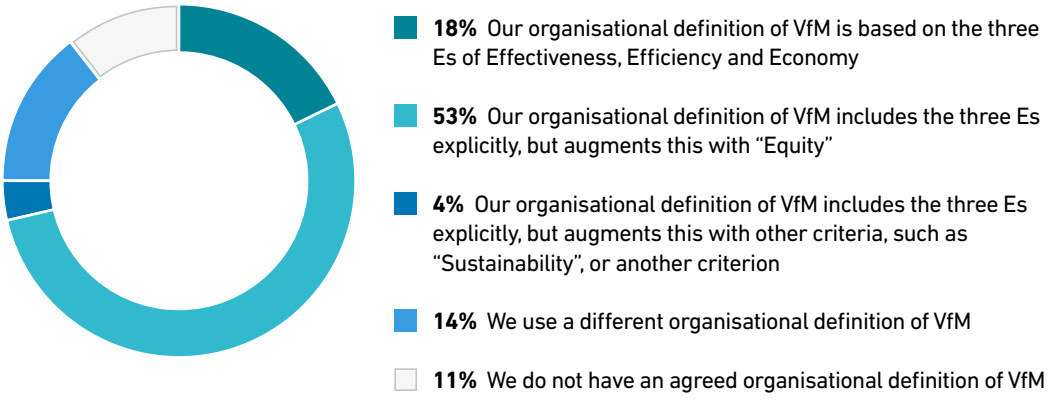
However, some 11% of organisations stated that they did not yet have an agreed organisational definition of VfM (see figure 1).

- Half of the surveyed organisations perceived VfM to be just one of several factors in assessing, measuring and managing the performance of their organisation, while only 4% saw VfM as integral to this. 42% perceived the VfM agenda as essentially a donor requirement which they accommodate to ensure that they can access a range of funding sources. 4% said that VfM is not perceived as important to their organisation.
- More than half of the NGOs surveyed had developed policy and guidance on VfM, consisting of some combination of a VfM position paper, framework, guidance and/or training materials. Another 37% said that their policy and guidance is currently under development.

VfM can operate on organisational, programmatic levels and portfolio levels, i.e. VfM of alternative strategic choices or of support systems, for example, versus VfM of a specific intervention or of a portfolio of similar programmes or activities. The methods, tools and approaches that are explored can usually be adapted to suit each of these levels.

Organisations have adopted a range of broad approaches to VfM. The most common approach, adopted by 36% of those surveyed, was to focus on achieving the intended outcomes in their theory of change while minimising the costs of delivery. Some 21% focused on providing staff with the skills and information needed to consider VfM issues throughout their work. A much smaller number (7% each) focused on either incorporating VfM into design and planning stages of work; comparing performance and costs against similar activities or organisations; or comparing performance and costs against hypothetical models. No organisations preferred to focus on 'economic' assessment such as cost-benefit analysis or Social Return on Investment (SROI).

Figure 1: Organisational definitions of VfM



Source: Survey of PPA agencies, 2016

Each organisation should develop its own approach to VfM. Within that, common issues that need to be addressed include defining what 'value' means to the organisation, securing staff buy-in, and recognising that the process is iterative.

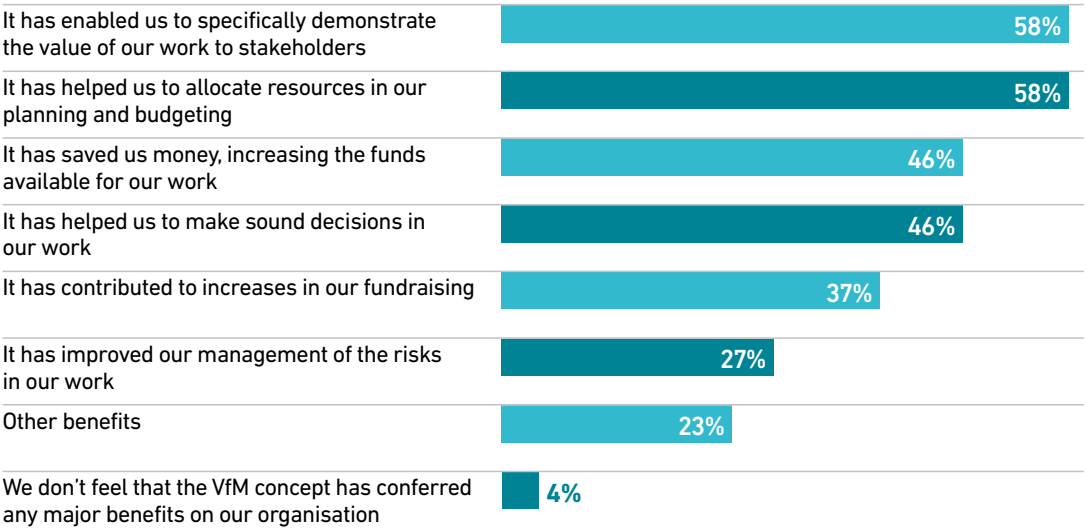
The two main challenges organisations reported facing in developing their VfM approaches were identifying and measuring 'value' or benefit (which benefits? for which populations? over what period? and how to determine the contribution of one actor/ intervention?), and finding appropriate external or internal benchmarks and comparisons, given both data availability and comparability issues.

Nonetheless, the key benefits of having a VfM approach identified by those surveyed included enabling organisations to specifically demonstrate the value of their work to stakeholders, and helping them to allocate resources in their planning and budgeting (figure 2).

No organisations thought that the VfM agenda had negatively affected their work, but there were some drawbacks identified, including:

- VfM has been costly to address compared to the benefits generated (23%)
- It has failed to convince key stakeholders on the VfM of our work (19%)
- It has slowed down our decision-making (19%)

Figure 2: The benefits of applying the VfM concept:
What would you say have been the observable benefits of applying the VfM concept in your organisation?

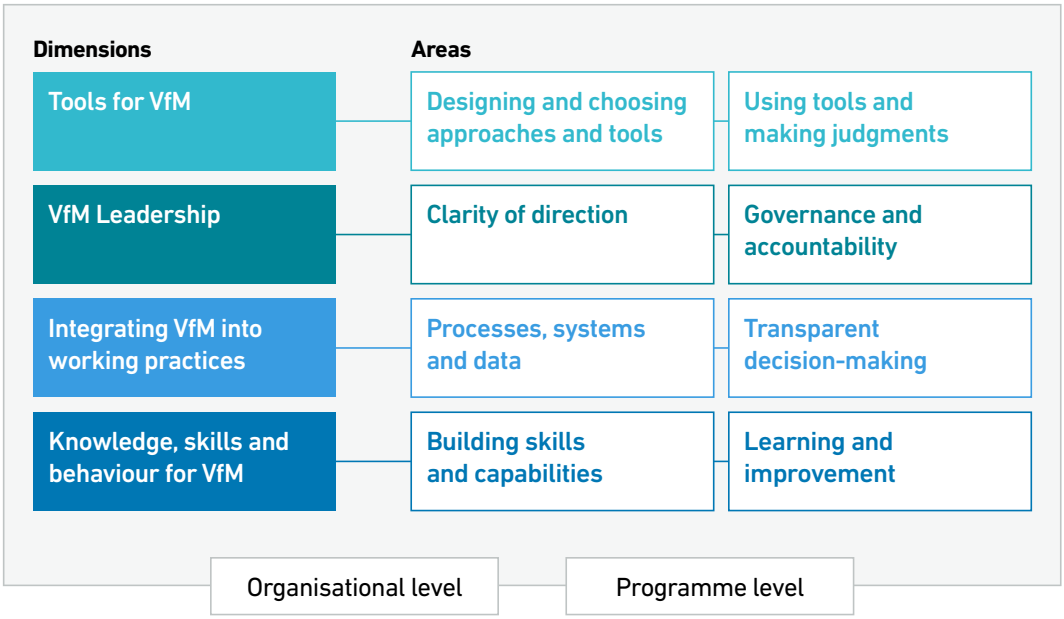


Source: Survey of PPA agencies, 2016

4. VfM Conceptual Framework

Mango developed a conceptual framework to understand the factors that each NGO should have in place to achieve and demonstrate VfM, irrespective of the role or type of organisation. This draws heavily on an earlier checklist tool developed in 2014 by the VfM Learning Group for members to self-assess progress in achieving VfM, and on other literature. The framework provides the opportunity to analyse and adapt both the development and the integration of VfM practices appropriately and comprehensively.

Figure 3: The VfM framework



The rest of this summary highlights the lessons from the experience of the VfM Learning Group's members in integrating VfM into their work under the different headings of this conceptual framework.

5. Tools

There are various tools and approaches available to assess VfM. The subjective nature of 'value' and the challenges in collating the evidence necessary to assess it mean that an element of judgement will always be necessary. Organisations therefore need to understand how to:

- Design and choose between different approaches and tools. The aim is to compile financial and performance data that are available when required.
- Use those tools and make judgements about VfM in a rigorous and defensible way. Is the information relatively robust – can it be triangulated from different sources? Are we able to use comparative measures in order to generate assurance that the preferred option offers greater value?

5.1 Designing and choosing approaches and tools

The choice of methods and tools to use should reflect each NGO's contextual environment. Ideally VfM judgments should be based on the use of a range of qualitative and quantitative data. This acts as both methodological triangulation and increases the breadth and depth of understanding for any assessment. However, doing so is not necessarily cheap - insightful and effective data often requires investment. It is important that the costs of data collection are commensurate with the scale of the programme or activity.

LESSONS LEARNED

- Economic appraisal tools for programmes are best used when there is a large level of spend and a rich source of data available
- Benchmarking is an important tool for VfM, despite the challenge of finding suitable comparators
- Options appraisal helps ensure that the best VfM approach is selected
- Participatory action and/or community engagement are crucial to effective decision-making and programme credibility; and the principles apply equally to organisational management Criterion-based methods of checklists can help encourage both a systematic approach and personal ownership of the need to achieve VfM

5.2 Using tools and making judgments

Plans for making VfM assessments should include the identification of the operational and financial data required and how such information will be gathered and collated. Gaps in evidence can therefore be identified, as well as useful metrics and evidence that may already be available. The rigour of the evidence base underpinning each decision should be tested, using tools such as Bond's Evidence Principles or statistical inquiry. Decision-makers should draw upon a plurality of views from stakeholders to supplement the data analysis. An element of reflexivity is also important, being aware of personal biases in order make judgements that are objective.

LESSONS LEARNED

- Using qualitative and quantitative data to triangulate information can provide assurance on the evidence used to decision-making
- The data uncertainties in the supporting evidence base must be taken into account in reaching a VfM judgment

6. Leadership

Embedding the concept of value for money into working practices requires strong leadership to set the agenda, encourage staff engagement and ensure that progress is maintained. Sometimes, INGOs have had to overcome perceptions that VfM is a donor-driven agenda and something of an administrative burden to staff. Within the scope of leadership are two critical areas: a) clarity of direction provided by leadership for the organisation, and b) governance & accountability arrangements that sustain VfM and make it part of daily routines.

6.1 Clarity of direction

It is critical that there is a common language and shared understanding of VfM. Each of us is likely to have different views on what VfM means and how it should be applied. Building a common understanding of the concept within the organisation, such as through a policy paper, helps to ensure consistent practices and to resolve misunderstandings. Clear leadership involves:

- Setting clear expectations for how VfM should be addressed. How will it be woven into organisational and programmatic practice? Who will be responsible?
- Establishing a demonstrable commitment to learning and change to improve VfM. An action plan can illustrate how the vision for VfM will become reality whilst reinforcing its importance and the level of prioritisation being given to it as a concept and practice.

LESSONS LEARNED

- The time spent upfront on diagnosis and the development of a plan for embedding VfM is a good investment
- Implementing VfM requires a senior champion in the organisation to encourage organisational buy-in
- Staff can be engaged by keeping the discourse straight forward
- Engaging staff and stakeholders in developing an approach to VfM helps to get the focus right and to secure buy-in during roll-out
- A VfM approach should be based on what is required; hard choices should not be avoided

6.2 Governance and accountability

Robust governance and accountability arrangements provide some assurance that the direction set is being adopted across an INGO. As such, it requires:

- A clear delegation of responsibilities wherein performance management activities embrace VfM and there is a culture of asking performance questions.
- Corrective action to maintain or improve VfM is taken based on regular monitoring of performance.

LESSONS LEARNED

- Effective oversight requires regular monitoring of integrated data on performance and associated costs
- Internal resources should be deployed to probe the key risks to VfM
- Staff should be held adequately to account for performance
- Accountability should be downward as well as upward

7. Integrating VfM into Working Practices

The goal for each NGO is for VfM considerations to become a routine and expected management behaviour. For VfM to become fully embedded in organisational and programmatic practice, it will be important to: have clear processes and systems in pace to provide staff with the data needed to consider VfM; and, encourage transparent decision-making to enable scrutiny of each VfM judgement.

7.1 Systems, processes and data

Where practicable and cost effective, the concept of VfM should be embedded within the major organisational processes and systems. Tools and guidance will support staff in considering VfM at the critical points in their work. Management information and finance systems should be strengthened to enable the collation of relevant data – VfM is much easier to assess when performance data and the associated financial information are set out side by side. Common indicators and measures allow for comparative analysis between programmes and activities.

LESSONS LEARNED

- Specifying the key points in existing processes when VfM should be considered provides a helpful reminder for staff
- Gathering data on outcomes may need to go beyond the existing log-frame requirements
- Compiling the data needed to assess value for money can take time
- Engaging staff helps strengthen processes and data quality
- Re-structuring the organisation around 'centres of practice' can help to align financial and performance data

7.2 Transparent decision-making

Where feasible, the data and information required to underpin key decisions should be identified in advance and collected systematically. This may require consideration of alternative options and wider consultation with various stakeholders, such as programme constituents. By making sure that the decision-making process is accessible for others to review, constructive challenge and critique can be instigated with open transparency. Suitable records should also be retained setting out the rationale for the choice made.

LESSONS LEARNED

- Justifying that a decision represents Value for Money demands proper scrutiny of alternative options
- Criterion-based methods can help build quality assurance into Value for Money decision-making

8. Knowledge, Skills and Behaviours for VfM

The leadership and decision-making needed to secure VfM requires a range of analytical, questioning and communication skills in order to probe the information available and to assure stakeholders of the approach taken. These soft skills should be supported by more technical attributes, such as programme management and financial management skills, as well as suitable arrangements for knowledge sharing across the organisation.

8.1 Building individual skills and capabilities

Building a common understanding of the skills and capabilities required for evidence-based management and decision-making across the organisation is crucial. This includes both 'soft skills' such as questioning and analysis, in addition to 'hard skills' in technical areas such as programme management and costing methods. From this platform, skills gaps can be more easily identified and addressed. Equally, a constructive culture of questioning, challenging assumptions and acknowledging problems and failures becomes a fertile ground from which improvement is grown.

LESSONS LEARNED

- Giving staff the opportunity to specialise can help to build expertise
- Encouraging collaborative working across disciplines can improve understanding of VfM
- Resourcing plans should factor in the need for skills development

8.2 Behaviours and Systems for Learning and Improvement

In the spirit of continuous improvement, there should be clear expectations for monitoring, review and follow-up and adequate time scheduled in for such activities. Up to date knowledge systems enable data, information and lessons learned to be captured routinely and readily assessed.

Whilst ideally underpinned by formal efforts to encourage learning, informal arrangements for learning are also powerful, including networking, peer review and coaching opportunities.

LESSONS LEARNED

- On-line knowledge management systems provide a more systematic approach to knowledge sharing
- It may be necessary to commission external research in order to address knowledge gaps

9. Conclusions

The above discussion demonstrates the sheer scale of work required to embed fully VfM practice in any organisation or programme. It is a comprehensive ask, yet one that can inform programming decision-making as well as enhancing reporting capabilities.

The experience of the NGOs surveyed for this research suggests that for VfM practices to be developed that are impactful and value-creating, they should be:

1. **Informed by an appreciation of diverse perceptions of 'value':** there is no single common understanding of what 'value' means in VfM, and it would be both inappropriate and futile to attempt to impose a common definition; organisations, however, must articulate explicitly what 'value' means to them
2. **Actively championed and nurtured:** they must be promoted and reinforced both by funders and NGO leadership alike, with adequate resource and time provided
3. **Comprehensively integrated:** structurally, culturally and in both programmatic and organisational processes
4. **Informed by the use of contextually relevant and proportionate tools:** best practice is relative, not uniform, however there are various tools and case studies that can support the development of contextually appropriate methods

The conceptual framework presented in this research provides a structure from which organisation and context-specific approaches can be developed. The examples explored may help to provide or inform them.

The demonstration of a collective enterprise in the VfM Learning Group to enhance how NGOs see and apply Value for Money demonstrates the power and potential in structured peer learning, especially with donor support.

The full report *Assessing and Managing Value for Money: Lessons for NGOs* is available on the Bond website: **www.bond.org.uk/resources/assessing-and-managing-value-for-money-lessons-for-ngos-full-report**