Development in Practice

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/cdip20

Value-for-money assessment of social spending in developing countries: lessons from Ethiopia

Jamelia Harris & Andrew Lawson

To cite this article: Jamelia Harris & Andrew Lawson (2022) Value-for-money assessment of social spending in developing countries: lessons from Ethiopia, Development in Practice, 32:8, 1101-1108, DOI: 10.1080/09614524.2022.2108002

To link to this article: https://doi.org/10.1080/09614524.2022.2108002

Published online: 06 Aug 2022.

DEVELOPMENT IN PRACTICE
2022, VOL. 32, NO. 8, 1101–1108
https://doi.org/10.1080/09614524.2022.2108002

Routledge
Taylor & Francis Group

OPEN ACCESS Check for updates

Value-for-money assessment of social spending in developing countries: lessons from Ethiopia

Jamelia Harris and Andrew Lawson

ABSTRACT
This practice note combines key theoretical principles of value-for-money (VfM) assessment with the authors' experiences of conducting these studies in the health and agriculture sectors in Ethiopia. It documents an innovative approach to VfM analysis in contexts where data is limited. The approach combines quantitative and qualitative methods, can be easily applied to policy-relevant questions, and is simple and easily reproducible in developing countries. This practice note is useful to policymakers interested in VfM assessments of social spending in developing countries.

ARTICLE HISTORY
Received 4 July 2022
Accepted 26 July 2022

KEYWORDS
Monitoring and evaluation; capacity development; region: sub-Saharan Africa; governance and public policy

Introduction

The fundamental economic problem is that of scarcity and how to utilise and distribute scarce resources. In the area of public finance, this manifests as a set budget (either annual or over the medium-term) from which the Government is tasked with implementing policies. The Government's optimisation problem is thus to effectively achieve its fiscal and social objectives and simultaneously demonstrate productive efficiency – minimising costs per unit, and allocative efficiency – delivering services that have the highest additional benefits (Stiglitz and Rosengard 2015). Value-for-money assessment is an important analytical tool in this regard.

Though a consensus on a definition of "value for money" (VfM) is absent from the literature (Barton, Aibinu, and Oliveros 2019), a common theme among authors is the simple but important concept of "how well resources are used, and whether they are being used well enough" (King and OPM 2018, 7). For the present note, achieving "value for money" in the public sector means ensuring public resources are used in a way that creates and maximises public value.

VfM assessments, as a methodological technique, often capture the relationship between costs and value (EPEC 2015). They help decision-makers choose between potential projects and/or improve upon existing ones. These assessments have become commonplace in the decision-making toolkit in many developed countries, at either the project preparation stage or during procurement once implementation has started (EPEC 2015, 11–12). Many developed countries have, in turn, applied these techniques to aid funding in developing countries (Jackson 2012; IDEV 2016). In developing countries, the audit function is responsible for issuing a statement on cost effectiveness and how well inputs link to outputs; though this often falls short of a full-fledged VfM analysis. Scrutiny of the annual budget should also address VfM concerns, but available time and skills rarely allow in-depth analysis. The present note aims to contribute to this gap by drawing on the practical experience of conducting two VfM assessments on social spending in Ethiopia as part of a "learning-by-doing" approach.

CONTACT Jamelia Harris jamelia.harris@fiscus.org.uk

Fiscus Public Finance Consultants were commissioned by the Government of Ethiopia (GoE), with funding from the Bill & Melinda Gates Foundation, to strengthen skills in performing VfM assessments across key poverty reduction sectors. The health sector was the main area of assessment in 2018–2019. In 2021–2022, Fiscus again led a collaborative VfM exercise between the Ministry of Finance and Ministry of Agriculture focused on the Productive Safety Net Programme (PSNP), which targets food insecurity and aims to build household resilience to shocks such as droughts.

This practice note is useful to policymakers interested in VfM assessments of social spending in developing countries. It combines key theoretical principles of VfM assessment with experiences of conducting these studies. It documents an innovative approach to VfM analysis in contexts where data is limited. The approach combines quantitative and qualitative methods, can be easily applied to policy-relevant questions, and is simple and easily reproducible in developing countries.

Conceptualising value for money: the four E's

The literature recognises four main concepts of VfM, commonly referred to as the four E's. The four E's include: (i) economy – how economical is the purchase/procurement and distribution of inputs; (ii) efficiency – how efficiently are those inputs converted into outputs; (iii) effectiveness – how effectively do those outputs influence outcomes to achieve overall objectives; and (iv) equity – is there an element of fairness in distribution of benefits (Jackson 2012; IDEV 2016; King and OPM 2018)? The four E's, particularly the first three, can be easily positioned within a project's results framework, which links resources to impact – see Figure 1. The first three E's (economy, efficiency, and effectiveness) together provide a conclusion on the cost effectiveness of the project. The fourth E (equity) had been relatively absent from national VfM analysis in several developed countries (EPEC 2015) but is a key consideration for donor-funded projects in developing countries, where the ability to impact on disadvantaged groups is a priority (IDEV 2016; King and OPM 2018).

The breadth of coverage provided by the four E's makes VfM analysis one of the most comprehensive types of assessment available to policymakers. For example, performance audits/expenditure reviews mainly focus on economy and efficiency by evaluating the relationship between spending, inputs, and outputs. SWOT analyses mainly focus on economy and efficiency by assessing strengths, weakness, opportunities, and threats related to inputs and outputs. Process reviews mainly focus on how things are done and assess efficiency in processes. Impact assessments evaluate

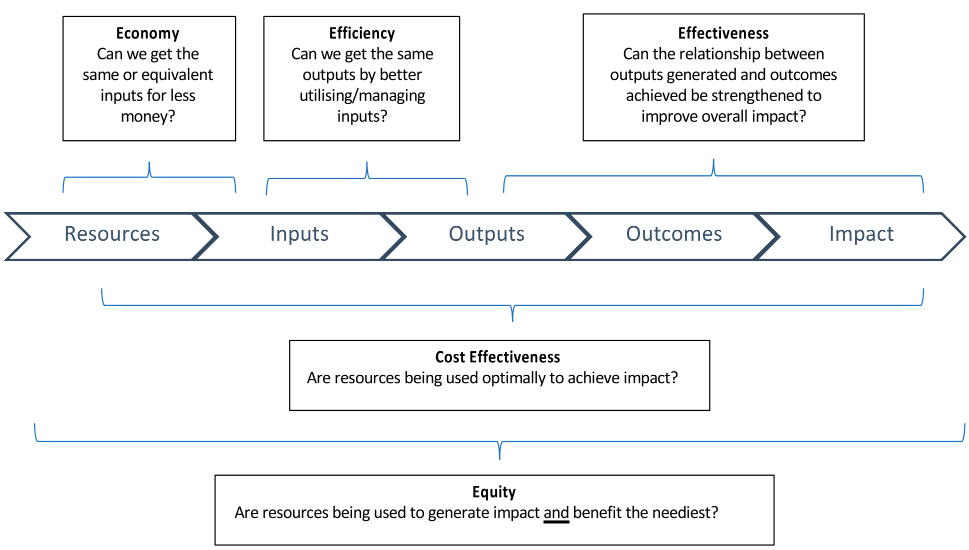

Figure 1. VfM Analysis – A conceptual framework.

effectiveness and impact by looking at the relationship between outputs and outcomes. And distributional analyses speak to issues of equity.

Though analytically useful, the four E's have limitations. King and OPM (2018) note that the concepts of economy, efficiency, and effectiveness rely on a simplified depiction of a linear results framework, which may not be realistic. IDEV (2016), in critiquing the practicality of VfM of aid activities, argue that such analyses require large amounts of reliable data, which is often limited in developing countries.

VFM of social spending in developing countries

The conduct of comprehensive VfM assessments in developing countries tends to fall into three categories. The first is government-led VfM assessments of infrastructure projects, similar to the ones conducted in developed countries; and related to this, a comparison between public financing versus public–private partnerships. These assessments require a minimum level of data infrastructure and human capital, and thus, are often not possible in the least developed countries (González and Flor 2015; Kissi et al. 2020). Furthermore, they are targeted at infrastructure projects, and often limited in their assessment of non-infrastructure social spending – for instance, construction of a hospital may be assessed, but the VfM of training new doctors is often not evaluated.

The second is donor-led VfM of programme spending. Donors such as the World Bank, the UK's Foreign Commonwealth and Development Office, and the Millennium Challenge Corporation all consider value for money when allocating their overall budget and programme level resources (IDEV 2016). This category of VfM assessment, unlike the first, captures a broad range of social spending; however, the assessment is done from the perspective of the donor, and not the national government or its citizens. Jackson (2012, 2) asked "for whom?" in the context of VfM in international development, aptly noting that "donors focus on getting value for money for their taxpayers, but what about beneficiaries and partner governments?"

The third type of VfM assessment falls under the internal audit function. This type covers some parts of social spending, but is often limited to a comparison of actual and budgeted costs in the procurement process, as well as an appraisal of actual costs versus monetised benefits (IDEV 2016). This is useful, but falls short of the more detailed approach needed for social spending. The nature of social spending often has non-monetised benefits that cannot be easily quantified, benefits that often span financial years and are intergenerational in nature, and have equity implications that need to be considered and accounted for. A VfM approach specifically targeted at social spending is necessary.

The case study: VFM in health and PSNP in Ethiopia

Over the past decade Ethiopia has achieved notable and sustained economic growth and development, accompanied by significant poverty reduction – albeit, the country is still classified as "low-income" by the World Bank. According to World Bank estimates, 27 per cent of the population still fall below the poverty line; health measures such as infant and maternal mortality – though improving – remain relatively high; and data suggest disparity in social outcomes across regions. The need for social spending is high, but resources are limited. In this context, the opportunity cost of spending is high. Therefore, achieving high levels of VfM from public spending is critical.

In 2018, Fiscus was asked to support a VfM study in the health sector as the Ethiopian government sought to improve value for money in social spending as a step toward achieving its national development policy. The study aimed to identify ways in which improvements might be made in order to achieve better and more equitable outcomes in the health sector, with the same level of public resources. The second project was a VfM assessment of the Productive Safety Net Programme (PSNP) during 2021 and 2022. Fiscus, through the Building Resilience in Ethiopia (BRE) programme managed by Oxford Policy Management (OPM), was commissioned to work with the Food Security

Coordination Directorate (FSCD) of the Ministry of Agriculture (MoA) and the Ministry of Finance (MoF) to complete a VfM assessment of the PSNP. The PSNP addresses food security in Ethiopia and includes cash/food transfers to the neediest households, a public works component which provides labour-intensive employment, and a livelihood component which supports beneficiaries using investments, loans, cash grants, and technical support. These two sectors were selected in line with priorities under the Government's Growth and Transformation Plan.

A dual objective of both VfM studies was to develop appropriate skills and methodologies through a learning-by-doing approach to capacity development, so that local staff would be able to conduct future studies in health, agriculture, and other sectors.

The "3-Step Methodology" in VfM assessment: a practical guide

The four E's provide a useful framework for conceptualising VfM. However, with data limitations in Ethiopia, measuring these concepts precisely proved difficult – a challenge documented in other developing countries (González and Flor 2015; IDEV 2016; Kissi et al. 2020). Against this backdrop, the Fiscus approach to VfM assessment was motivated by the "3-Step Methodology", which was originally developed for evaluating budget support (provided by external agencies) to support expanded public spending (OECD 2012).

The "3-Step Methodology" recognises that data are incomplete and a precise attribution of outcomes to inputs is rarely possible (OECD 2012) – the latter issue often arising from the non-linearity of processes as described by King and OPM (2018). It follows a pragmatic approach, which combines qualitative and quantitative analysis, with reasonable *a priori* assumptions, to reach conclusions which are then validated by experienced resource persons in the sector. Figure 2 presents an illustrative example of the application of the "3-Step Methodology" to the health VfM assessment in Ethiopia.

The methodology (for both VfM studies) was implemented in four phases – Figure 3. The preliminary phase involved jointly identifying evaluation questions with the Government. Phases one to three aligned with the 3-Step Methodology and entailed: (i) analysis of spending patterns and processes, (ii) analysis of outputs and outcomes, and finally (iii) integration of the former two steps. Each of the four phases was jointly carried out with local "task teams" comprising government officials from the MoF and relevant sector ministry (health or agriculture). The task teams were formed around set evaluation questions and constructed to best utilise existing capacity within government, while simultaneously developing new skills. Figure 4 provides more detailed descriptions of the 3-Step Methodology applied to selected evaluation questions from studies on health (skilled birth

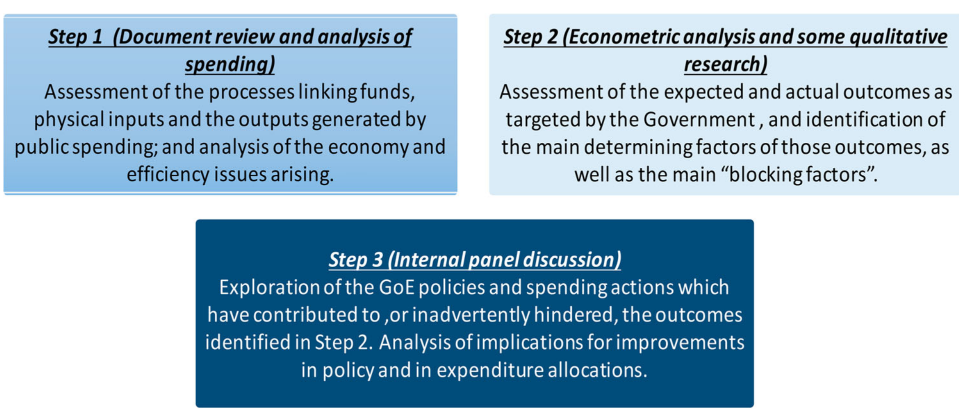

Figure 2. Application of the "3-Step Methodology" to health sector VfM analysis.

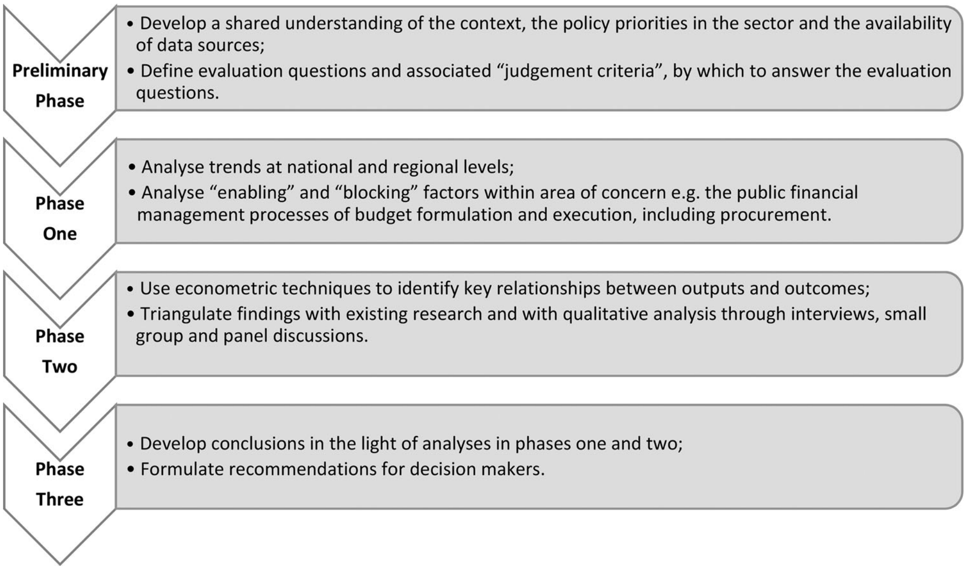

Figure 3. Implementation of the "3-Step Methodology" in VfM analysis.

attendance) and PSNP (graduation). The figures illustrate how vastly different types of questions can be assessed.

Challenges and practical solutions

The 3-Step Methodology was adopted because of its amenability to contexts with poor data availability. Despite this, issues specific to the Ethiopian context arose. First, a detailed analysis of economy and efficiency requires spending data to be structured according to uniform budgetary programs. These should reflect service delivery processes and be easily matched to outputs and outcomes. At the time of the health study, there was no standard definition of budgetary programs for the health sector that was consistently applied at the federal and regional levels, and for both domestically and externally funded activities. For the PSNP study, to assess effectiveness and why some regions are better able to boost resilience (and "graduate" households from the program) required household-level data which match graduation/exit from the program with household characteristics. These data were not collected at the time of the VfM PSNP study (only administrative counts of graduating households were recorded).

In both cases, the VfM analyses shifted toward more qualitative methods under a mixed approach. Such a "pragmatic" approach to research is common in developing countries (Harris 2021). For the health study, federal health spending was matched to data on health outcomes (quantitatively), and qualitative data were then used to better understand processes of health service delivery in the absence of uniform budgetary programmes. For the PSNP study, graduation performance was calculated from available quantitative data. From this, "high" and "low" performing regions were selected as case studies and interviews conducted to determine factors contributing to households graduating from the PSNP (given that causation could not be established through quantitative methods).

The higher-than-expected reliance on qualitative data exposed a second challenge related to access. Given the state of political and social unrest in several regions in Ethiopia at the time of both studies, some research-relevant areas were inaccessible for collecting primary qualitative data. Some cases were thus selected through convenience sampling, though other cases may

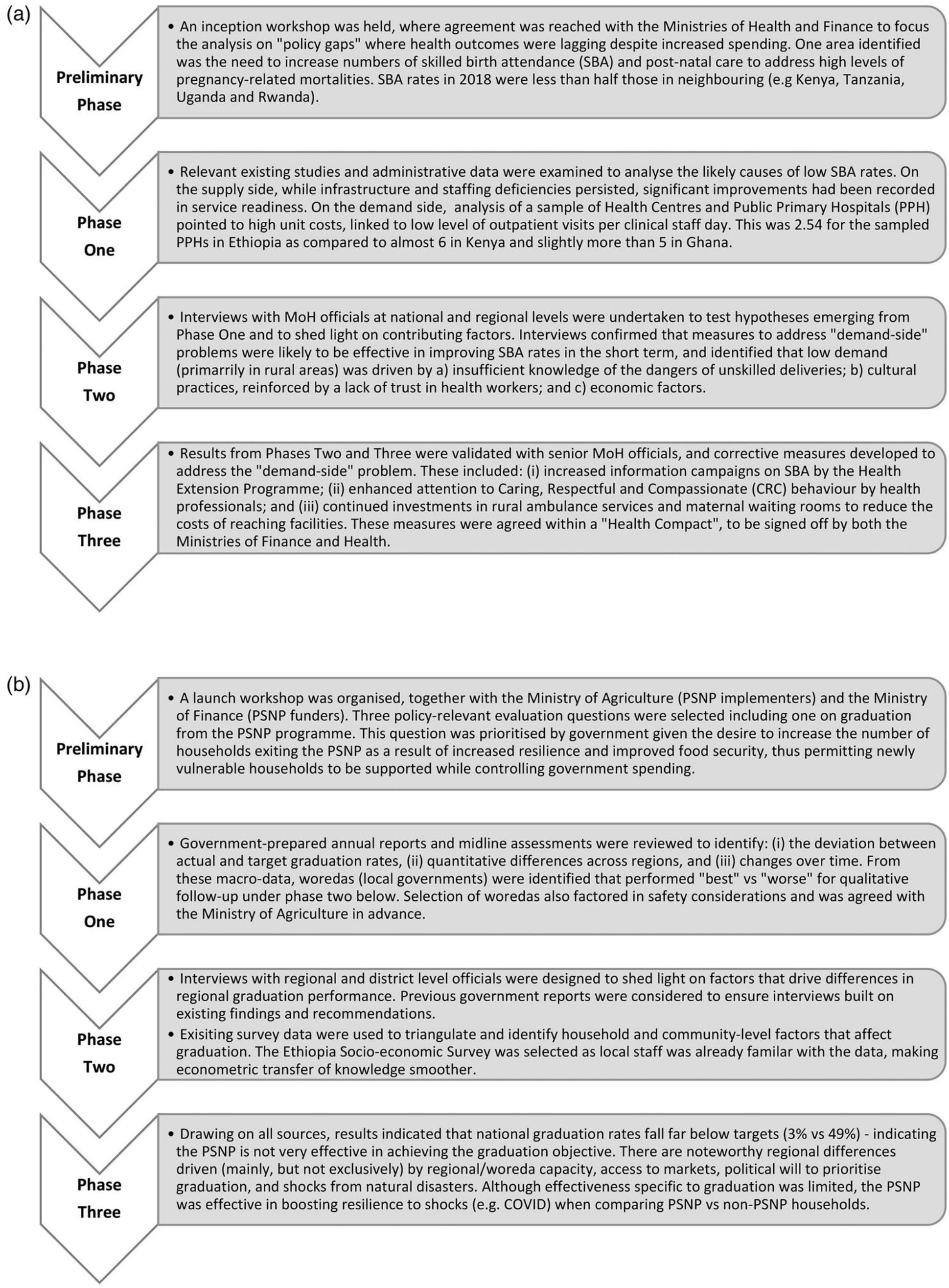

Figure 4. (a) Implementation of the "3-Step Methodology" in Health VfM analysis (Skilled Birth Attendance Evaluation Question). (b) Implementation of the "3-Step Methodology" in PSNP VfM analysis (Graduation Evaluation Question).

have been more information rich. This issue is particularly challenging with VfM of social spending studies, as areas in conflict/unrest tend to have social outcomes below national averages and higher need for social spending (from an equity perspective).

A third challenge arose due to the learning by doing nature of the studies. Given both studies were jointly undertaken with local task teams, the scope was heavily influenced by time constraints of local staff, as well as staff turnover at the MoF. For the health study, the attention given to certain aspects of efficiency was less than desirable. Notably, issues of procurement and supply chain management had been regularly raised as significant issues of efficiency within the sector, but were given limited attention in the 2018–2019 study as staff were not able to devote sufficient time to understanding these issues. For the PSNP study, three evaluation questions were initially agreed at the preliminary phase, but this was reduced to two owing to limited staff time. The omitted question concerned the ability to build and maintain capacity to implement the PSNP – a question that is important to all aspects of VfM as conceptualised by the four E's. Furthermore, high staff turnover makes institutional capacity building more difficult.

The short-term resolution was to deliver clear and actionable recommendations to Government, whilst emphasising the need to tackle the omitted evaluation areas in future studies. Future studies could be locally led given the newly honed VfM assessment capacity. Resolving issues with time constraints and staff turnover, however, require longer-term effort to establish an evaluation team/unit within central government (possibly the Ministry of Finance or Ministry of Planning and Development), whose primary responsibility would be to carry out VfM (and other assessments) to ensure public value from government spending is maximised. Such a team/unit could also provide VfM training to regional authorities, who have autonomy for a range of social spending. As both studies demonstrated, requiring technical ministry staff to conduct such exercises alongside their other responsibilities proves to be difficult, regardless of high levels of willingness and interest from local staff.

Concluding remarks

VfM assessment of social spending in developing countries is important, but challenging. Some of these challenges can be overcome through methodological innovation – like borrowing and applying the 3-Step Methodology from budget support evaluation – and relying on mixed methods techniques as done in the two cases reflected upon in this note. Despite the challenges, these studies are extremely useful to policymakers. They provide policy-relevant evidence, forge collaboration between the MoF and sector ministries (as with the agreement between the Ministries of Finance and Health), and can enhance parliamentary oversight.

In addition to this, our experience reveals two other significant gains. First, attempting a VfM analysis usefully reveals important data gaps. Knowledge of these gaps and an indication of how these data can be collected is critical for improving data availability. Second, the process of doing these studies develops local skills and human capital – most visibly by promoting increased scrutiny of spending decisions. The expectation should not be that the first VfM study is done perfectly, but that it introduces local staff to important concepts and their application in the short-term. These skills can then be honed through further studies. We hope this note helps (in a small way) to develop VfM know-how among officials in developing countries.

Acknowledgements

The authors are grateful to the Bill & Melinda Gates Foundation and the Building Resilience in Ethiopia (BRE) program (managed by Oxford Policy Management (OPM)) for funding the health and PSNP VfM studies, respectively. The authors also wish to thank colleagues in Ethiopia who worked alongside us to conduct the VfM studies, and Tsegay Tekleselassie for commenting on an earlier draft.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

This work was supported by the Bill & Melinda Gates Foundation and the Building Resilience in Ethiopia (BRE) programme (managed by Oxford Policy Management).

Notes on contributors

Jamelia Harris is a Research Economist at Fiscus Ltd and Visiting Research Fellow at the University of Warwick. She holds a DPhil in International Development from the University of Oxford.

Andrew Lawson is co-founder and Technical Director of Fiscus Ltd. He is an economist with extensive experience of the design and implementation of PFM reforms, PFM diagnostics, and project/programme evaluation.

ORCID

Jamelia Harris http://orcid.org/0000-0002-8437-3386

References

Barton, Roy, Ajibade A. Aibinu, and Jose Oliveros. 2019. "The Value for Money Concept in Investment Evaluation: Deconstructing Its Meaning for Better Decision Making." *Project Management Journal* 50 (2): 210–225. doi:10.1177/8756972819827102.

European PPP Expertise Centre (EPEC). 2015. "Value for Money Assessment Review of Approaches and Key Concepts." https://www.eib.org/en/publications/epec-value-for-money-assessment

González, Irene Portabales, and Lincoln Flor. 2015. "Exploring Value for Money analysis in Low-Income Countries." World Bank Blogs, June 30, 2015. https://blogs.worldbank.org/ppps/exploring-value-money-analysis-low-income-countries

Harris, Jamelia. 2021. "Mixed Methods Research in Developing Country Contexts: Lessons from Field Research in Six Countries Across Africa and the Caribbean." *Journal of Mixed Methods Research*, doi:10.1177/15586898211032825.

Independent Development Evaluation (IDEV). 2016. "Value for Money in Development Work." eVALUation Matters (Third Quarter 2016). African Development Bank." https://idev.afdb.org/en/document/evaluation-matters-third-quarter-2016-value-money-development

Jackson, Penelope. 2012. "Value for Money and International Development—Deconstructing Myth to Promote a more Constructive Discussion." OECD Development Co-operation Directorate. https://www.oecd.org/development/effectiveness/49652541.pdf

King, Julian, and OPM VfM Working Group. 2018. "'OPM's Approach to Assessing Value for Money." Oxford Policy Management and Julian King & Associates. https://www.opml.co.uk/files/Publications/opm-approach-assessing-value-for-money.pdf?noredirect=1

Kissi, Ernest, Theophilus Adjei-Kumi, Samuel Twum-Ampofo, and Caleb Debrah. 2020. "Identifying the Latent Shortcomings in Achieving Value for Money Within the Ghanaian Construction Industry." *Journal of Public Procurement* 20 (3): 313–330. doi:10.1108/JOPP-11-2019-0075.

OECD. 2012. "Evaluating Budget Support: Methodological Approach." OECD DAC Network on Development Evaluation. https://www.oecd.org/dac/evaluation/dcdndep/Methodological%20approach%20BS%20evaluations%20Sept%202012%20_with%20cover%20Thi.pdf

Stiglitz, Joseph E., and Jay K. Rosengard. 2015. *Economics of the Public Sector* (4th ed.). New York, London: W. W. Norton & Company.