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Efficiency analysis: Balancing between rigour and realism

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The big five

Efficiency is one of the "big five" criteria, proposed by the OECD/DAC for conducting evaluations, together with relevance, effectiveness, impact and sustainability. While the guidelines never stated that these criteria should always be used, in practice most evaluations seem to do so. At least: formally. Terms of References, evaluation questions, and introductions to the reports seem to refer to the five criteria. The question is: does it lead to better evaluations? Probably not, as the criteria may be ambiguous, and the OECD/DAC does not provide specific guidelines for analysing the big five.

Relevance is also called "the giveaway criterion", ensuring that a project at least earns points on one of the criteria: evaluations hardly ever conclude that a project was irrelevant. In addition, it also allows a consultant to use many pages of his report for describing the project under the heading of "relevance". Effectiveness and impact create some confusion, as in the OECD/DAC terminology impact refers to the ultimate goal, while impact analysis often focuses on the relationship between outputs and outcomes, or, effectiveness in the OECD/DAC terminology. Often, efficiency and sustainability appear to be the Cinderella's of the evaluation criteria.

One not so big

Let's focus here on efficiency. According to the OECD/DAC guidelines:

"Efficiency measures the outputs - qualitative and quantitative - in relation to the inputs. It is an economic term which signifies that the aid uses the least costly resources possible in order to achieve the desired results. This generally requires comparing alternative approaches to achieving the same outputs, to see whether the most efficient process has been adopted."

While an economist may abhor this definition (see Markus' introduction), the practice is even worse, as we hardly ever see this kind of analysis. The criteria are not very helpful when it comes to their practical use. IOB has tried to provide more guidance, with the following questions:

- Have appropriate inputs been deployed at the lowest possible cost?
- Have activities been conducted in an uncomplicated manner?
- Have decisions been made at the right level and has bureaucracy been avoided as far as possible?
- Have overhead costs been kept to a minimum?
- Has duplication been avoided?
- Have conflicts during implementation been prevented or solved?
- Have outputs been achieved within the planned period and budget?

We often see that an 'analysis' is limited to the last question: "Have outputs been achieved within the planned period and budget". However, what if the budget and planning were not realistic (either too high/easy or too low/tight)? In the end, we get something that is not even close to the OECD/DAC guidelines, let alone a more standard (economic) interpretation of efficiency.

In the Netherlands, the Ministry of Finance adheres to a definition of efficiency that relates costs to the ultimate benefits. The Order on Periodic Evaluation and Policy Information (RPE) gives the following definition:

"Efficiency concerns the relationship between the effects of the policy (on the policy goal and any side effects) and the costs of the policy. Policy is efficient if the desired effects are achieved against the lowest costs".

This definition includes an important conclusion: Policies that are not effective cannot be efficient. And conversely: effective policy is not automatically efficient. We see that there are several problems with the OECD/DAC guidelines:

1. It allows focusing on the relationship between inputs and outputs, apparently assuming that outputs will always lead to the desired outcomes and impacts.
2. The guidelines provide no guidance, leading to minimalist interpretation of an already minimalist definition.

The challenges

IOB experiences with evaluations, both within IOB and internationally, show that efficiency analysis in the areas of development cooperation and foreign policy does not receive much attention. Now, why are we not putting more effort into a more serious efficiency analysis? There are several arguments:

- Complexity: Projects often include various interventions, in heterogeneous contexts with many actors and other stakeholders with their own interventions, making it difficult to attribute the results to a specific activity. As the complexity increases, the evaluation also becomes more difficult (Bamberger, Vaessen and Raimondo, 2016).
- Lack of information (baseline and monitoring data). Often, the information (about the costs as well as the benefits) needed for an efficiency analysis is not available.
- Absence of benchmarks: Because of the enormous heterogeneity in projects, programmes, interventions and contexts, benchmarks are often lacking. If comparable projects exist, project evaluations often do not provide sufficient information for a benchmark.
- Relevance: In the field of development cooperation, efficiency often seems a less relevant question. Costs often amount to a fraction of the costs for similar interventions in Western countries. What we consider in the Netherlands as indicators of efficiency (such as costs per pupil) are often expressions of undersupply.

Then why is it important?

Because we don't know much about benefits of a project, we can't compare alternatives and our choices are not necessarily the best choices. This allows for not selecting the best alternatives, a large overhead, high coordination costs, and etcetera. The fact that most evaluations hardly provide information on efficiency or costs, leads to a kind of vicious circle: we have no benchmark, we can't compare the costs and benefits of projects. Therefore, a new project starts without much information, does not gather the data needed for a serious analysis, resulting in an evaluation concluding that "efficiency improvements seem to be possible", etcetera.

Recently, the Independent Evaluation Group of the World Bank has started a discussion on the OECD/DAC criteria, with the objective of modernising them. On efficiency, the Director-General of IEG, Caroline Heider, concluded that:

"In times of resource constraints – have there ever been days without? – one would think "efficiency" would be at the top of the agenda for almost everyone. Unfortunately, we have seen limitations to this evaluation criterion in definition and above all in practice."

Heider provides the main argument why efficiency analysis – ex ante and ex post – is important: it allows development practitioners to identify not only options that would generate the highest impact, but also options that are more, or less costly, and to determine the most cost-effective package of interventions.

Such an analysis would also help the Ministry (as well as the Dutch NGOs) to select the right (most cost-effective) projects. Alternatively, if could also help to select candidates for phasing out, in case of budget cuts. In addition, an improvement of the efficiency criterion in evaluation helps to comply with the demands of the Ministry of Finance on analysing the efficiency of the main policy areas every five years. Now the Ministry concludes that out of 22 policy reviews, 13 did not succeed in determining whether the policy was efficient.

So, what can we do?

An efficiency analysis demands a) ex ante: a precise definition of anticipated benefits (rather than enhancing peace, reduction of greenhouse gases, increased enrolment, and reduction of the disease burden) and b) ex post: increased budgets for monitoring and evaluation and more rigorous data gathering and evaluation. In the end, this will enhance learning, as it improves our understanding of what works and what does not. It will also help to improve the cost-efficiency of projects, as more information will be available about costs of comparable projects. A rigorous assessment of interventions could also show the high cost-effectiveness of specific interventions in a development context, something we usually fail to do.

A first requirement is to take the efficiency criterion more seriously: in Terms of References, in evaluation questions, in project proposals, in feasibility studies and in ex post evaluations. Markus' report provides several suggestions. However, we will not succeed if we do not improve the gathering of data on costs and benefits.

Apart from the proposed techniques and the need to gather data, there are a few rules for analysing efficiency:

- Effectiveness, effectiveness, effectiveness first: no measurement of efficiency without evaluating effectiveness.
- Realism and a thorough understanding of the programme and what it may accomplish.
- Need to take into account differences when comparing groups.
- An analysis who benefits.
- Need to devote more resources to monitoring and evaluation.
- Focus: efficiency of the efficiency analysis: do not devote 80% of your evaluation resources on trying to estimate a 20% impact.
- Keep it as simple as possible: You do not need to publish your results in an A-Journal, but it is important to get a better understanding of the relationship between the costs and (potential) benefits of your project.

The Partos Efficiency Lab

This case is one of a series of ten that was produced in the framework of the Partos Efficiency Lab. The Efficiency Lab was established mid-2017, in response to the finding from the MFS II evaluation that development organisations in the North and the South, as well as evaluators, struggle with the concept of efficiency, and with how to measure and analyse efficiency.

The aim of the efficiency lab is twofold:

- To develop a common understanding among Partos members about the concept of efficiency, the various methods for assessing efficiency, including their advantages and disadvantages.
- To identify and/or develop a recommended repertoire of appropriate policies, methods and tools for addressing the efficiency question in development interventions.

On 23 November 2017 Partos organised a conference on efficiency. Important insights shared by a panel of experts include that efficiency analysis is often of very poor quality in project setups and evaluations. This is because there is a lot of confusion about the concept of efficiency.

- First, definitions used by influential bodies such as OECD suggest that efficiency is about the relation between costs of inputs and outputs. According to these definitions even a project that has no, or even negative, outcomes or impact, can still be efficient. A definition that can lead to such conclusions is not helpful for innovation and the improvement of interventions. A useful definition must be based on the premise that effectiveness is a prerequisite for efficiency. In other words, without effectiveness there can be no efficiency.
- Second, the purpose of conducting an efficiency analysis should be made explicit, because the purpose has consequences for the choice of methods and tools used. Two important types of purposes need to be distinguished: 1. comparing the efficiency of an intervention with alternatives or benchmarks, and 2. improving the efficiency of individual interventions.

The experts also looked into ten typical cases of development interventions drawn from the practice of member organisations of Partos. For each of the cases they have provided recommended methods and tools for analysing efficiency. This paper presents one of these ten cases.

The participants of the Efficiency Lab are: Mark Kirkels (War Child), Margriet Poel (SNV), Jeroen Bolhuis (Plan Nederland), Marieke de Vries (CNV International), Arnold van Willigen (Woord en Daad), Erik Boonstoppel (Oxfam Novib), Simon Bailey (Aflatoun), Kees Kolsteeg (GPPAC), Julio C. Garcia Martínez (ZOA), Agnès Marsan (Simavi) Anita van der Laan (Akvo), Jan de Vries (Pax).

Facilitators of the Efficiency Lab are: Anne-Marie Heemskerk (Partos) and Heinz Greijn (L4D)

The panel of experts is composed of:

- **Markus Palenberg**, CEO of the Institute for Development Strategy in Munich, Germany and author of what is considered standard literature in this field: "Tools and Methods for Evaluating the Efficiency of Development Interventions. Evaluation Working Papers. Bonn: Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (2011)
- **Pol de Greve**, Development Economist at Context, international cooperation, with experience an assessing the efficiency of development projects
- **Antonie de Kemp** who worked as a researcher for the Netherlands Court of Audit, the Netherlands Institute for Social Research (SCP) and the Institute for Research on Public Expenditure (IOO). He joined the Ministry of Foreign Affairs in 1997, and since 2005 has been an evaluator at IOB.