



The Spindle

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Efficiency analysis: Why bother, ... and why is it so difficult

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Why bother doing efficiency analysis?

There are compelling reasons why professionals working in international aid cannot get around efficiency analysis. For example:

- Efficiency analysis helps choosing the “right” interventions. Efficiency analysis can help selecting interventions that are i) overall beneficial and ii) maximize overall net benefits to society.
- Efficiency analysis helps improving interventions. Efficiency analysis can inform operational and strategic improvement of interventions through minimizing costs and maximizing yields.
- Efficiency is a standard evaluation criterion. For example, OECD DAC lists efficiency as one of five recommended criteria for evaluating development assistance.
- Efficiency analysis is required by law. Budget codes in several countries require efficiency analysis for measures affecting national budgets.

Why is it so difficult?

At the same time, efficiency remains an elusive or ambiguous concept, and efficiency analysis is often considered somewhat of a challenge. Again, there are several reasons for that, for example:

- Efficiency blabber jabber. Efficiency-related terminology and concepts are confusing and ambiguous. For example, OECD DAC offers two conflicting definitions and UK's “value for money” approach uses a narrow definition.
- Efficiency analysis without purpose. At times, efficiency analysis is required without a clear purpose, resulting in lack of direction for analysis and evaluation findings of limited usefulness.
- Efficiency analysis without proper skills and tools. Some types of efficiency analysis are rather demanding and requiring expert skills and experience.

Our terminology and concepts

In this workshop, we adopt a broad understanding of the term “efficiency”. We include, for example:

- Output-level efficiency (production efficiency): conversion of inputs into outputs;
- Impact/outcome-level efficiency (allocation efficiency): conversion of inputs into outcomes or impacts; or
- Net benefit, utility, and other economic efficiency measures.

We differentiate two principal types of efficiency analysis based on their purposes:

- Level 2 analysis compares the efficiency of entire aid interventions with alternatives or benchmarks with the purpose of maximizing total welfare (by selecting those

interventions that produce the largest net benefit to society with available resources).

- Level 1 analysis has the purpose of improving the efficiency of individual interventions. It does this by investigating the intervention at hand and/or by benchmarking partial efficiency indicators across several interventions. In contrast to level 2 analysis, level 1 analysis does not assess or compare outcome/impact-level efficiency of different interventions.
- In addition, a third type of efficiency analysis exists: descriptive (level 0) analysis describes or provides an opinion on efficiency without a clearly identified purpose.

Along these three types, we have collected the following list of tools and methods for assessing the efficiency of aid interventions:

Type	Level 2 Analysis	Level 1 Analysis	Descriptive Analysis
Description	Compare the efficiency of entire aid interventions with alternatives and benchmarks	Identify efficiency improvement potential in an aid intervention	Describe or provide an opinion on efficiency
Purpose	Select the most efficient interventions from many	Improve the efficiency of one intervention	(Unclear)
Examples	Cost-Benefit Analysis (Méthode des Effets) Cost-Effectiveness Analysis Cost-Utility Analysis Social Return on Invest Multiple-Attribute Decision-Making (MADM) Data Envelopment Analysis Stochastic Frontier Analysis	Unit Cost Benchmarking Follow the Money Efficiency Ratings by Stakeholders Financial Analysis	Expert Judgement Specific Evaluation Questions on Efficiency

