



# The Spindle

connecting innovators for development

## In theory, practice is simple: A few reflections on efficiency analysis

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This paper was written in the framework of a conference organised by the Partos Efficiency Lab on 23 November 2017

## L'histoire se répète ?

Issues of efficiency and effectiveness are not new in the development sector: A personal journey: .

- 1980's – Financial and economic appraisal (CBA) was fairly common to assess technical assistance projects in agriculture (irrigation, crop diversification, livestock development). This enabled to assess what farming systems were indeed effective. Also use of CEA measures like return to labour to assess and compare efficiency of different farming / crop systems
- 1990's – Interesting new development – environmental economics and CBA exploring quantitative methods to capture environmental costs and benefits. New approaches to capture elements that did not have a price or market (e.g. hedonic pricing, travel cost method, contingent valuation, ...)
- 2000's – saw the Paris declaration of effectiveness that would inspire many debates and set the stage for the infamous OECD DAC criteria (Efficiency – Effectiveness – Impact – Relevance – Sustainability) as standard framework for evaluation.
- 2000's – the emergence of quality management and certification standards (such as ISO, EFQM, IKN) in development programme management as proof of compliance to good standards including efficiency and effectiveness.
- 2010's – In Anglophone development world - Value for money emerged. The 4Es: Economics – Efficiency – Effectiveness – Equity as another framework for ensuring adherence to good standards and adequate efficiency performance.
- 2010's – Blended value creation or the realisation that any development programme is creating economic, social as well as environmental values. This need for broader assessment approaches such as Social Rate of Return that put due focus on the (intangible) values that are difficult to incorporate in (semi) quantitative methods.

## Conclusions?

- Increased recognition of the complexity of the issue.
- Gradual realisation that the concepts of efficiency and effectiveness are strongly interlinked. One cannot be realised without the other.
- Critical voices about the OECD DAC criteria are getting louder (while DFID staunchly defends its Value for Money framework)
- Accountability continues to prevail as driving force for efficiency analysis, but it is increasingly recognised that efficiency analysis could and should contribute to strategy development (and review) as well as organisational learning. But so far, few organisations succeed to do so
- Gradual realisation that efficiency analysis must capture blended value creation. As values are subjective, efficiency analysis must have a participatory character. Beneficiaries are the only ones that can identify, quantify and (if there are no market process) monetise values created.

- This is an area where private sector (PPP- Profit, People, Planet / Hybrid Business Models) and non-profit development sector seemingly are coming closer to each other. But not yet...

## Five reflections borne out of practice

### 1. A good beginning: Get your TOC right – Set your boundaries - Include who and what matters

Lessons from experience ...

- Efficiency analysis is all about connecting different elements in the input-output-result-impact chain.
- Well-developed and detailed ToCs allow you to better distinguish and identify indicators at different levels for comparison in efficiency analysis at level 1 as well as level 2.
- Usually you will not be able (or willing) to cover the entire ToC (each and every element of ToC) in the efficiency analysis. Therefore, it is often needed to identify the "sectors" in the ToC that are most important and relevant for efficiency analysis (the boundaries).
- This then constitutes the basis for developing a programme-specific framework for efficiency analysis. Note: it is programme-specific because the efficiency framework can be very different say for policy influencing than for value chain development (by way of example)
- The resulting analytic framework will also require a delineation of relevant stakeholders i.e. setting boundaries of assessment in terms of what stakeholders to include.
- ToC and the programme-specific framework for efficiency analysis together allows you to identify what is needed in terms of baseline needed for meaningful ex-post assessment
- Ex-post evaluation derives a strategic value from comparing assumed (ex-ante) pathways of change and TOC assumption with what is actually observed in terms of programme results (and impact). What has worked? What did not work? What worked but wasn't expected?

### 2. Capturing the intangibles in blended value creation

- Efficiency analysis requires capturing as many of the programme's results and outcomes as possible.
- Methods like process tracing and outcome mapping are instrumental in doing so.
- Any programme will create a set of blended values that may comprise economic, social and environmental outcomes.
- In many projects, value creation relates to intangible values such as respect, empowerment, personal security, equity, social status – these are nearly impossible to quantify but do obviously matter (in some cases they are the key outcomes)

- Ideally, in efficiency analysis you will try to quantify and as much as possible monetise such outcomes
  - There is a wide range of methods that can help quantifying and monetising outcomes such as revealed preference methods (travel cost, hedonic pricing) or stated preference methods (willingness to pay, value game)
  - Nevertheless, for many development programmes it is advisable to combine a quantitative assessment (level 2) with a qualitative assessment and an extensive narrative (e.g. using MSC or other methods) to depict and present non-quantifiable outcomes
- 3. Know why you do the analysis and keep to your objective**
- If objective of the analysis is to assess whether a specific programme is effective (say in a Value for Money context demanded by the donor agency), a saturation point may be reached in the assessment, that is when a point is reached whereby it is established that total value creation by the programme exceeds total value of resources used. There may be no need to spend more time and money in trying to go beyond such point (i.e. trying to fully explore and integrate all values created)
  - The latter more ambitious objective may be desired for assessments that serve a strategic and/or learning purpose
  - this is typically the case for an ex-post evaluation exercise. In such case, one will have the ambition to capture the programme dynamics in as many dimensions and at as many levels (input to impact) as possible.

**4. Give guidance or get peanuts**

Specifically, when developing ToR for evaluations, often the commissioning agency will include efficiency question(s) in the TOR without being clear about how the organisation itself defines and interprets efficiency in the context of the programme strategy and approach. As a result, efficiency related questions in ToRs are often open-ended and fairly meaningless.

This bridges to the last point:

**5. Can an inefficient organisation run an efficient programme? And vice versa?**

Assessing organisational efficiency in function of assessing programme efficiency

Quote – MFS-II Joint Evaluation of International Lobbying and Advocacy (Hilhorst et.al.)

"Instead of introducing external benchmarks for efficiency, we decided to base our assessment on the strategies and the norms the alliance used to maximize their resources. We labelled this 'Theory of Efficiency'. It comprises procedures to ensure the efficiency of interventions and those meant to monitor efficiency"

The Theory of Efficiency (ToE) is a valuable addition to the Level 1 and 2 efficiency analyses presented and discussed in the workshop.

#### Theory of Efficiency

- Is not a method for measuring efficiency as such,
- But it invites an organisation to reflect about what itself considers to be relevant features of efficiency (as embedded in the organisation) and how this translates into organisational procedures and systems to ensure efficiency of programme interventions
- And monitor efficiency !

Theory of Efficiency thus offers a reflective learning trajectory for strengthening organisational and programme performance ... to be explored further!

