10th Annual CABRI Seminar

VALUE FOR MONEY  
IN PUBLIC SPENDING

24–26 September 2014, Johannesburg
This publication was produced by the CABRI Secretariat. It contains research papers and inputs presented at the 10th Annual CABRI Seminar in September 2014, which have subsequently been edited. All errors are those of the authors and editors, and the text does not constitute a shared opinion of or representation by any of the organisations to which the authors are affiliated.

Published in 2015 by the Collaborative African Budget Reform Initiative (CABRI)
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Value for money in public spending has been at the forefront of our activities. Through a series of policy dialogues, CABRI was able to examine the many complexities that public officials face when seeking to ensure that public spending: (i) is aligned with policy priorities and budget allocations; (ii) is within the rules; (iii) is affordable; (iv) achieves value for money; and (v) attains the desired results. Simply changing budget formats and classifications, and extending the planning and budgeting horizon, is not enough to guarantee value for money.

One of the contributors to this publication, Gary Bandy, defines value for money as ‘something that is well worth the money spent on it’. In other words, a public official has to provide something that is regarded as important and useful, produce it in the best way possible, and show that it is worth at least as much as the cost of producing it. The three ‘Es’ – efficiency, effectiveness and economy – provide useful measures for determining whether expenditure has improved and has achieved value for money. However, we are faced with two additional ‘Es’ – equity and ethics. This means that expenditure should be fair and should be conducted in a way that adheres to a high degree of integrity and transparency.

This publication provides an overview of CABRI’s work on value for money. More specifically, it provides a detailed account of the presentations and peer-exchanges of our 10th Annual Seminar that was held in South Africa from 24 to 26 September 2014.

The seminar was attended by 75 delegates representing 24 African countries, development partner organisations and think tanks whose work focuses on public finances and public health, agriculture and education policy. The seminar provided an opportunity for interactive engagement with peers, the examination of the latest assessment tools and the sharing of country practices and experiences.

Exploring and finding ways in which public spending can be efficient, effective, economical, ethical and equitable will remain a crucial pillar of CABRI’s work over the medium term. In this regard, we will continue to work with officials from finance and line ministries through our policy dialogues, in-country workshops, training programmes and other knowledge-exchange activities.

Together, we can strive to realise the CABRI vision, in terms of which ‘across Africa, public financial resources are managed with integrity, transparency and accountability for efficient and effective service delivery, sustainable economic growth and development’.
Background

The CABRI annual seminar is the flagship event of the CABRI network of senior African budget and planning officials. It is the annual opportunity for all CABRI member and participating countries to share in the network’s current learning activities and to engage with the experiences of their peers in addressing common issues in budgeting and public financial management. The 10th CABRI Annual Seminar was developed around the theme ‘value for money in public spending’.

Budget officials in the ministries of finance have a duty to ensure that public funds are spent judiciously by the spending agencies. This has become even more important with rising food prices and declining overseas development assistance. Lack of policy understanding, proper planning and budgeting, diligent monitoring and the practice of using evidence to inform policy are some of the contributing factors to inefficient spending.

Against this backdrop, the 10th annual seminar reviewed the efficiency of spending in some of the key sectors and discussed ways in which efficiency and effectiveness could be improved. The seminar had the following objectives: to reach a common understanding of existing inefficiencies in sector spending; and to discuss and agree upon ways in which countries could improve efficiency in spending and value for money. The seminar ultimately aimed to encourage a policy discussion among budget officials on value for money, and to generate debate around some of the complex policy decisions related to financing and providing social services under budget constraints.

CABRI’s work on value for money in public spending

CABRI has been undertaking a series of research and small policy dialogues on value for money in various sectors, including health, education and agriculture. The annual seminar allowed for this wealth of research to reach a larger audience and for high-level discussions to take place on how senior government officials can better ensure value for money in financing public expenditure.

Issues tackled in CABRI’s sector dialogues have included:

- key policy issues and challenges facing the different sectors;
- policy and budget planning;
- institutional arrangements of service delivery, including issues of decentralisation;
- sector financing and expenditure management for allocative and technical efficiency;
- internationally set targets for expenditure that may fail to sufficiently examine trade-offs, opportunity costs and efficiency; and
- the growing role of the private sector and the reliance on donor funds in providing services and functions.

Through its work in sector dialogues and value for money in education, health, infrastructure and agriculture, CABRI has gained important insights into efficient ways to plan, finance and manage public spending in these and other sectors. CABRI understands that context matters, and that value for money requires all participants in the budget process to begin to think differently about each decision within this complex cycle, and to understand the true extent of policy choices and trade-offs within the process. Within this flow of decisions, the accountability of each practitioner for the decisions and choices made is vital.

By strengthening linkages between the centre and line functions of government, one can contribute to higher value for money. In addition, understanding the complementary role of finance and sector
ministries in policy formulation and budget processes, and making these processes more efficient and better integrated, fosters better service delivery outcomes and improved socio-economic outcomes.

**The theory and practice of value for money in public spending**

The annual seminar was structured in two parts. Day 1 focused largely on the conceptual issues (theory and practice) of value for money. The first session was a panel discussion on ‘issues in value for money and efficiency spending’. A panel of experts shared their views on the myriad of complex factors that contribute to or impede value for money. The context of the discussion was that governments across the globe face the dual challenge of budgetary constraints and ensuring that scarce resources are used efficiently and effectively. The likelihood of achieving the desired outputs and outcomes of a spending programme is dependent on a combination of the correct policy choices, appropriate funding levels, credible plans and proficiency in delivering services. Insights from this panel are presented in Chapter 2. The panel included: Ms Janah Ncube, Pan Africa Director of Oxfam; Mr Benedict Kunene, Principal Education Analyst, African Development Bank; Ms Nana Adowaa Boateng, Senior Public Financial Management Specialist, Collaborative Africa Budget Reform Initiative; Mr Amadou Sangaré, Former Director-General of Budget, Ministry of Economy and Finance, Burkina Faso; and Mr Philipp Krause, Team Leader, Centre for Aid and Public Expenditure, Overseas Development Institute. The discussion was moderated by Mr Neil Cole, Executive Secretary of the Collaborative Africa Budget Reform Initiative.

Drawing on the various issues that emerged from the panel and plenary discussions, a framework on value for money was presented and discussed. The framework was presented by Gary Bandy, a public finance expert. He noted that, notwithstanding the difficult trade-offs, senior budget officials and line ministries need to consider five Es (economy, effectiveness, efficiency, equity and ethics) in making decisions on value for money. This framework, presented in Chapter 3, helps to contextualise and frame the other discussions that took place in the two-day seminar.

An interactive session on improving value for money through the budget process is covered in Chapter 4. The main objective of this session was to simulate a budget-negotiation scenario between finance and sector ministries and the compromises to be made in order to achieve service delivery under budget constraints. The exercise revealed three important pillars that are critical for improving value for money in the budget process: (i) accessing the right information; (ii) carefully considering budgetary processes, institutions and incentives; and (iii) the need for the right skills and tools to make decisions on value for money. The chapter also considers stakeholder involvement in the process.

Chapter 5 focuses on performance indicators. It recognises that the allocation of resources in line with key performance indicators (KPIs) has made a significant difference in health outcomes in Burundi and education outcomes in Mauritius. These countries have a performance-based budgeting framework with robust accountability measures and a results-oriented focus. Ms Beatrice Samandari (Ministry of Finance, Burundi) and Ms Maya Soonarane (Ministry of Education, Mauritius) briefly presented on the functionality of the KPIs.

**Framework and tools to improve value for money in public spending**

The second part of the annual seminar focused on the practical application of the framework for achieving value for money and other conceptual considerations to make sound policy decisions.
A note on the format of the seminar

The annual seminar was exceptionally interactive on this particular occasion. While CABRI sees value in formal presentations, it has also learned that different styles of presentation and discussion, with the aim of effectively engaging participants, is a more effective form of dialogue and exchange. Therefore, the 10th annual seminar used a multi-method approach, including the World Café method, role play, group discussions, an element of training and panel discussions. The post-seminar evaluations proved that these methods are effective and appreciated. CABRI will continue to host its events with such an approach, as the form of learning is often just as important as the content.

While CABRI sees value in formal presentations, it has also learned that different styles of presentation and discussion, with the aim of effectively engaging participants, is a more effective form of dialogue and exchange.

In one exercise using the World Café format, participants received three real country case studies (of one page each) on Zanzibar (health sector), Ghana (agriculture sector) and Mozambique (education sector). The main objective of this session was to encourage a debate demonstrating the complexity of policy-making and financing. Chapter 6 presents a summary of these case studies and a record of the debate that ensued. The chapter shows that policy decisions are very complex and require a multidisciplinary lens and varied information.

Chapter 7 concludes the publication with a report on three master classes covering practical tools/techniques to help senior budget officials extend their understanding of value for money in a practical way. The master class on application of analytical tools in the health sector was led by Dr Michael Borowitz (Global Fund), Tomas Roubal (WHO) and Prof. Karen Hofman (Wits University). The education sector analytical tools master class was led by Dr Meltem Aram (Development Analytics) and the agriculture sector master class was led by Ms Ceren Baysan (Development Analytics) and Dr Samuel Benin (IFORI). The expectation is that senior budget officials will take steps to ensure that their offices are well capacitated with these important analytical skills.
Governments across the globe face the dual challenges of budgetary constraints and ensuring that scarce resources are used efficiently and effectively. The likelihood of achieving the desired outputs and outcomes of a spending programme is dependent on a combination of the correct policy choices, appropriate funding levels, credible plans and proficiency in delivering services. Achieving ‘value for money’, therefore, is dependent on several complex factors.

To frame the discussions at the 10th CABRI Annual Seminar, on ‘Value for Money in Public Spending’, a panel of experts shared their views on the range of factors that contribute to or impede value for money. The main objective of this opening session was to establish the context for the seminar programme, and to flag the issues that should be considered in more detail in later sessions. The panel brought together varying perspectives held by experts working in or with different aspects of public financial management in Africa.

Nana Boateng on recent trends in value for money and sources of inefficiency in the health and education sectors

Dr Boateng was encouraged by a trend she has observed in which countries have been paying greater attention to issues relating to value for money. Through a gradual shift from line-item budgeting to programme and performance budgeting, countries have shown a desire for greater efficiency and effectiveness in public spending. Rwanda, a country at the forefront of the trend, has been rolling out results-based financing in health since 2002.

Box 1: Panel of experts

**Dr Nana Boateng** (Senior Public Financial Management Specialist and Programme Manager: Fiscal and Budget Policy, CABRI)

Nana Boateng shared findings from CABRI’s work on value for money in the agriculture, education and health sectors.

**Mr Amadou Sangaře** (former Director-General of Budget, Ministry of Economy and Finance, Burkina Faso)

Amadou Sangaře demonstrated the importance of considerations concerning value for money for senior budget officials during the budget process.

**Ms Janah Ncube** (Pan Africa Director, Oxfam)

Janah Ncube brought a valuable perspective from outside of government, especially around addressing the needs of citizens in setting policy priorities and accountability in respect of public funds.

**Mr Benedict Kunene** (Principal Education Analyst, African Development Bank)

Benedict Kunene explained how criteria in respect of value for money are applied in the bank, from determining the nature of loan and grant financing through to the execution of the project by the national government.

**Dr Philipp Krause** (Team Leader: Public Finance, Overseas Development Institute)

Philipp Krause drew on the ODI’s research into the capabilities of finance ministries, in discussing what a finance ministry needs to have in place to ensure value for money in public spending.
In a number of countries, programme budgets have tended to be merely presentational. This suggests that government departments need to do more to ensure value for money.

South Africa spends 5.5 per cent of GDP on education, one of the highest spenders on education. When you look at the outcomes, you realise that throwing more money at the problems doesn’t always yield the correct outcomes. We need to take a step back to analyse the blockages and consider the drivers of efficiency.

There are three basic pillars of value for money – economy, efficiency and effectiveness (the 3 Es). CABRI dialogues on value for money also examine related issues of equity, feasibility, sustainability and scale of impact.

"Nana Boateng, CABRI"

Payments are made on the basis of performance at a health facility, and preliminary analysis indicates that there has been an increase in the volume and quality of health care.

However, in many African countries, the move to programme-based budgeting has not necessarily led to marked improvements in the quality of service delivery, due largely to challenges with the design and implementation of these reforms. In a number of countries, programme budgets have tended to be merely presentational. This suggests that government departments need to do more to ensure value for money.

Discussions during policy dialogues held by CABRI have highlighted why considerations regarding value for money have been lacking in spending decisions. Finance ministries seem to be overly focused on number crunching and accounting, and have limited policy understanding of value for money. This may be due to weak sector analytical capability. Allocation decisions are often still incremental in nature, without sufficient focus on real policy considerations. In contrast, line ministries are not paying sufficient attention to budgeting and expenditure management. The situation is further exacerbated where there is little engagement between finance and line ministries during the budget process. This mismatch between policy and budgeting has led to a number of inefficiencies in spending.

For many countries, the health and education sectors consume the largest share of the national budget. Yet the evidence of inefficient spending in these sectors is overwhelming.

In health, the main sources of inefficiency are:

- inappropriate and ineffective use of medicine;
- medical errors and sub-optimal quality of care;
- inappropriate hospital size;
- unnecessary or too-lengthy hospital admissions;
- oversupply and overuse of equipment; and
- leakages, waste, corruption and fraud.

In education, the main sources of inefficiency are:

- entering school at an inappropriate age;
- repetition and dropout;
- not teaching the right content or in the right way;
- inappropriate allocation (e.g. spending more on tertiary than on primary education);
- loss of trained labour to the diaspora; and
- leakages, waste, corruption and fraud.

Nana Boateng suggested that countries are more likely to see improved efficiency in spending where: there is an emphasis on performance; robust monitoring and evaluation frameworks exist; impact evaluations are undertaken; and better sectoral policy analysis takes place.

"Amadou Sangaré on the importance of value for money for senior budget officials"

Amadou Sangaré asserted that, in the context of limited resources, it is the responsibility of the finance ministry to optimise those resources through expenditure that is both urgent and pertinent. During his time as Director-General of Budget in the Ministry of Economy and Finance in Burkina Faso, the efficient management of the public sector wage bill and the reduction of operational expenditure were key foci for the ministry. This was in order to free up resources for investment in the social sectors and for growth-promoting expenditure in infrastructure. Special priorities for Burkina Faso in 2015 are the social sectors (health and education) and defence. Understanding value for money in each sector allows one to present trade-offs and informed policy choices on intersectoral budget allocations to the minister of finance and the Cabinet.
Amadou Sangaré argued that, in order to reach the government’s priorities and objectives, it is important to effectively manage revenue (both internal and external) and concessional lending. There are policy trade-offs driven by value-for-money considerations on both the revenue side and the expenditure side.

The West African Economic and Monetary Union (WAEMU) has played a critical role in terms of facilitating a transition towards a system that puts efficiency and effectiveness of spending at its core (through, for example, its focus on rules and procedures for procurement, performance and monitoring the effectiveness of spending).

In Burkina Faso, there are discussions every month with line ministries on objectives. At the end of each quarter, there is an assessment of goals reached, and the investment budget is revised if necessary. The regular monitoring of performance against stated objectives assists in instilling a culture of value for money. The work in this area is iterative and gradual with a view to sharpening the monitoring and evaluation of performance and the effectiveness of public spending.

Janah Ncube on three challenges that are hindering the achievement of value for money in public spending

Janah Ncube acknowledged the tremendous efforts that governments are making to use resources efficiently. Despite these efforts, however, one still observes inefficiencies and inequities in the distribution of spending. She highlighted what in her opinion are the three key challenges hindering value for money in public spending.

Ms Ncube identified the first challenge as one of seizure of state resources for political and personal gain. She used Kenya as a case in point. There, the clamour for higher pay by members of Parliament led to large increases in budget allocations to salaries and allowances. This resulted in a smaller ‘piece of the cake’ being allocated to policy priorities benefitting ordinary citizens. Similarly, when the county offices came into effect in Kenya in 2013, among the first priorities for the county politicians was to ensure that their salaries and motor vehicle allocations increased in line with those of members of Parliament at the national level, again resulting in less revenue being allocated to priority areas for citizens.

The second challenge Ms Ncube highlighted was the mismatch between policy and budgeting processes. She explained that there were several noteworthy policies and programmes at the continental level. The adoption and effective implementation of a few of these policies would go a long way towards achieving success in budgeting practices. However, at the national level, these policies/programmes are not being considered. One such programme is the Comprehensive Africa Agriculture Development Programme (CAADP), a New Partnership for Africa’s Development (NEPAD) initiative that aims to boost agricultural productivity on the continent and to address policy and capacity issues across the agricultural sector. Under the CAADP, countries are required to commit to earmarking 10 per cent of their national budgets for agriculture per annum. However, since the CAADP’s establishment in 2003, only eight countries in Africa have met the 10 per cent per annum commitment. Similar commitments have been made in the health sector, with little progress.

Thirdly, monitoring mechanisms are still very weak. While the public accounts committees do monitor budget expenditure, there is little feedback into ongoing and future budgeting processes.
Despite the persistence of these challenges, Janah Ncube observed that there were some notable good practices promoting value for money on the continent. For example:

- Kenya has put in place an Office of the Controller of Budget, whose core mandate is to act as a gatekeeper in overseeing implementation of national and county budgets by authorising the withdrawal of public funds. While this office has done well in implementing its mandate, there is a need to continue to strengthen this oversight role.
- South Africa has inclusive and transparent processes for the vertical division of revenue between national and sub-national governments, and the horizontal division of revenue between provinces and local government. Cabinet sits at the pinnacle of decision-making on trade-offs between the different spheres and sectors of government. Furthermore, the revenue-sharing formulae that are used at a sub-national level have a strong emphasis on creating an equitable distribution.
- Tanzania and Rwanda continue to make strides in promoting gender-responsive budgeting, effectively assessing the needs of women and allocating budgets appropriately. For Janah Ncube, this signified a budget process addressing the needs of citizens.

In conclusion, Ms Ncube stressed that the participation of citizens, and accountability to citizens, is of paramount importance in achieving value for money. Currently, in aid-dependent countries, accountability seems to be to donors and not to citizens.

**Philipp Krause on the capabilities needed in government to instil a value-for-money mind-set**

Philipp Krause presented value for money as a relative concept measured on a continuum of whether it has increased or decreased. He argued that having value for money in public spending is very different from using value-for-money tools. In the first instance, all that these tools do is provide information. Very often, the constraint that governments face is not that there is a lack of information, but rather that proper incentives and proper procedures in using the information to ensure value for money are lacking. Cost-benefit analyses and impact evaluations alone do not improve value for money; they provide you with the information that might enable you to improve value for money. Philipp Krause added that value-for-money tools and instruments cost money and, thus, if they are not being used, they become weak value-for-money propositions. This led to a discussion about which capabilities finance ministries need to ensure value for money.
It is crucial to have the ability to use the outcome of the analysis, engage with others and set up budget systems and processes in a way that incentivises value-for-money implementation in ministries of finance and sector ministries.

There is only one place where the buck stops in terms of value for money. And that is at the top.

Philipp Krause, ODI

Discussion on setting regional targets for expenditure priorities

Janah Ncube’s point that many countries have failed to meet regional targets set for priority sectors such as agriculture, health and education generated much debate amongst budget officials. Beatrice Samandari from the Ministry of Finance and Planning for Economic Development, Burundi, argued that, if you were to achieve these regional targets alongside meeting the priority needs of all line departments at a national level, you would exceed the national budget constraint. Samuel Kiru from the Kenyan National Treasury added that budgeting is a zero-sum game – what is given to the ministry of agriculture is lost to the ministry of water. Beyond that, national policies tend to be cross-cutting in nature and are not the domain of only one ministry. For example, there is a link between the provision of clean water in rural communities and a reduction in maternal mortality. Targets for spending on sectors do not sit comfortably with cross-cutting policy objectives.

In response, Michael Borowitz, Chief Economist at the Global Fund, suggested that better thought-out targets would be more valuable and that finance ministries may want to think about what reasonable targets would look like. Alta Fölscher, consultant to CABRI, argued that having regional targets for specific sectors might be incompatible with the notion of value for money. Regional targets do not necessarily guarantee value for money within a sector, and might, in fact, interfere quite significantly with value for money across sectors, given available resources and national needs.

CABRI will investigate further the benefits and costs of setting regional expenditure targets, as part of its work on efficiencies in health expenditure.

Discussion on how much ministries of finance need to care about the ‘value’ in the value-for-money proposition

Philipp Krause’s observation that finance ministries traditionally tend to care about money, and that line ministries tend to care about value, raised a number of comments about the role of a finance ministry. Participants noted that many decisions in the delivery of services are about trade-offs between different
The discussion highlighted challenges in improving value for money, both at an implementation level and at a conceptual level.

Value propositions. For finance ministries to be able to weigh up decisions across sectors, they must understand something about value in all of the sectors. While a finance ministry does not need to know how to calculate DALYs in the health sector, it does need to be an intelligent consumer of such analyses in order to challenge line ministries on their value propositions.

Two examples of bodies that undertake analysis in the health sector were provided by participants:

- The British government has set up the National Institute of Health and Clinical Excellence, developing guidance and recommendations on the effectiveness of treatments and medical procedures. Michael Borowitz commented that several countries are setting up similar analytical centres.
- The University of the Witwatersrand’s School of Public Health runs a programme called PRICELESS SA (Priority Cost Effective Lessons for System Strengthening South Africa). The programme provides information that will improve the manner in which resources are allocated and priorities are set for individual interventions, clinical services and health technologies that affect public health.

The degree to which budget officials need to understand the value part of the value-for-money proposition, and the skills required to ensure value for money, will be examined further as part of CABRI’s programme on institutional capabilities of finance ministries.

Conclusion

The opening panel discussion suitably framed the subsequent topics for discussion at the 10th CABRI Annual Seminar. The discussion highlighted challenges in improving value for money, both at an implementation level and at a conceptual level. In spite of these challenges, there were many positive examples from African countries of efforts that have been made to improve value for money. The recommendations that emerged from this session pointed to the need to:

- undertake research to identify sources of inefficiency in public spending;
- acquire the necessary technical/analytical skills to interrogate value for money; and
- have the right incentives in place (political will) to guide implementation, including a focus on performance, accountability, monitoring and evaluation.
CHAPTER 3
A FRAMEWORK FOR IMPROVING VALUE FOR MONEY

Gary Bandy

Introduction
Gone are the days, if they ever existed, when governments would be concerned with the practical administration of spending public money without necessarily having much regard for how things could be done better. Now governments want to be sure that they are maximising the benefits for their citizens with the money they spend. This means that a public manager with responsibility for spending public money ought to answer ‘yes’ to each of the following questions before actually spending the money on a programme, project or service:

- Is this spending within the rules?
- Is this spending affordable?
- Will we get value for money from this spending?

What do we mean by value for money? The UK’s National Audit Office (2014) defines value for money as ‘the optimal use of resources to achieve the intended outcomes’. This sounds complicated, but as consumers we assess value for money whenever we buy goods or services. We think something is value for money when the benefits we expect to enjoy from it are worth more to us than the purchase price. Sometimes, we get a great bargain when we buy something at a price that is much lower than the amount we were willing to pay. At other times, we get it wrong, buying things we rarely or never use.

Public services, generally speaking, are not paid for by the consumer – and where the consumer does pay, the price, as a matter of policy, is generally lower than market value.

The achievement of value for money by a public manager is no longer seen as a virtue but as a necessity.

Coombs & Jenkins 2002

Numerous aspects of government that are pertinent to the concept of value for money emerged during the sessions at CABRI’s 10th Annual Seminar. These included aspects of what we have: budgets, sources of funding, affordability and our organisation’s capacity and processes. Other aspects related to what we want to do, including politics, priorities, strategies, feasibility, scale, relevance and sustainability. Yet other aspects related to what we achieve, including results and performance indicators, annual reports and audits. All of these features, and no doubt many more, have a bearing on what we regard as value for money in public services.

This chapter is concerned with a framework for improving value for money across a programme of public services or a public sector institution, rather than with a framework or methodology (such as cost-benefit analysis or benchmarking) for carrying out an assessment of value for money itself.

Let us imagine that a minister wants to improve the value for money achieved by some aspect of government. How might he or she think about an intervention or policy to attain that goal?

There is no universally applicable answer. What follows is a framework with seven dimensions – range, objectives, yardstick, guidance, bureaucracy, involvement and verification – each of which is discussed in turn.

The 7 dimensions are:
continuing treatment of people with the illness. This could render the programme to improve value for money unaffordable – an unfortunate catch-22 situation.

Objectives
The objectives of a programme to improve value for money are likely to be the first consideration. When we say we want to improve value for money, what do we mean? Do we want more value, lower spending, or both?

Value for money can be evaluated in terms of economy, efficiency and effectiveness—the 3 Es. In short: economy means minimising the cost of inputs; efficiency means maximising the ratio of outputs delivered from the inputs; and effectiveness means achieving the intended results of the service, project or programme.

Two other aspects of value for money – equity and ethics – may be added to the 3 Es. Equity means ensuring public services reach their intended recipients and ethics means managing services and programmes with integrity. Taken together, the 5 Es may be expressed as follows:

- spend less;
- spend well;
- spend wisely;
- spend fairly; and
- spend properly.

A government seeking to improve the value for money of its services could think along these lines. To improve value for money, it could seek to improve economy by delivering more units of service per dollar. It could seek to improve efficiency by delivering more units of service per member of staff, and/or improve effectiveness by enhancing the quality of the units of service. It could also seek to improve value by spending money

If the objective of a value-for-money improvement project is to improve economy, then it is important that spending less on the target services or programmes does not reduce the value of outputs at the same time.

The 5 E's in value for money

Range
What is the range, or scope, of the programme? This might be defined by limiting the programme to specified service areas or ministries, or it might be a pan-government programme.

The approach adopted depends on considerations regarding institutional capacity, demand from service users (or potential service users), external pressures, the potential for improvement, and so on. For example, data might suggest that similar countries provide better value for money in education, and the improvement programme is intended to close the gap in performance. Another government might have an increased demand for a specific service and a limited budget; it would need an improvement programme aimed at increasing the productivity of its service delivery, in order to reach more people without an increase in the overall cost.

It is necessary to consider the timeframe, too. A common characteristic of public services is that the current year’s spending yields benefits for many years. That is the case for capital spending on infrastructure, and for spending on services like education. Because the results of spending cannot be (fully) evaluated at the time the money is spent, there is a need to think about timescale when seeking to improve value for money.

This is particularly so when seeking to improve value for money by spending more on preventing social problems from developing in the first place. For example, a health minister might want to implement a health education project in order to change people’s behaviour and reduce the incidence of preventable illnesses. Such a project might well offer better value for money overall, but it could be many years before the benefits materialise in terms of healthier citizens and lower spending on health care. During that time, there are the parallel costs of the new programme and the
If the objective of a value-for-money improvement project is to improve economy, then it is important that spending less on the target services or programmes does not reduce the value of outputs at the same time. There are four ways that a government could cut spending on a service area: it could reduce the standard of the service; it could reduce the scope of the service; it could increase the threshold to limit access to the service; or it could reduce the demand for the service. The first three of these reduce the outputs delivered by the service; in other words, they reduce the value created by the service. This could still be an improvement in value for money if the value is reduced by less than the reduction in spending, but there is a chance that the cheaper service would offer poorer value for money. The fourth way to cut spending, reducing demand for the service (by, for example, spending more on preventative measures), might also result in improved value for money.

An alternative objective for a value-for-money improvement programme might be to increase effectiveness, to achieve more and/or better results from the existing level of spending. The current austerity measures in place around the world arguably push this further, with governments wanting to deliver more outputs from lower levels of spending. This would be difficult in any context, and would call on public managers to be ingenious and innovative. They may well need to think laterally and devise adaptive solutions. For example, such solutions could be based on the idea of co-production, by encouraging citizens to be proactive contributors to their services rather than passive recipients thereof.

Much more attention has been paid by governments to generating performance indicators than to using them. Schick 2013

Yardstick

If a government wants to improve value for money, it must be able to measure the improvement. When individuals exchange goods or services for money, the individuals, presumably, are rational and the value of the goods or services equals or exceeds the price paid.

In contrast, measuring the value of non-market public services can be very difficult, because there is no market to set prices. Governments, however, might be able to sidestep the problem by using relative measures rather than absolute measures. It might be easier to think about what extra value is created for each extra dollar spent, or how many dollars can be saved without reducing the volume of outputs.

Relative measurement of value for money might be possible using unit cost data. This could be done horizontally by comparing the unit costs of different organisations that produce the same output (for example, comparing the cost per inmate per day of prisons), or it could be done by an organisation measuring its own performance over time. In the 1980s and 1990s, the UK’s Audit Commission carried out national value-for-money studies on various aspects of local government work. The first stage of the studies was research on a sample of local councils from which, amongst other things, data on unit costs, productivity, and so on, were generated. The following year, the data from the research were used by each council’s external auditors as the basis of comparison for all councils in identifying the potential, if any, for improvement in economy, efficiency and/or effectiveness. Subsequently, each council had to identify ways to improve its performance. The auditor’s value-for-money report was published, but there was no formal requirement to meet the performance benchmarks, nor was action taken against a council that failed to improve.

Measuring value for money is likely to involve performance indicators or units of data collected by a manager, presumably with the aim of improving performance. Unfortunately, there
are many reasons why performance may not improve despite a 
performance measurement system being in place. Performance 
indicators do not improve performance – managers do. Thus, it 
is important that action be taken in response to performance 
information. This is not always the case. As Schick (2013: 53) 
puts it: ‘Much more attention has been paid by governments to 
generating performance indicators than to using them.’

There is also Goodhart’s law, which Strathern (1997) restates 
as: ‘When a measure becomes a target, it ceases to be a good 
measure.’ There are many ways in which the use of performance 
targets can result in dysfunctional behaviour by 
managers. Smith (1995) identifies seven, including 
sub-optimisation, gaming and misrepresentation.

There are plenty of examples of such behaviour to choose from. Doig (2006) notes: ‘There are 
cases of schools finding ways to improve SATs and 
other exam results, of police massaging clear-up 
figures, of hospitals rigging waiting lists, of public 
appointments made for personal and political 
ends and, most recently, of GPs using surgery 
appointment timetabling to meet the financial and 
performance targets […] set by the government.’

O’Byrne (2001) reiterates: ‘Experience in policing powerfully 
shows that when robust performance management techniques 
come to the door, ethics tend to go out of the window.’

As if to prove this still to be the case, in the UK in 2014, a report 
by Her Majesty’s Inspector of Constabulary suggested that crime 
statistics were understated by 20 per cent. This prompted an 
inquiry by the Public Administration Select Committee, which 
stressed in its report (2014: 3) that ‘we deprecate the use of 
targets in the strongest possible terms’.

The potential problems of target-setting place governments and 
public managers in a difficult situation. To know if performance has 

improved requires performance to be measured. How are public 
managers to be encouraged to improve performance without 
the setting of targets? And how do you explain to the public and 
other stakeholders the expected results of a policy without talking 
about targets?

Does the complex nature of public services sometimes 
mean that their value for money has to be judged rather than 
measured? Public financial management is as much art as it is 
science. Major public projects (for example, new airports and 
high-speed railways) are likely to have cost-benefit analyses 
compiled by experts, but the final decision could be swayed by 
non-financial factors that politicians judge to be important.

Guidance

Essentially, this aspect of the framework is about communication 
and training. The public managers, auditors, inspectors, and so 
on, who are to be involved in the improvement project need 
to know what is required of them. The extent and detail of the 
information depend on the programme. If performance indicators 
are to be collected, there must be a detailed definition of them in 
order to prevent mistakes and misrepresentation of the results. 
If independent third parties are to be involved in the verification 
process (see below), they will need to be briefed on their roles 
and, possibly, trained, too.

Bureaucracy

While it can be a pejorative word, bureaucracy is not bad in 
every respect. Within any organisation, the bureaucracy ensures 
that staff and suppliers are paid, that customers are billed 
and that the organisation is organised. As far as the value-for-

money improvement framework is concerned, it is important 
that suitable systems and processes are in place to manage 
the improvement work. There may well be existing systems for
Involvement

If public money is to be spent on a programme to improve value for money, the programme itself ought to be credible to stakeholders, which could include politicians, public managers, service users and the general public. Having support at the start of the programme is not enough. The designers of the improvement programme ought to give some thought to which, if any, stakeholders are involved in the commissioning, operation and reporting stages of the programme and how to maintain their support throughout the programme.

A good example of an improvement programme with insufficient support is that of the UK’s comprehensive area assessments (CAAs), which attempted to assess the quality of all the major public services in each local area, with the results to be published on a website called Oneplace. This programme grew out of an existing programme of comprehensive performance assessments that had been assessing the value for money of local councils fairly successfully for six or seven years. The CAA programme was led by the Audit Commission but required five other inspectorates of different public services to contribute to each area’s assessment. It is probably true to say that the comprehensive performance assessments were not hindered by the lack of support or interest of the general public and, therefore, a similar lack of public support for the CAA was not a major concern. However, the other inspectorates were reluctant to be involved in the CAA programme, and their lack of support was one of the factors that led to its termination in 2010. Another factor was lack of support from both the Conservatives and the Liberal Democrats in their manifestos for the 2010 general election (Timmins & Gash 2014). The CAA was killed off by the new government in the summer of 2010 and, by August 2010, the government had decided to abolish the Audit Commission as well (Timmins & Gash 2014).

A key aspect of involvement is the dissemination of information about the results of a programme. There are many ways to communicate such information. Websites enable data and information to be made available to the public relatively cheaply, and analytic software allows the extent of interest in a website to be measured and monitored. This is one way to assess credibility. If only a few people read value-for-money information on a
As well as devising and approving the spending programmes to achieve their aims, governments also devise policies intended to improve value for money.

**Verification**

How will the government assure itself, and the public, that there have been improvements in value for money? Who will carry out the validation of results? While this could be done by the auditors in addition to their work on the financial statements, specialist inspectors could be appointed to carry out the task instead. This was the case in the UK with the ‘best value’ regime in the late 1990s, where the Audit Commission recruited best-value inspectors to undertake the work with local authorities, partly because the scope of the work went beyond the financial aspects of value for money.

A third option might be self-certification of results by the public institutions themselves. However, given the comments above about dysfunctional behaviour caused by performance targets, governments may be wary of not having an independent person involved in the process in some way.

**Conclusion**

Governments want to maximise the benefits obtained from the expenditure of public money. As well as devising and approving the spending programmes to achieve their aims, governments also devise policies intended to improve value for money. The framework set out in this chapter may assist policy-makers in thinking about how such policies are designed and implemented.

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CHAPTER 4  IMPROVING VALUE FOR MONEY THROUGH THE BUDGET PROCESS

Joan Stott and Alta Fölscher*

Value for money requires a disciplined approach to the assessment of proposals, and sound information.

Introduction

The concept of value for money has many different layers and linkages and can be quite complex (see Chapter 3). Essentially, governments achieve value for money when they have the right policies (given specific needs), choose the most cost-effective interventions, and implement these interventions efficiently. Value for money does not necessarily mean choosing the cheapest option. Risk and quality of goods and services are also important factors worthy of consideration. Value for money requires a disciplined approach to the assessment of proposals, and sound information. The budget process anchors this approach. It presents opportunities for debate about achieving value for money at every stage and decision point within the budget process, whether in planning, financing, managing, implementing or reporting. This is so whether one is debating the source of funds (official development assistance, domestic resources, or debt) or the use of funds (recurrent or non-recurrent spending, or once-off public investments and special projects, including public-private partnerships). The budget process also allows for the consideration of value-for-money needs by all stakeholders.

At the 10th CABRI Annual Seminar, delegates had the opportunity to engage in an interactive session that was guided by three fictional case studies characterising the reality of many budget processes in Africa. The main objective of the exercise was to simulate a budget-negotiation scenario between finance and sector ministries, and to illustrate the compromises to be made in order to achieve service delivery under budget constraints. Stepping into the shoes of the sector ministries, finance ministry/budget officials were able to identify the strengths and weaknesses of the sectoral budget process, and how the process, its rules, roles and responsibilities, and available information, support appropriate policies and credible plans, ensuring proficiency of funding, and making sure that the government can deliver services efficiently and effectively.

Taking the deliberations into account, this chapter presents the lessons learned in the form of three ‘pillars’ for incorporating a value-for-money perspective in the budget cycle. These pillars can serve as a guide to practitioners in the CABRI network on improving value for money in their budget processes.

Pillar 1: Information and measuring value for money

A key lesson emerging from the annual seminar is the importance of accessing information to make good value-for-money decisions. Pillar 1 covers the various types of data needed for value-for-money decisions. It is important to emphasise that the specific data required will depend on the type of value-for-money analysis to be undertaken (see Chapter 7). The challenge for ministries of finance (and, in some instances, line ministries, Parliament, etc.) is to assess what data is relevant and what is not. Some of the questions to be asked may include:

- What are the costs and benefits?
- For whom?
- Over what period of time?
- How did spending compare with that of the previous year?
- How does spending compare with what is happening in the private sector, broader economy and global environment?
- What alternative options exist to yield different outcomes?

These can assist in determining economy, efficiency, effectiveness, equity, and whether spending was ethical. In order to frame the discussion, however, one needs to generate information, as well as consume it. This should be done in an intelligent and efficient way. Given the limited capacity of governments, statisticians, and other creators and users of data, it is of paramount importance that the types of information

* Valuable inputs to the development of the chapter were made by Aarti Shah.
already available are maximised, and that information gaps are closed in the most efficient and effective manner possible.

The different types of information that may be needed for assessing value for money include:

- routine financial and non-financial administrative data;
- topic-specific research data;
- national statistics;
- government finance statistics and national accounts data;
- project appraisals;
- cost-benefit analysis, including cost-effectiveness evaluations;
- performance audits;
- impact assessments and evaluation;
- benefit-incidence analysis;
- public expenditure reviews; and
- general monitoring and evaluation data.

These are just some of the types of data that may be used in the budget process to make policy choices. The list is not exhaustive, nor is it expected that all sources of data in the list will be needed in every policy choice. Each ministry of finance, government department or other stakeholder will determine what works best for it, and in what circumstances. It is important that whatever information is collected as part of the monitoring process is fed back into the budget process for the next cycle. This will ensure that any challenges and issues in financing, implementation, service delivery and reporting are corrected on an iterative basis, and with each new budget cycle. It should also be noted that budget and policy officials must be cautious about the types of indicators and targets that are chosen. During the seminar discussions, it was recognised that perverse incentives for performance and implementation can arise from poorly defined measurements.

As mentioned above, what kind of data is needed, and which method of assessment is appropriate, has to be decided on a case-by-case basis, taking into account the objective of the analysis and the capacities and capabilities in place. Information is generally recognised as important, but the true value of information and data is only really revealed through the discernment and discretion of policy-makers in choosing how to generate and consume such information. This again draws on policy choices and trade-offs, such as whether one should invest in routine systems or once-off, targeted monitoring and evaluation. This type of trade-off can be made throughout the budget process.

**Pillar 2: Processes, institutions and incentives**

The importance of sound budgetary processes, institutions and incentives was illustrated in the form of three case studies. One of these case studies was about the budget process of a fictitious country, Alfajiri, with a fiscal year running from January to December (see Figure 4.1). Alfajiri’s budget process and budget process outcomes have features common to many countries in Africa. Delegates were asked to examine the budget processes, institutions and incentives of this country and how these could be improved to deliver value for money. The questions for discussion included:

- How would you arrange the budget preparation process differently?
- What rules would you have in the process (preparation and execution)?
- How would you change the budget submissions and sequencing of budget submissions?
- What data improvements do you think are needed (preparation and execution)?

The discussions raised many important points, an overarching one being that budgetary processes may have weaknesses that lead to sub-optimal engagement with value for money. In such
Figure 4.1  Budget process of Alfajiri

1 April
- Capital budget process starts. Ministries submit proposals for capital projects, with costing.

1 to 15 May
- Ministries meet with Finance for capital project review. Finance selects projects to put through full appraisal process (large capital projects only).

21 July
- Ministries submit 2nd-quarter financial reports to Finance.

21 July to 1 August
- Finance calls selected ministries to mid-year budget review.

15 August
- Revised budget is released for remainder of spending year.

21 August
- Finance releases budget circular, with indicative ceilings for personnel and goods and services by ministry. No ceiling on capital.

15 September
- Ministries submit budget proposals. A set of Excel spreadsheets, detailing budgets by sub-line item against the administrative budget structure. One sheet indicates proposals for the capital budget.

15 September to 15 October
- Finance reviews budget submissions and finalises consolidated budget proposal. In this period it calls selected ministries to defend budget proposals. Finance sends indicative budgets that resulted from review of budget submissions to all ministries before selected budget hearings commence.

15 October to 15 November
- Final fiscal framework, and adjustment of indicative budgets by Finance within expenditure ceiling. Approval by Cabinet and compilation of budget documents.

15 November
- Budget Day.

23 December
- Budget approved by legislature.

In the case study, capital and recurrent budgets were split, with a nod to a public investment programme as a useful instrument of budget planning, but with very poor integration into the main budget process. The incentive was for ministries to put forward as many projects as possible, so as to secure a larger slice of the capital pie. This was done before they looked at their main budget, with no connection enabled through budget instruments, or between policies, strategy, investment planning and recurrent expenditure planning. This underscores the need for a single, unified and credible budget process as a means to curtail perverse incentives and to improve value for money.

Another point emerging from the case study was that the budget instruments, generally, were weak and did not generate good information to judge or facilitate value for money. When it came down to the wire of budget decision-making, there was no policy information, only financial information. This meant that ministry of finance officials would do what they are best at – nit-pick their way through individual line items and propose allocations that make sense when viewed as trends in an expenditure area, and deep knowledge of the expenditure line item (within a ministry or across ministries), but which may not make any sense when viewed against the policy imperatives of the ministry concerned. Therefore, a policy direction is critical for improving value for money in the budget process. In addition, the case revealed the need for proper planning and ensuring that the activities undertaken are funded adequately. A medium-term perspective is also important and should be used by the finance ministry to work with ministries to improve value for money over time.

The case further revealed a common occurrence in many African countries, which is that the finance ministry still seems to be manned by individuals more concerned with cost than with cost-effectiveness. It is not possible to improve value for money in the budget process through ministry of finance engagement if the people in the budget office are not policy experts. The challenge function is not about challenging cost, but cost-effectiveness – which is possible only with deep policy knowledge of an expenditure area, and deep knowledge of the expenditure pressure and programmes of the ministry. The case study showed that budget execution decision-making processes did not include any mechanisms to ensure value for money when adjustments are made.

In addition to the above, the following processes, institutions and incentives are recommended to enhance value for money in the budget process:

- predictable cash flow – this provides a clear picture of financing options and can influence the timing of projects and service delivery;
- flexibility to adapt to changing circumstances, including pressing needs – this is key to ministries of finance being able to address unforeseen circumstances, such as droughts or flooding, or even larger macroeconomic shocks like large swings in commodity prices or slower domestic or global economic growth;
- discipline to protect the policy commitments that have been made – this relates to executing the allocated budget in line with a national development plan, agreed national policy priorities and independence from partisan or political influences;
Each task within the budget process requires a different combination of these capabilities. Furthermore, unforeseen changes to the demands on the budget and on the ministry of finance require various kinds of combinations of skill from various stakeholders.

Pillar 3: Skills and tools

The third pillar refers to the skills required by ministry of finance staff, as well as other stakeholders in the budget process. Skills are needed to gather and consume relevant information, to measure performance and evaluate outcomes, to engage in processes and to optimise the functioning of institutions within the value-for-money framework. These skills can include, but are not limited to:

- policy skills (either in a particular sector or more generally);
- skills to undertake economic and policy analysis (costing, risk assessment, policy and project appraisal);
- skills to manage and coordinate complex political and technical processes;
- skills to manage and mine data;
- skills to communicate options and decisions;
- skills to run performance evaluations, public finance management reviews, performance audits, impact assessments, and so on; and
- skills in project execution and financial management.

Research by the Overseas Development Institute suggests that the capabilities of a functional finance ministry can be categorised into four main groups:

- analytical capability – the ability to digest and process information in order to give advice and make political decisions;
- delivery capability – the ability to produce key deliverables on time;
- regulatory capability – the ability to control the production of particular services delivered by others; and
- coordinative capability – the ability to manage the activities of other parts of government to produce certain results and outcomes. (Krause et al. 2015)

Each task within the budget process requires a different combination of these capabilities. Furthermore, unforeseen changes to the demands on the budget and on the ministry of finance require various kinds of combinations of skill from various stakeholders. These can include such qualities as gravitas, ethical stature and authority, a combination of specialist and generalist understandings of sectors and the broader economy, adaptability, flexibility and, in some instances, high-tech savvy to use state-of-the-art tools. All of these, in one form or another, can contribute to the smoother running of the budget process and improved value for money. Awareness, concern and responsiveness to the public are also capabilities that are required of the ministry, especially when dealing with crises (such as the Ebola health crisis) or once-off budget bids, in respect of which there are no intuitive answers to determine the best possible outcomes.

The role of stakeholders and key actors in improving value for money in the budget process

Ultimately, value for money depends both on managerial and political decisions. Those who are accountable, or those who are held accountable for the choices, need to make decisions on value for money. Budget officials, policy officials, parliamentarians, Cabinet and all other actors involved in the budget process need to be able to assess whether the right decisions about trade-offs in relation to value-for-money outcomes are being taken, and whether the outcomes fulfill value-for-money criteria. All value-for-money considerations are linked. True value for money is not achieved where it has been considered only as part of budget formulation, and not as part of execution and delivery as well.
Getting the most value for money out of public resources – (1) Budget (recurrent and non-recurrent) and (2) Once-off big public investments or special projects (PPPs)

Mind-set and behavioural change

Systems (IFMIS, data management, IT, etc.)

Information and measuring value for money

Processes, institutions and incentives

Processes and rules within the budget system

Skills and tools

**Figure 4.2 Framework for realising value for money through the budget process**

Political economy influence: and encompasses all this. Need to account for realities.

Cannot take value for money out of the political context.

Rewards and sanctions that create incentives.

Getting the most value for money out of public resources – (1) Budget (recurrent and non-recurrent) and (2) Once-off big public investments or special projects (PPPs)

**Trade-offs (making the choice): Where and what?**

Within and across sectors, at all levels of government; revenue, expenditure and debt; formulations and execution; short and long term (time horizon)

**Accountability – political and managerial**

Are we making the right decisions about trade-offs for performance regarding value-for-money outcomes?

**To support clarity on objectives and policies; identification of choices for policy, financing options, delivery mechanisms, and procurement; the calculation of benefits, costs, and risks**

One process where clear rules (expenditure ceilings, etc.) create incentives to achieve value for money. These are adhered to with consequences for non-compliance.

Process should be fair, transparent and predictable.

Mechanisms to link policy objectives, budgets, implementation and reporting.

Forum for dialogue on and challenge of policy choices.

Predictable cash flow.

Flexibility to adapt to changing circumstances, including pressing needs.

Discipline to protect the policy commitments that have been made.

Systematic processes to monitor execution and to verify data.

Systematically feeding information back into decisionmaking.

Skills to undertake economic and policy analysis (costing, risk assessment, policy and project appraisals).

Skills to manage and coordinate complex political and technical processes.

Skills to manage and mine data.

Skills to communicate options and decisions.

Capacity to run performance evaluations, PFM reviews, performance audits, impact assessments, etc.

Project and financial management on execution.

**Information and measuring value for money**

- What costs and benefits, for whom and over what period of time?
- What types of info do we generate already? What types of info gaps exist?

Routine financial and non-financial administrative data – baseline, monitoring and verification, indicators and targets, benchmarks (previous year, peers, and alternative options).

Topic-specific research data.

Project appraisal.

Cost-benefit.

Impact assessments.

Benefit-incidence analysis.

Impact evaluation.

Public expenditure reviews.

**Processes, institutions and incentives**

**Processes and rules within the budget system**

- Skills to manage and coordinate complex political and technical processes.
- Skills to manage and mine data.
- Skills to communicate options and decisions.
- Capacity to run performance evaluations, PFM reviews, performance audits, impact assessments, etc.
- Project and financial management on execution.

Rewards and sanctions that create incentives.

Political economy influences and encompasses all this. Need to take account of realities.

Cannot take value for money out of the political context.

Cannot take value for money out of the political context.
Ensuring that one has a transparent, inclusive and accountable budget process and public finance management system will aid in setting the necessary conditions for achieving efficiency, economy, effectiveness and equity in spending.

Of course, the budget process, systems and institutions also require accountability mechanisms to come into play and function with a value-for-money orientation. This is all linked back to pillars one, two and three: information and measurement; processes, institutions and incentives; and skills and tools. In addition to these formalised systems, it is vital that stakeholders and institutions outside of the government – civil society, non-governmental organisations, the private sector, development partners and multilateral institutions – play their own roles in holding central and line ministries to account on value-for-money principles. In a similar way, the public sector has a role to play in holding these other actors to account regarding value-for-money principles – especially where there is a co-financing or delivery partnership in public sectors and services.

It should be noted that the political economy influences and encompasses all levels of this value-for-money framework. This is true for rewards and sanctions, both formal and informal, explicit and implicit, which determine incentives within the framework. At times, it has been seen that political interference hinders value-for-money decisions. How do budget and policy officials manage these influences? How do they create an environment that also delivers value for money in cases of change within the political economy? This is where a robust public finance management system that includes a collective process with clear rules and stakeholder engagement becomes instrumental. In addition, the skills, tools, systems, processes and institutions in pillars one, two and three play a pivotal role in supporting technical, managerial and political role players in managing the political economy.

As illustrated in pillar three, ministry of finance officials are able to draw on a range of ‘softer-side skills’ to manage the budget process and navigate the dynamics of the global and domestic economic environment, political economy and organisation. However, the more stakeholders engage in a single, collective budget process that is transparent, legitimate and possessed of clearly defined rules and procedures that practitioners adhere to, the less influence fluctuations within the political economy will have on budget and service delivery outcomes.

**Conclusion**

All three pillars work together to enable a systematic assessment of benefits, costs and risks. Each pillar supports clarity in objectives and policies in order to make them more operational. They work together in the identification of policy choices, financing options, delivery mechanisms and procurement options.

When it comes to trade-offs within the process, officials face two types of choice – choosing the right things to do and choosing to do them right. Ensuring that one has a transparent, inclusive and accountable budget process and public finance management system will aid in setting the necessary conditions for achieving efficiency, economy, effectiveness and equity in spending.

The engine driving value for money ultimately sits in the line ministry, with the finance ministry responsible for monitoring, oversight and challenging value for money in budget proposals and implementation. A government wishing to embark on improving value for money should understand that it is an ever-evolving and dynamic process. Governments should use their discretion in judging what works within their specific political economy, system of governance, budget process and ultimate goals for achieving value for money. Systems such as an integrated financial management system (IFMS), IT and data management will need to be developed and maintained to support the pillars.
All stakeholders, including policy and budget officials, technicians, managers and politicians, have a role to play. It is essential that systems, processes, skills and information work together to support the pillars. The budget process needs to be integrated with the overall work of government. Without this integration and interdependency, links between centre and line ministries, national and local government, government and development partners, budget allocations and service delivery, and intention versus results will be weakened. Integration, therefore, improves the delivery of optimal socio-economic outcomes.

Reference

Introduction

The allocation of resources in line with key performance indicators (KPIs) has made a significant difference to health outcomes in Burundi and education outcomes in Mauritius. These countries have a performance-based budgeting framework with robust accountability measures and a results-oriented focus. Ministry of Finance officials from Burundi and Mauritius shared their experiences regarding their KPIs and performance budgeting frameworks, and how these instruments can be used as effective tools to make better decisions on the allocation of resources.

The experience of Burundi

Ms Beatrice Samandari, Director of Budget in the Ministry of Finance, shared Burundi’s experience in implementing performance-based financing and KPIs in the health sector. She noted that the president of Burundi decreed in 2006 that free health care services would be provided for pregnant women and for children younger than five years. As this was an immediate measure, the country’s health care centres were faced with a massive influx of patients. Hence, value-for-money considerations became central to ensuring the sustainability of the measure. Performance-based financing was considered a critical instrument for addressing a myriad of health service challenges (see Figure 5.1).

The performance-based financing system, therefore, aimed to:

- improve the usage and quality of health services offered to citizens;
- improve checking and refunding procedures for free care package services for pregnant women and for children aged under five years;
- motivate and stabilise health care staffing;
- incentivise health care employees to work in peripheral health care centres;
- strengthen the management, independence and organisation of health care centres; and
- consider the points of view of health care users in managing and resolving health care problems.

Ms Samandari shared the fact that performance-based budgeting required a long process of negotiation to achieve a harmonised institutional model that could be piloted effectively in the health sector. Following the institutionalisation in 2006 of a national policy of ‘contractualising’ services, with technical assistance from the World Health Organization, pilot trials were conducted in three provinces with the support of Healthnet and Cordaid between 2006 and 2007. By 2010, the pilot projects had been extended throughout the country.

The pilot projects have shown positive results. There has been an improvement in health care indicators, better quality of provision and organisation of services, and greater community involvement in resolving health care problems. In this context, existing KPIs...
The framework contains both qualitative and impact indicators, about 80 per cent of which are results-oriented and focus on the achievements of learners.

The experience of Mauritius

Ms Maya Soonarane, Director of Strategic Planning and International Relations at the Ministry of Education, shared the Mauritian experience regarding the performance budgeting framework that was created to respond to increasing pressure for more effective service delivery and accountability. The example of the education sector was used in the session. Programme-based budgeting is seen as a valuable accountability, management and budgeting tool in endeavouring to achieve greater value for money in service delivery, as it links expenditure more closely with policy.

Strategic planning is considered a critical starting point in the effective management of such a framework. In the education sector in Mauritius, there is both a long-term strategic plan for the education sector, as well as three-year strategic plans, with defined vision, mission, strategic goals and performance goals. These documents are accompanied by measurable and verifiable KPIs and targets.

In developing and implementing KPIs, the following should be borne in mind:

- Particular attention needs to be paid to designing meaningful indicators. The performance-based budgeting framework in Mauritius is reviewed on an annual basis, through the SMART criteria (specific, measurable, attainable, relevant and timely). For the 2013–2015 performance-based budget, outcome indicators were added to the framework. Templates have been designed to provide guidance in the formulation of indicators. The capacity for regular and timely data collection, analysis and reporting is given importance in the selection of criteria. Linking disbursement with the achievement of performance indicators has helped to improve the system by enhancing internal processes and close monitoring.

- Indicators can be used to enhance internal and external accountability. For example, information on results achieved with regard to performance-based budgeting outcomes and outputs can be published in an annexure to the accountant general’s annual report.

- Indicators can be used to make better decisions in the budget allocation process. In Mauritius, performance information is discussed by all estimates committees. Another example is a mechanism that allocates grants on the basis of performance in primary and secondary schools. This provides a financial incentive to encourage better performance and to develop a culture of school improvement. Indicators can also be used to make better decisions around budget support provided by donors.

Budget monitoring was also discussed as a key determinant in the effective realisation of budget outcomes. It allows for the...
In the words of the Mauritian budget official, the key to monitoring and evaluation is that ‘if you want to measure change, you do not change the measure’.

Conclusion

Participants discussed the underlying incentives that indicators can generate. There may be cases, for example, where the ‘gaming’ of indicators takes place (such as KPIs targeting lower levels of quality/quantity than expected, in order to demonstrate higher performance). If targets are low, officials may demonstrate limited efforts to exceed them. Well-intended indicators may also create perverse incentives. For example, in the case of Mauritius, pass rates are included among the KPIs. This could create a situation in which schools pass weak students through the system, in order to meet their performance targets and receive the relevant compensation. Similarly, in the case of Burundi, awarding funds on the basis of the number of caesareans performed might incentivise hospitals to favour caesarean operations, which are more costly than natural deliveries. The point was made that any kind of monitoring needs to consider such aspects.

The discussion also focused on how best to formulate KPIs. Ensuring consensus around the setting of KPIs was deemed desirable. Whether the KPIs are formulated in a top-down or a bottom-up approach may affect ownership of the indicators.

Delegates discussed how often KPIs should be revised. In the words of the Mauritian budget official, the key to monitoring and evaluation is that ‘if you want to measure change, you do not change the measure’.
CHAPTER 6
MAKING COMPLEX POLICY DECISIONS ON VALUE FOR MONEY

Nana Adowaa Boateng

Introduction

The ability to make complex policy decisions that reflect good value for money in terms of cost-effectiveness, cost-efficiency, economy, equity, feasibility, scale of impact, relevance and sustainability, while placing countries firmly on a path to meeting their medium- and long-term development goals, is arguably the most important role of government. Often, ministries of finance are concerned with keeping the costs within budget, showing arguably little regard for policy considerations. On the other hand, in their attempt to achieve policy targets, line ministries frequently neglect their role in ensuring maximum output within budget constraints.

The political games, also illustrated in the fictional case study in Chapter 4, undermine an effective budget-negotiation process, which ordinarily would contribute to the development of a sound budget that satisfies the policy needs of a sector and receives the optimal resource allocation. It must be said that, even with the ideal budgeting process in place, making complex policy decisions that reflect good value for money can be a tremendously difficult process for public officials. At the annual seminar, this was illustrated by way of three country case studies that clearly demonstrate these complexities. The cases were presented to senior budget officials for discussion and determination of optimal solutions in respect of value for money.

The three cases are presented below. Each case study is followed by an account of the discussions related to the policy dilemmas contained in it. The first case study looks at the complexity of the cocoa industry in Ghana in terms of policy choices regarding the exportation of raw cocoa beans or increased investment in value addition. The second case study presents Zanzibar’s malaria policy dilemma – choosing to eradicate the disease completely or to maintain the current 1 per cent prevalence rate. The third case study reviews three financing mechanisms in Mozambique with a view to determining which mechanism delivers the best value for money.

Case study 1: Value addition in the processing of cocoa beans in Ghana

Ghana is the second-largest producer of cocoa beans after its neighbour, the Ivory Coast, and captures about 20 per cent of the estimated US$9 billion global cocoa bean market. Cocoa is a significant crop for the Ghanaian economy, accounting for about 10 per cent of GDP and generating about 25 per cent of export revenues. Like many of the continent’s commodity-producing countries, less than 25 per cent of Ghana’s cocoa beans are locally processed, which results in Ghana capturing only 5 per cent of the estimated US$28 billion global intermediate products market, and an even less significant share of the US$87 billion global final consumer market. Ghana’s main cocoa crop is considered to be among the finest in the world, with its larger beans and higher butter yield. Known for their superior quality and depth of flavour, the main crop beans, according to the International Cocoa Organization, have become the standard against which all other cocoa is measured. Manufacturers want beans of that quality and flavour. For this reason, buyers of Ghanaian cocoa pay a premium ranging between US$50 and US$100 per metric tonne. The unprocessed cocoa beans fetch about a 4 to 6 per cent premium on the international market. Ghana’s rigorous quality control practices and the layers of monitoring at the time of purchase are all part of the government’s intervention through the Ghana Cocoa Board (COCOBOD).

Current cocoa value chain policies appear tilted toward maximising revenue from cocoa bean sales, 9 per cent of the gross revenue of which is kept by the government of Ghana and COCOBOD. Processors argue that, to meet the 40 per cent export mandate, there should be a discount on main crop beans for those who process the beans locally. This is an argument that COCOBOD rejects on the basis of a lack of strong evidence of the impact of local cocoa processing on Ghana’s economy.
The premium that Ghanaian cocoa fetches on the international market because of its high quality would be lost if Ghana exported processed cocoa products. The reluctance to provide additional incentives for processing also takes into account the following facts. The premium that Ghanaian cocoa fetches on the international market because of its high quality would be lost if Ghana exported processed cocoa products. However, perhaps the most significant factor is the high barriers of entry to markets for semi-processed and final products. Freight costs for many processed commodities such as cocoa powder and butter are generally known to be higher than those incurred on primary unprocessed components such as cocoa beans. Moreover, there are high tariff walls with regard to the export of processed products. For example, the European Union levies no duties on the importation of raw cocoa beans, but levies a 7.7 per cent and 15 per cent ad valorem duty on cocoa powder and cocoa cake, respectively. Additionally, Ghana does process more than its regional competitors (see Table 6.1).

### Box 2: Questions for dialogue

1. What would the value for money be if Ghana were to decide to forgo some of the immediate revenue it receives from main crop cocoa beans in order to encourage local processing?
2. Would the taxes and foreign exchange earnings from the value added by further processing compensate for the immediate loss of revenue to the government?

### Table 6.1 Value-added content of cocoa exports: Ghana, Nigeria and Cameroon (2011 US$ million)

<table>
<thead>
<tr>
<th></th>
<th>Stage 1: Cocoa beans</th>
<th>Stage 2: Cocoa shells</th>
<th>Stage 3: Cocoa paste</th>
<th>Stage 4: Cocoa butter and powder</th>
<th>Stage 5: Chocolate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>2 750</td>
<td>0</td>
<td>450</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>900</td>
<td>2</td>
<td>83</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>600</td>
<td>2</td>
<td>50</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

**Discussion**

The potential long-term benefits of encouraging processing, even against the scenario of short-term losses, were underscored. Several delegates noted potential gains in employment creation, opportunities for public-private partnerships, infrastructure development, diversification and additional revenue through more varied sources of tax as factors that would encourage Ghana to move along the value chain in the processing of cocoa beans. It was acknowledged that Ghana is not exporting cocoa shells. The husks of cocoa beans are used as stock feed and fertiliser and in the preparation of beverages. Ghana could benefit from enhanced intermediate processing, while working towards the processing of final goods for export (e.g. chocolate) in the long term.

However, delegates raised concerns as to whether the good brand that Ghana has developed would be maintained if the focus turned to processing. The group highlighted the potential difficulties in accessing international markets, as well as the increased costs of production. They noted the high entry barriers to the European market for cocoa products, and suggested that the Ghanaian government explore and consider other markets, or negotiate the barriers to entry with international markets. A concern was raised about Western countries imposing levies on raw beans as a response to a Ghanaian attempt to encourage processing. In addition, questions were raised about the local capacity to process and export. The cost of processing in Ghana vis-à-vis abroad was raised as a further important consideration in making policy decisions regarding value addition.

**Recommendations**

The general sense was that Ghana would need a change in policy focus from the short-term benefits of revenue from cocoa beans to the long-term sustainability of the industry (and, thus, trade-offs would be necessary between producers and COCOBOD/the government in reaching a workable solution). There is always
A forecast of expected revenue from additional processing would help policy-makers in reaching the necessary decisions.

**Case study 2: Eradicating malaria in Zanzibar**

Malaria presents a major obstacle to social and economic development in sub-Saharan Africa. It has been estimated to cost Africa more than US$12 billion every year in lost GDP, even though it could be controlled for a fraction of that sum. Malaria is Africa’s leading cause of under-five mortality (20 per cent) and constitutes 10 per cent of the continent’s overall disease burden. It accounts for 40 per cent of public health expenditure, 30–50 per cent of in-patient admissions, and up to 50 per cent of outpatient visits in areas with high malaria transmission. Since 2002, Zanzibar has enjoyed a well-funded programme, courtesy of the Global Fund to Fight Aids, Tuberculosis and Malaria and the President’s Malaria Initiative funded by the US government. This has contributed to the parasite prevalence being driven down from historic levels of more than 70 per cent to less than 1 per cent currently. The malaria programme is funded almost entirely by donors, to the extent that in FY2009/10 no government funds were spent on the development budget of the Zanzibar Malaria Control Programme.

Zanzibar finds itself at a crossroads: it can seek to maintain and marginally improve its current control operations in order to keep malaria suppressed indefinitely, or it can attempt to eliminate malaria from the islands altogether. Sustained control is considered to be the status quo, with no interventions being scaled back. This approach would maintain activities such as distributing bed nets and indoor spraying.

Elimination is the process of reducing the current 1 per cent transmission rate to zero and taking further steps to ensure that malaria is not reintroduced. Additional measures would include: establishing a detection system with the capacity to monitor at least 75 per cent of the population and promptly investigate and treat any new cases; technically capable officials to implement the programme; a substantive reduction in the risk of importation from mainland Tanzania or the screening of travellers; a state-of-the-art surveillance system; and the formation of an interministerial committee to ensure continued leadership and financing of the programme.

As indicated above, Zanzibar already has achieved a high degree of control, with a prevalence rate of 1 per cent and an indoor residual spraying coverage of 96 per cent of households (ZMCP 2009). The choice between continued control and elimination of malaria in Zanzibar presents a unique case study with which to illustrate approaches to planning and assessing feasibility and...
If Zanzibar pursues eradication, planning ahead for the time when donor support for the programme is phased out would be a crucial element in moving forward.

**Discussion**

The group discussions on the malaria programme in Zanzibar were not consensual. There were strong views for and against a policy pursuing complete eradication of malaria, even from a cost perspective.

Proponents of sustained control argued that, due to the heavy reliance on donor funds, a 100 per cent eradication is neither practical nor sustainable. Eradication would require substantial investment, raising the following questions: At what costs is eradication necessary? What are the trade-offs?

It was noted further that malaria is a regional issue, with the consequence that Zanzibar would find it difficult to insulate itself from the prevalence of malaria in the region. The essential argument here was that measurement of the long-term benefits is too complicated in terms of value for money and, therefore, Zanzibar should maintain the status quo.

On the other hand, there was the view that continuing the programme for malaria control, with the principal objective of eradicating it entirely from the islands, is the ideal way forward. The suggestion made was that, since the malaria control programme is currently fully funded by development partners, this support could be expanded in order to remove malaria from Zanzibar entirely. Simultaneously, however, the government of Zanzibar would need to ready itself to manage the steps necessary to maintain a malaria-free island and to budget for the associated costs in the medium to long term. In addition to the cost of maintaining surveillance mechanisms, there would be additional expenditure on continuous training of staff and on raising awareness through communication campaigns. A cross-sectoral planning exercise, including public investment programmes assuring running water for the population, garbage collection and disposal, would be linked closely to the malaria eradication programme. Although positive trade-offs, such as increased productivity and reduced expenditure on the treatment of malaria, can be channelled towards maintaining the achieved status quo, the question is whether Zanzibar is ready to implement an eradication programme? The government would be required to play a critical leadership role in managing such an endeavour, otherwise the programme would be sure to fail.

**Recommendations**

If Zanzibar pursues eradication, planning ahead for the time when donor support for the programme is phased out would be a crucial element in moving forward. An additional option to explore in pursuing the eradication of malaria could be a joint regional approach. By putting together an action plan with neighbouring countries and development partners to fight malaria across borders in the East African region, the potential success rate of malaria eradication endeavours could be increased greatly.

*Box 3: Questions for dialogue*

1: Is elimination a worthy investment if we could derive the total benefits and show that they are higher than the marginal cost of moving from sustained control to elimination?

2: What are the risks and trade-offs/concerns in pursuing malaria elimination?

Notes: Defining the costs and benefits of sustained control or elimination can be very complex. Most of the work that has been done is around costing the different interventions required for each stage of the process. However, calculating the benefits presents a greater challenge. Ideally, one would calculate not only the financial benefits of implementing a programme (in terms of future cost savings), but also the 'socio-economic benefits' such as higher school enrolment and lower health costs (at the macroeconomic level), and increased tourism, economic activity and productivity, as well as indirect effects.
Based on the information in Table 6.2, delegates were asked to reflect on the following questions:

1: If the Ministry of Education approached you for additional funding, which mechanism would you support, and why? What additional information might you try to procure?

2: What are your conclusions about the cost-effectiveness of these interventions? Cost-effectiveness is the extent to which the programme has achieved or is expected to achieve its results at a lower cost compared with alternatives.

3: What recommendations would you make to ensure greater value for money from these interventions?

**Discussion**

The groups discussed the strengths and weaknesses of each instrument, with a focus on what budget officials would consider to be the preferred mechanism in respect of value for money and cost-effectiveness, if they had additional funding for the education sector. Interestingly, the various groups came up with different approaches, arguments and preferred options during the discussions.

**Case study 3: Financing basic education in Mozambique**

This case study reviews various initiatives that have been put in place in Mozambique to address challenges in education access and quality. The initiatives were implemented at different levels of the education system, using different implementation arrangements, all of which have in common, however, that they seek, in a variety of ways, to impact on outcomes at the primary level. As such, they provide an interesting opportunity to examine policy choices, to discuss evidence of impact on learning outcomes and on other educational processes (to the extent that such evidence is available), and to draw conclusions about effectiveness and efficiency.

The three financing mechanisms are:

- the direct support to schools (DSS) initiative, which provides funding directly to all primary schools for essential school supplies;
- early childhood education (ECE), which focuses on establishing community-run ECE centres in selected rural areas; and
- the distribution of vouchers for school materials and clothing, which is linked to education material fairs (EMFs).

**Table 6.2 Summary of three financing mechanisms**

<table>
<thead>
<tr>
<th>Characteristics/type of intervention</th>
<th>DSS</th>
<th>ECE expansion</th>
<th>EMF/vouchers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Improved quality of primary education – reduce dropout rates, repetition rates and schooling failure</td>
<td>School readiness, transition to primary education, right-age enrolment</td>
<td>Improve school enrolment and school attendance</td>
</tr>
<tr>
<td>Funding channel</td>
<td>Direct funding to schools using government systems</td>
<td>Funding to pool donor fund, with subcontracting of CSOs</td>
<td>Parallel funding by NGO</td>
</tr>
<tr>
<td>Implementation modality</td>
<td>Government-managed</td>
<td>CSO service providers at provincial level</td>
<td>NGO-managed</td>
</tr>
<tr>
<td>Outcomes</td>
<td>Increase in enrolment and completion rates Reduction in educational performance (lower educational quality)</td>
<td>Improved transition rates to primary Higher scores on cognitive tests No impact on language skills or on health status</td>
<td>Increase in enrolment (data for one site only) Expressed willingness to return to school</td>
</tr>
<tr>
<td>Targeting</td>
<td>None</td>
<td>Rural communities</td>
<td>Orphans and vulnerable pupils</td>
</tr>
<tr>
<td>Cost per pupil</td>
<td>US$2 per pupil per year, with an additional US$1 for selected districts</td>
<td>US$2.5 per pre-school child per month (US$30 per year)</td>
<td>US$78 per pupil per year</td>
</tr>
</tbody>
</table>
different approaches, arguments and preferred options during the discussions.

Some delegates voiced support for the first mechanism (DSS) as a preferred option. The mechanism aims to improve the quality of primary education by reducing dropout rates, repetition rates and schooling failure. It is managed and financed directly by the government, which may mean, amongst other things, easier monitoring and evaluation of the initiative. Another benefit of DSS was the cost, which was the lowest of the three mechanisms. It was noted, however, that this mechanism caused unintended consequences. While the mechanism had reached its objective of increasing enrolment and completion rates, this had also led to lower educational quality (due, for example, to more children in one classroom with one teacher). It was considered that, if selected, the mechanism would need to be accompanied by complementary measures to address this.

The second option (ECE) was considered a valid choice, given that it enables children to reach a basic level of education, as well as to develop a general interest in education. Its intended outputs/outcomes were less varied, but more desirable (especially compared with DSS). A key concern raised was the financial sustainability of ECE (it being the most expensive of the three proposed mechanisms). Nevertheless, it generates a generally positive impact (improved transition rates to primary schooling and higher scores on cognitive tests). ECE is a hybrid of the other two mechanisms in terms of funding, with DSS being fully government-funded (which constitutes an added burden on the fiscus) and EMF being a completely NGO-funded initiative. The mechanism is managed by local civil society groups, which could help to measure impact at the local level more accurately. However, to be successful, the initiative might require local civil society to have effective management skills. The target group was also seen as more desirable.

The third option (vouchers), which aims to improve school enrolment and school attendance, was preferred by some delegates. Proponents of this option expressed the view that the mechanism’s cost was moderate and that, unlike other mechanisms, it generated no negative results. It also promoted positive externalities for the local community, by creating business opportunities through the EMFs. The mechanism includes civil society and local communities in a way that enables their contributions to be added to what the government can provide. The fact that the initiative targets vulnerable children was seen as a positive factor, in the light of equity objectives. However, targeting was also considered to be a potentially challenging and costly aspect of the initiative. The involvement of local civil society in the management of the mechanism could enhance its sustainability, and could facilitate monitoring of the initiative’s impacts on the ground. However, this is a double-edged sword, to the extent that, if capacity to manage and monitor the initiative is lacking at the local level, the government would have to continue administering it.

Recommendations

Particularly because the options have different funding systems, the possibility of a hybrid solution was proposed. If two options were to be jointly administered, preference would be given to the ECE and DSS initiatives. However, in order to assess the options more fully, the delegates felt that they needed more data than had been provided. Delegates required information on the government’s education policy and its core targets for education objectives, in terms of both geographical priorities and level of education. It would be useful to have the same indicators across all three options. More information on the children who currently drop out of the school system, especially...
The use of case studies in making complex policy decisions allowed budget officials to deeply interrogate policy issues.

in terms of their vulnerability (e.g. whether they are orphans), is needed to better determine where the intervention should be targeted. Information regarding how the mechanisms could be or had been monitored and evaluated was also deemed necessary, as was information that had emerged from cost-benefit analyses undertaken before the mechanisms had been implemented. Also of importance was information regarding the source of additional funding that might be used for one of the mechanisms, and the overall complementarity of these initiatives. More detailed information on the capacity of local communities, schools and other key stakeholders to be involved in the initiatives would be required before properly considered decisions could be made.

Conclusion

The use of case studies in making complex policy decisions allowed budget officials to deeply interrogate policy issues. The discussions were very encouraging in the way that they revealed the policy knowledge, contextual analysis and general understanding of the various aspects that need to be considered in making value-for-money decisions. The senior budget officials rightly pointed out gaps in the information and data required to make certain decisions (in reality, these vital pieces of data are not always available). This did not deter them from making well-deliberated recommendations. It should be mentioned that responses to these real, complex cases were made in a limited 25-minute round of discussion per case study (the ‘World Café format’). Despite the short timeframe, a rich discussion took place and the objectives of the exercise were achieved. Ultimately, the actual conclusions or responses to the questions were not as important as the thought process in interrogating real-life complexities.

Reference

CHAPTER 7
TOOLS TO ASSESS VALUE FOR MONEY
Nana Adowaa Boateng and Anke Barnard

Introduction
Since the 1990s, there has been a trend towards greater accountability for government spending and for the effectiveness of aid. Evaluating the impact of public spending is especially critical in developing countries where resources are scarce and every dollar spent should aim to maximise its impact on poverty reduction. The knowledge gained from evaluation studies can provide vital inputs to the appropriate design of future programmes and projects. To assess value for money, evaluators have to measure whether the level of results achieved represents good value for money against the costs incurred.

Various economic analysis tools are used in the assessment of value for money. These include: cost-benefit analysis (or internal-rate-of-return analysis), which estimates the respective economic costs and benefits and then expresses the net benefits in terms of the rate of return on the investment; cost-effectiveness analysis, which compares the costs of various approaches towards achieving a given objective; and impact evaluation techniques. These tools can be applied to a range of sectors and can be very powerful in assessing the appropriateness and effectiveness of programmes.

Senior budget officials attending the 10th Annual Seminar were afforded the opportunity of attending a two-hour session on these tools, which covered three sectors – education, health and agriculture. This chapter summarises the tools and key lessons that were presented and discussed at the seminar.

Applying value-for-money analytical tools in the health sector

Michael Borowitz, Chief Economist at the Global Fund, gave an introduction to value-for-money tools and thinking in the health sector. Three such tools were covered during the health master class: national health accounts; provider payments; and health technology assessments.

An important consideration strongly underscored at the master class was that value for money is not just about cost savings. Many decisions involve trade-offs, especially in the education and health sectors. In these areas, cost-benefit analysis is very difficult to conduct, because it essentially involves putting a price on human life. This is why use is made of other tools, such as cost-effectiveness analysis, which also asks whether an intervention works and at what price. Ministry of finance officials do not need to be capable of undertaking such an analysis, but are required to be intelligent consumers of cost-effectiveness data they receive. This knowledge helps in reaching informed budgeting decisions, and in countering unrealistic demands made by line ministries, for example.

The Abuja target of spending 15 per cent of a country’s national budget on the health sector has been achieved by very few African states, with the global average spend on health being 11.5 per cent. These percentages do not say much about whether countries achieve value for money in their health spending. For example, although South Africa spends about 13 per cent of its budget on the health sector, life expectancy at birth is much lower there than in many other countries spending considerably less on the health sector. For a ministry of finance, the key responsibility is finding a reasonable approach within the fiscal space available, and deciding how much can be spent on health by the government (and what can be expected from citizens in out-of-pocket spending), without jeopardising macroeconomic and fiscal stability.

Tool 1: National Health Accounts for expenditure tracking in health care

The ‘National Health Accounts’ (NHA) is an international framework for health expenditure tracking. This tool captures all health spending, not just public spending, by using various data
different options that that government can choose from to pay public health care providers:

- line-item budget;
- global budget (one lump sum);
- per diem (a fixed amount per patient per day);
- case-based/diagnosis-related groups (based on diagnosis per patient); and
- fee-for-service (providers are paid for each individual service provided, with the fees being fixed in advance).

The usage and mix of these provider payment options are varied across Africa. For example, from the above options, South Africa is the only African country exploring case-based/diagnosis-related payments.

A critical challenge for provider payment tools is ‘cheating’. For instance, the fee-for-service payment option has been criticised, because it provides the opportunity for health care providers to link payments to the quantity of care, rather than its quality and, therefore, can result in unnecessarily high health care expenditure (which was the case in Ghana).

Tool 3: Health technology assessment to strengthen value for money

Not all expenditure on health technology is effective. This is why the field of health technology assessment (HTA) intends to influence policy decisions by assessing the social, economic, ethical and medical impacts that health interventions have on the citizens of a country or region. Institutionally, HTA is undertaken by independent agencies that conduct unbiased research on the effectiveness, cost and impact of health interventions, which is aimed at providing decision-makers with the necessary scientific evidence to inform decisions on national health policies and interventions.
Applying value-for-money analytical tools in the education sector

Dr Meltem Aran, Director of Development Analytics Incorporated, led the master class on value-for-money tools in education. She presented an overview of various public expenditure analytical tools (PEATs) that are often applied in education. PEATs include various analytical tools, such as public expenditure reviews (PERs), public expenditure tracking surveys (PETS) and benefit-incidence analysis (BIA). In using these tools, the key questions to consider are:

- How much is spent on education, and how much does the government spend?
- How does the government finance the education sector?
- What does the government finance in the education sector?
- Does public spending on education protect equity?
- Are public resources being used efficiently and effectively in the education sector?
- How much is enough?
- Is public spending adequate and sustainable?
- What is the impact of educational programmes on learning outcomes?

**Table 7.1 Government and external education recurrent and development expenditure, 2003/04 (US$ million)**

<table>
<thead>
<tr>
<th></th>
<th>Administration</th>
<th>Primary</th>
<th>Secondary</th>
<th>Teach. edu.</th>
<th>Universities</th>
<th>Other subv. org.</th>
<th>Total</th>
<th>Percent</th>
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<tr>
<td><strong>Recurrent expenditure</strong></td>
<td></td>
<td></td>
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<tr>
<td>Government</td>
<td>8.0</td>
<td>46.1</td>
<td>14.7</td>
<td>2.1</td>
<td>16.2</td>
<td>4.1</td>
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</tr>
<tr>
<td>Percentage</td>
<td>8.8</td>
<td>50.5</td>
<td>16.1</td>
<td>2.3</td>
<td>4.5</td>
<td>4.5</td>
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<tr>
<td><strong>Development expenditure</strong></td>
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</tr>
<tr>
<td>Government</td>
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<td>0.6</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.7</td>
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</tr>
<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>bilateral</td>
<td>2.7</td>
<td>27.4</td>
<td>4.0</td>
<td>1.4</td>
<td>–</td>
<td>–</td>
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<td>–</td>
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<td>100</td>
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</tr>
</tbody>
</table>

Source: Annual Appropriations Account. Donor expenditure is from the DFID donor disbursement survey 2004.

Notes:
1. The estimated wage bill for approx. 4,100 primary teachers who teach at secondary schools is included under Secondary, even though it appears under Primary in government accounts.
2. The university tuition loan scheme is included under Universities, even though it appears under Secondary education in government accounts.
3. The organizations are: IME, NLS, National UNESCO Commission and MANEB.

**Tool 1: Public expenditure reviews**

PERs are used to conduct analyses of public resource allocation decisions in the education sector. Topics to consider in an education PER are:

- How much is spent on education, and how is spending allocated?
- Is there equity, efficiency and effectiveness in spending?
- Is public spending adequate and sustainable?
- What does the government finance?

In essence, PERs examine the composition of spending and sectoral allocations. The group discussed the case of Malawi (see Table 7.1). The data showed that development expenditure in education was being funded almost entirely by donors, which raises concerns about sustainability.

**Tool 2: Public expenditure tracking surveys**

Public expenditure tracking surveys (PETS) track the flow of resources through several layers of government bureaucracy that are charged with the responsibility of exercising the spending. This is done on a sample survey basis, in order to determine how much of the originally allocated resources reach each level.
CHAPTER 7 TOOLS TO ASSESS VALUE FOR MONEY

• In the first phase, estimates are obtained of the unit subsidy of providing a particular service. Usually, this is based on officially reported public spending on the service in question.
• In the second, this unit subsidy is then “imputed” to households or individuals that are identified as users of the service. Individuals who use a subsidised public service in effect gain an in-kind transfer. BIA measures the distribution of such transfers across the population.
• The third step involves aggregating individuals (or households) into subgroups of the population, in order to compare how the subsidy is distributed across such groups. The most common grouping is by income, or a related measure of the welfare of the individual (such as expenditure).

Three kinds of information are needed for the calculation of the incidence of government spending on the service it provides, such as primary education. These are: government spending on a service (net of any cost-recovery fees, out-of-pocket expenses by users of the service, or user fees); public utilisation of the service; and the socio-economic characteristics of the population using the service.

It is important to mention the limitations of BIA. The first has to do with costs versus benefits. For example, BIA makes a strong assumption that the costs of provision are a good approximation of the benefit that users attach to government services. The second limitation of BIA is that it captures, at best, the benefit incidence of government spending at a specific time; to attain a dynamic picture of incidence over time, BIA has to be conducted for different years. Thirdly, estimates of benefit incidence often represent average incidence. This means that BIA does not typically provide information on who benefits from an expansion or contraction in government spending.

Table 7.2 Leakage of non-wage funds in primary education in Uganda, 1991–1995 and 2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>97</td>
<td>100</td>
</tr>
<tr>
<td>1992</td>
<td>96</td>
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</tr>
<tr>
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<td>85</td>
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<td>100</td>
</tr>
<tr>
<td>1995</td>
<td>78</td>
<td>100</td>
</tr>
<tr>
<td>2001</td>
<td>18</td>
<td>18</td>
</tr>
</tbody>
</table>


Tool 3: Benefit-incidence analysis

Benefit-incidence analysis addresses the following questions:

• Does public spending in education protect equity?
• How do school enrolment rates, completion rates and learning achievements vary by subgroup?
• What role does the state play in mitigating or exacerbating differences in educational opportunities?
• How progressive or regressive is the state’s financing of education?

A BIA helps in answering these questions and allows for the analysis to be conducted by level of education, by province and within provinces, and by other demographic groupings. This is done in three phases:

PEATs include various analytical tools, such as public expenditure reviews (PERs), public expenditure tracking surveys (PETS) and benefit-incidence analysis (BIA).
Accurate estimates have been very difficult to achieve, due to a lack of consensus on what constitutes agricultural expenditure. Furthermore, in terms of capital expenditure, it is important to note that not all public expenditure is productive. Productivity gains derive from combining public capital with private investment and capital. Examples of public capital include:

- research and development (e.g. a gene with specific yield or pest-resistant characteristic);
- extension (e.g. know-how imparted through training); and
- infrastructure (e.g. a feeder road).

It is important to be aware of the stock of public capital and its depreciation, the transformation of expenditure into capital, and how public capital produces gains (whether on its own or in combination with private capital and investment). Public capital stock can be estimated using standard capital formation equations, in particular the perpetual inventory model.

In general, CBA comes with several challenges, such as estimating cost (direct and indirect), attributing benefits, discounting costs and benefits occurring at different times, weighting net benefits accruing to different members of society (including those yet to be born), and externalities (positive or negative) leading to over- or under-estimation of net benefits and lagged effects of public investment programmes.

**Tool 2: Impact evaluation models**

It was necessary to begin the session with the question of why evaluations are important in agriculture. Agriculture comprises a significant share of GDP (and budget) in Africa, and employs a relatively much higher percentage of the labour force than other sectors. Evaluations are necessary components of accountability for government, financiers and other stakeholders, and provide evidence on which to base policy-making.
Impact evaluation tools address the why and how of evaluating the impact of agriculture programmes. Impact evaluation methods are either qualitative or quantitative, either ex post or ex ante, and either experimental or non-experimental. Qualitative impact evaluations delve into mechanisms of impact, and are generally more helpful in understanding the underlying processes by virtue of which a programme succeeds or fails to achieve the intended outcome. Quantitative studies require less contextual methods, and apply rigorous statistical and econometric analysis. These data and analysis, in turn, provide researchers with findings that are deemed more reliable.

Ex post evaluations (e.g. randomised controlled trials, differences in differences, propensity score matching, regression discontinuity design and instrumental variables estimation) retrospectively look at the impact of agriculture programmes that have already been implemented. Ex ante evaluations (e.g. structural economic models and simulation techniques), on the other hand, are conducted either before a programme starts or changes in some way; in other words, such evaluations aim to provide forecasts of the potential impact of a programme that is yet to be implemented or of alternative applications of an existing programme. The technique selected would depend on the question posed by the evaluator, the timing of the evaluation, the actual design of the programme and data availability.

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Box 5: Practical steps to institutionalise agriculture evaluations in government structures

Writing an evaluation plan can be a good starting point to any evaluation and has the potential of saving time and money. The plan should start with a description of the programme, which details its objectives and its design. The objectives of the programme will help the evaluator with building the results chain and selecting the performance indicators, whereas the design of the programme will determine which evaluation method(s) should be deployed in order to get a correct estimate of the programme impact. The evaluation plan should then continue with detailing how the sample will be selected, what kind of data will be needed, and how and when the data will be collected. Finally, the expected outputs of the impact evaluation should be summarised and the overall budget of the programme should be detailed. A results chain starts with the inputs that are necessary for implementation of the programme.

While building the results chain, the evaluator should start thinking about how long the implementation phase will be and how long it will take to produce the outputs and observe the intermediate and the final outcomes. An evaluation done too early may conclude that the programme was ineffective, although it was not. Similarly, an evaluation done too late may attribute the impact of outside factors to the programme and may produce biased estimates. The second step is choosing the methodology or design of the evaluation. Design of the programme itself will lead us to the right design of the evaluation. The third step is choosing the sample and testing the hypothesis. A careful sampling should be done to get an accurate and precise estimate of the true programme impact. The next step is to collect data.

Finally, two types of evaluation reports are generally produced within an impact assessment project. The first one is the baseline report which is produced earlier in the evaluation timeline. This report aims to give an overview of the evaluation plan and also provide some summary statistics using baseline data. The second type of evaluation report is the final evaluation report. This is the most important written output of an evaluation project and needs to be produced with extreme care. It is as important to effectively communicate the results of an impact evaluation as it is to identify the true programme impact. In addition to the comprehensive evaluation report, one to two-page policy briefs may be produced to give a quick snapshot of the evaluation. This can be especially useful in communicating the results to the general public in an efficient way.
The master classes presented a unique opportunity for senior budget officials to learn about and debate a variety of tools to assess value for money in public spending.

Conclusion

The master classes presented a unique opportunity for senior budget officials to learn about and debate a variety of tools to assess value for money in public spending. These tools covered cost-effectiveness analysis, cost-benefit analysis, public expenditure analytical tools and impact evaluation tools applied in health, education and agriculture. The challenges associated with these methods were also discussed. While it is recognised that senior budget officials may not be using these tools directly, the purpose was to expose them to these tools and provide an intuitive understanding. Broad knowledge of these tools would also serve the purpose of identifying capacity gaps in the various ministries which would then facilitate steps being taken to acquire the needed capacity for value-for-money analysis. It is quite encouraging to learn that the participants scored the master classes among the top three sessions at the annual seminar. CABRI will continue to integrate these short interactive courses in its various events.

References


This is a summary report of the proceedings of the 10th Annual CABRI Seminar

The 10th Annual Seminar, themed ‘value for money in public spending’ coincided with a milestone of ten years of CABRI’s existence as a voice on PFM reform in Africa. Through its previous and ongoing work on ‘value for money’, CABRI has gained important insights into efficient ways to plan, finance and manage public spending.

The theme placed much needed emphasis on policy and the optimal use of resources to achieve efficiency and effective service delivery. Value for money is not only ensuring that line ministries spend within their budget constraints; it is about maximising impact with limited resources. Essentially, ministries of finance have a duty to ensure good value for money in all areas of public spending and this requires better understanding of policy and a variety of analytical skills to ensure that sector ministries maximise impact with their allocated resources. The seminar illustrated these issues with examples from the health, education and agriculture sectors.

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