Business Environment Reform Facility

How to Measure Value for Money in DFID Business Environment and Investment Climate Reform Initiatives Delivered by the IFC: An Evidence and Learning Note

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Business Environment Reform Facility

Department for International Development

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Contents

Department for International Development

Acronyms

BER	Business Environment Reform
BERF	Business Environment Reform Facility
BRICK	Building a Reliable Investment Climate in Kenya
CBA	Cost Benefit Analysis
CCS	Compliance Cost Savings
CO	Country Office
DFID	Department for International Development
DTF	Distance to Frontier
DCED	Donor Committee on Enterprise Development
FCAS	Fragile and Conflict Affected States
GEMS	Growth and Employment in States (Nigeria)
ICT	Investment Climate Team
MAR	Multilateral Aid Review
M&E	Monitoring and Evaluation
NAO	National Audit Office
PPP	Public Private Partnership
RISE	Regulatory and Investment Systems for Enterprise (Bangladesh)
SEED	Supporting Employment and Enterprise Development (Afghanistan)
ToC	Theory of Change
USAID	United States Agency for International Development
VAT	Value Added Tax
VfM	Value for Money

1. Executive summary

The purpose of this Evidence and Learning Note is to provide DFID COs with practical guidance on how to conceptualise and measure VfM in DFID's business environment reform (BER) programmes, especially those that are delivered by the IFC.

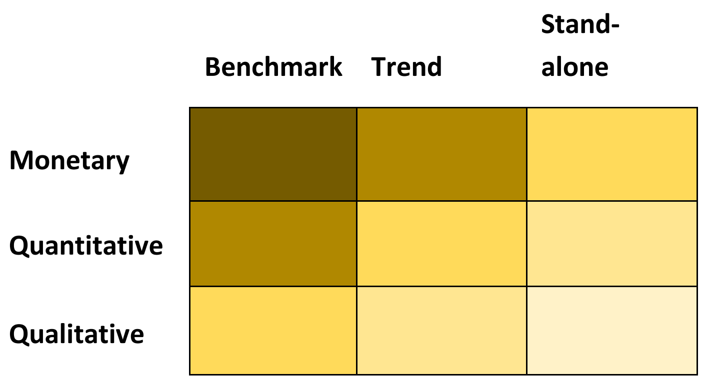
IFC VfM framework

This Evidence and Learning Note reviews the design and experience in using the IFC's VfM framework (as summarised in the 2014 Value for Money in Investment Climate Report). The framework focuses on private sector compliance cost savings as a main source of calculating the value of reform and is primarily focused on cost effectiveness comparisons across BER programmes. The framework is relatively new, however, and has not yet been widely applied in DFID-funded IFC programmes. The Learning Note finds that IFC officials value the use of benchmarks developed by the framework but that it is limited in not having, assigned benchmarks for economy and efficiency, difficulties in linking outcomes to impacts and a lack of available cost data. Given these limitations, VfM comparisons between DFID-implemented and IFC-implemented BER programmes are very limited at present; a recent analysis comparing two such programmes, however, found a higher percentage of fees (covering staff and consultants) to overall implementation costs in the DFID-implemented programme than the IFC programme.

DFID's approach to VfM

DFID's VfM Framework is based on the National Audit Office (NAO)'s 3E guidance (economy, efficiency and effectiveness), adding a 4th E: equity.

VfM indicators can be classified as monetary indicators, quantitative indicators and qualitative indicators and it is recommended that programmes track a mix of all three. Attributing impact to programmes is a key issue, which requires a well-developed and evidenced theory of change and an attribution strategy (based on share of cost contribution, key stakeholder opinion or quantified economic appraisals at regular intervals).



Suggested VfM indicators

Building on the 3E approach, the Learning Note presents a series of qualitative and quantitative indicators, including but not limited to those presented below (refer to Section 7 for the full list of indicators). Key efficiency and effectiveness indicators are then mapped to IFC BER workstreams.

Level	Qualitative measures	Quantitative measures
Economy	o Examples of good procurement practices. o External audit recommendations implemented.	o Daily average fee rates (short term/ long term). o Ratio of international vs. national fee days utilised.
Efficiency	o Is delivery on time and on budget? o What quality assurance mechanisms are in place?	o Cost per reach on intended beneficiary (individual or firm) o Budget utilisation rate (over reporting period, or total).
Effectiveness and Cost-effectiveness	o Are the links in the programme Theory of Change sufficiently robust and evidence based? o What measures were taken to promote sustainability?	o Total compliance savings achieved (per reform initiative, or total of programme). o Compliance savings achieved vs. programme spend. o Cost per job created.

Emergent issues in assessing the VfM of BER programmes

The Learning Note identifies a number of emergent issues in BER VfM and highlights ways in which VfM measurement could be improved. Each of these issues are worthy of further study.

Jobs measurement: 'Cost per job created' is a common metric used as a proxy for the effectiveness of BER programmes but results reported by different programmes vary widely, even in the same country context. The IFC is currently developing a framework on jobs measurement. This is likely to assist significantly in assessing VfM performance especially if it offers benchmarks and enables cross-comparisons between programmes.

Gender: Gender considerations are typically addressed as part of reporting under Equity. Some programmes disaggregate data between female- and male-led enterprises, while others implicitly 'inject' gender considerations into each component / intervention by focusing interventions on sectors with more potential to impact on women's economic status. However, reporting of direct impacts based on gender disaggregation has been criticised as failing to provide insights into changes in social roles and power relations.

Fragile and conflict affected environments: Decisions regarding resource allocations among project components (a VfM issue) should be informed by political economy analysis. The IFC VfM framework includes a proposal that '*project approvals should be based on a prerequisite of thorough political economy assessment'* and political economy analyses are typically undertaken for DFID programmes as part of the business case design. Political economy analysis should not be a consideration solely at the outset, however, but revisited throughout implementation, especially in a dynamic FCAS environment.

Business Environment Reform Facility

2. Introduction

The purpose of this Learning Note[1] is to provide DFID COs with practical guidance on how to conceptualise and measure VfM in DFID's business environment reform (BER) programmes, especially those that are delivered with the IFC.

Section 3 and **Section 4** discuss the context for this Learning Note and the methodology used. **Section 5** begins by briefly outlining current IFC thinking on VfM in BER programmes, highlighting the recent IFC BER VfM Framework (outlined in the World Bank Group's Value for Money in Investment Climate Report). It discusses initial experience and evidence in using the framework (which at present is still limited) and its strengths and limitations.

Section 6 reviews how DFID approaches VfM through the '3E' approach and proposes quantitative and qualitative VfM indicators for BER programmes which correspond to each of these levels. To provide DFID COs engaged in IFC-implemented BER programmes with practical guidance in the selection of VfM indicators, **Section 7** maps suggested efficiency and effectiveness indicators against IFC workstreams.

Section 8 outlines a number of emergent VfM issues related to jobs measurement, gender and VfM, and VFM in BER programmes in fragile and conflict-affected environments which are all worthy of further study. Building on the information presented elsewhere in the Note, **Section 9** concludes by providing COs with some key messages to improve VfM analysis in BER programmes related to the availability of cost data and the development of further VfM toolkits and benchmarks.

[1] BERF Evidence and Learning *Notes* are short pieces of analysis (15-20 pages) which promote learning and the exchange of knowledge about BE reform across DFID. *Learning Notes* look at technical reform issues, based on comprehensive literature search and summarises the experience of BE reform programmes, explaining different approaches, practical implementation challenges and what did or did not work in a particular context. There is a particular emphasis on Political Economy, Gender, FCAS, Environment and Climate Change.

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3. Context for this Learning Note

DFID COs have a relatively well established portfolio of business environment reform programmes that are delivering strong results – making it easier for firms to set up, grow and create jobs. This portfolio is expected to expand as part of DFID's scale-up of its Economic Development work – around half of DFID COs cited the business environment as a barrier in their Inclusive Growth Diagnostics. BERF has been set up to help COs to make this shift and to provide easy access to expert advice to help with programme design, start-up, monitoring and, if necessary, course correction. It will also help DFID to learn and disseminate the lessons from its programmes more systematically, carry out policy research to help our understanding of how reforms really work, and develop innovative approaches for involving stakeholders in reform programmes.

At present, DFID has active investment climate / business environment reform implementation arrangements with the IFC in at least six countries: Bangladesh, Kenya, Afghanistan, Pakistan, Rwanda and Burma. Other DFID COs like Ghana have identified an interest in ramping up work in this area, and others like Zimbabwe are keen to get VfM analysis to guide programmes with other development partners. As DFID seeks to deepen its investment climate and business environment reform work and COs start to draft new Operational Plans and Business Cases for the coming year, the need for sound evidence on investment climate and business environment metrics has become critical.

DFID places strong emphasis internally on the development and strengthening of analysis on VfM, in particular where these programmes are implemented through the IFC and other partners. However DFID does not yet have a definitive measurement framework for VfM in BER programmes. Further, as a recent (2013) DCED (Donor Committee on Enterprise Development) report confirms, evidence on VfM in business environment reform programmes is very limited.

4. Methodology

The research for this Learning Note included the following activities:

- Telephone-based consultations with DFID COs and representatives from IFC. A list of these consultations is provided in Annex 1.
- Review of Annual Reviews of completed or ongoing DFID programmes, or other bespoke VfM analyses conducted by DFID or the programmes themselves.
- Review of DFID's recent guidance on VfM.
- Search of the Devtracker database, as well as the IFC and World Bank websites for further material.

A detailed list of reference sources can be found in the end of the report, as well as in the footnotes.

Business environment and investment climate can comprise a wide range of projects and interventions, including regulatory reforms, competition, and public-private partnerships for growth and employment. In addition programmes that focus on access to finance, trade and regional integration, infrastructure, M4P, land tenure, skills and employment, and business advocacy can have business environment reform components. This learning note focuses primarily on investment climate initiatives and reforms that are routinely undertaken by IFC.

However, the considerations relating to effectiveness and cost effectiveness can to a large extent apply to other similar programmes, particularly if they feature regulatory capacities or scores on Doing Business rankings at outcome and impact levels in their Theories of Change and logframes.

5. How does the IFC conceptualise VfM in BER programmes?

5.1 IFC framework for assessing VfM

The IFC's approach to VfM is summarised in the DFID-funded 2014 study of 'Value for Money in Investment Climate Report'. The approach '*supports resource-allocation decisions with a view to obtain the best value for resources invested in our programs, bringing together the work on results with the costs related to achieve the reforms'*[2].

The study sets out a framework for assessing VfM and aims to identify VfM benchmarks for programme managers using the experience of 212 ongoing and completed IFC projects, covering 5 products and 30 workstreams.

The VfM framework is intended as a tool for project identification and monitoring. This use for the framework is highlighted in the 2014 report and is also stressed by IFC officials interviewed during the research for this learning note. IFC officials highlight that the identified quantitative benchmarks are intended as a guiding tool, not fixed parameters, and should not be used in isolation in project identification and monitoring. Context is important, as are qualitative measures of VfM, as highlighted by this learning note below.

The framework focuses on private sector compliance cost savings as a main source of calculating value of reform. In the longer term, IFC is planning to expand the calculations to include areas such as job creation, and also to outcomes such as public sector opportunity cost savings.

The framework is primarily focused on cost effectiveness comparisons across BER programmes with less emphasis on economy or efficiency measures. This has implications for the application of the framework to DFID-funded programmes, as this learning note discusses below.

The framework has not yet been widely applied in DFID-funded IFC programmes. According to the IFC, the framework based on private sector compliance savings has only been operational since November 2015 and is therefore relatively new. In the course of research for this learning note we have not seen many specific references to the use of the framework in DFID Annual Reviews. The Annual Review of the Building a Reliable Investment Climate in Kenya (BRICK) notes, however, that DFID Kenya plans to apply the framework soon in order to compare and demonstrate VfM within some of its IFC-implemented BER workstreams. Limited consistent reporting on VfM metrics contrasts with other forms of BER-related programming in DFID (M4P, agribusiness or trade) which now increasingly report on common VfM indicators in Annual Reviews.

[2] Value for Money in Investment Climate Report, World Bank Group, August 2014, p.3.

5.2 Calculating VfM metrics using the framework

Value is derived from outcomes at three levels. In developing the VfM framework, the IFC studied 9 commonly-used workstreams (out of a total of 30) that fall under 4 products, and their expected impacts[3] on three areas: compliance cost savings to the private sector; reach (firms benefitting); and reform (that is described as the change implemented, number of significant changes introduced by the project that were adopted and implemented, with evidence). These are shown below. A detailed table which summarises all results from the chosen projects can be found in the IFC study[4].

VfM calculations are based on the following formulas, for three outcome areas:

Cost savings impact = private sector cost savings / project cost

Reach = project cost / number of firms benefitting

Reform or change adopted = project cost / reform

VfM was calculated for 212 projects for the above-mentioned products and workstreams. For each of the 9 workstreams, a range of VfM values were defined for three outcome levels, based on average median and 'high-risk' project categories. Further, FCAS and low-income contexts were considered and ranges were proposed. Project cost benchmarks were often higher than average in relatively lower-income countries, high-risk projects and projects in FCAS.

VfM calculations and ranges are adjusted for country population size according to the IFC framework. For VfM ranges on compliance savings and benefitting firms, the aggregate results are adjusted per 10 million using population as a proxy for the size of private sector. For example, for a country with a population of 50 million, the VfM ranges should be multiplied by 5; for a country with a population of 1 million, they should be divided by 10. While this approach is useful in introducing an element of context into the calculation of VfM range, with the intention being not to overstate aggregate cost savings in smaller countries, in practice it has been criticised for overestimating the aggregate impact in relatively larger countries (e.g., Brazil, India, and Indonesia)[5].

Value calculations are mainly calculated at the 'workstream level'. IFC programmes use standard indicators for value, most often at workstream level, '*where the Theory of Change is most consistent*'[6]. A typical theory of change for a business entry workstream is described as a change in law, a decrease in time and cost of operation, an increase in business registration, in addition to an impact of compliance cost savings to the private sector, followed by investment and growth. It should be noted, however, that **while costs in IFC projects can be disaggregated by category (e.g. staff, consultants, etc) and project component, they**

[3] The report refers to impacts which are actually outcome areas.

[4] ibid, p.10.

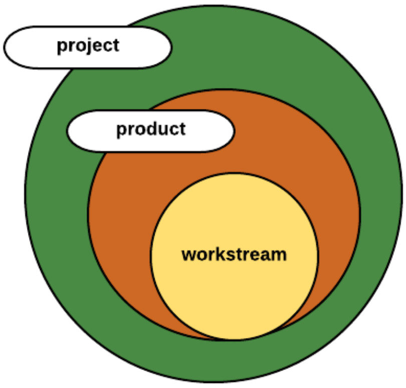
[5] VfM in Investment Climate Report, Summary of Findings, November 2015, p.4. No author cited.

[6] Value for Money in Investment Climate Report, World Bank Group, August 2014, p.7.

can't currently be disaggregated by workstream or activity. This causes challenges for VfM analysis where workstreams or activities translate to (logframe) outputs (more so where DFID and the IFC follow inconsistent results frameworks).

As a result, **various assumptions are used by IFC teams to assign costs at the workstream level.** For instance, if there is only one workstream under a product, then the cost of the product is equal to the workstream cost; if there are more workstreams under one product, the product cost is equally divided among those.

Chart 1: IFC products and work streams



Source: Diagram adapted from VfM in Investment Climate Report, 2014.

5.3 Initial experience in using the IFC VFM Framework

DFID advisers and IFC officials report a number of strengths and challenges in their initial experience in using the IFC VfM framework:

IFC officials value the use of benchmarks: the IFC framework uses pre-defined VfM ranges ('benchmarks') that can be referred to when reporting on programme results. While there is a risk that such benchmarking ignores contextual factors (and potentially overstates VfM impact in overestimating the aggregate impact in relatively larger countries as noted above), it is nevertheless a useful tool for cross-project comparisons in a relative concept such as VfM.

Reporting on effectiveness can be undermined by a lack of accurate macro data and issues with regards to assigning costs. Difficulties are created due to mismatches between cost categories in the framework which exist at a high-level and financial reports do not always fit neatly with these categories. In addition, VfM calculations can be undermined by the lack of accurate and up-to-date data macro-level data, such as on the size of the private sector in a target country.

Challenges exist in linking outcomes to impacts: A commonly-cited challenge is link outcomes to higher-level impacts. The 2015 Annual Review of the Regulatory and Investment Systems for Enterprise (RISE) Bangladesh, for instance, states that '*A number of questions* *are raised around using cost compliance savings to assess VfM including whether the cost savings are leading to private investment and/ or savings for customers*'[7]. The same review notes that 'Because of IFC's standardised indicators and reporting systems, most of the results have focused on financial or other benefits to businesses (such as compliance cost savings) with limited understanding of the impact of this work in terms of savings, investment and poverty alleviation and/ or job creation'. One way to respond to these challenges would be to limit comparisons to the costs and benefits of individual reform components through deep dive cost benefit analysis. More detailed Theories of Change to explain programme impact pathways should also be used, as highlighted below.

The IFC framework does not assign benchmarks for economy and efficiency: the framework is not aligned to DFID's use and application of VfM at the levels of economy and efficiency (covered below). At the economy level in particular, there is a mismatch in the type of analysis conducted by World Bank Group managed projects and other DFID-managed projects; data on fee rates and other staff input costs is typically not made publicly available in World Bank Group projects, for instance, and is subject to confidentiality clauses in the agreements between DFID and IFC/ WB Group globally. This makes reporting at this level difficult.

The RISE Bangladesh Annual Review notes that *'….(similar) challenges exist with financial reporting, with IFC and the World Bank providing high level budgets and reports that do not contain the granularity of information that is received from other non-multilateral partners'*. This point was mentioned by several other DFID COs interviewed.

5.4 Comparing cost drivers between DFID and IFC-implemented BER programmes

Without systematic benchmarking, the lack of granular data on cost drivers has created a perception that World Bank Group costs – particularly for staff, consultants and travel – are high.

Some DFID COs have attempted their own comparison of cost data across IFC-implemented and DFID-managed BER programmes. ZIMBISA Zimbabwe, for instance, conducted a high-level comparison of flexible fund allocation within various M4P programmes during its latest annual review. Analysis comparing an annual cost profile of IFC-implemented BICF in Bangladesh with a business enabling environment programme managed by a private service provider contractor in Nigeria indicates that the percentage of fees (covering staff and consultants) to overall implementation costs is higher in the latter. In BICF this ranged from 60-65%[8] over the programme's lifetime, whereas in the Nigeria example, the service provider reported 70-75% of their costs as fees over the project duration.

Business environment reform is a TA-intensive field of programming and it is therefore unsurprising that fees would be the key cost driver in these programmes. It is interesting,

[7] RISE Annual Review, April 2015, p.18, available on Devtracker.

[8] VfM Analysis for BICF, November 2015, p.11.

however, and perhaps counter intuitive given recent perceptions, that the analysis suggests that the DFID-managed programme is less efficient in terms of the ratio of fees to overall implementation costs. Further benchmarking at the levels of economy and efficiency would lead to more rigorous comparisons between programmes. VfM metrics at these levels are presented below.

6. DFID's approach to conceptualising VfM

DFID's VfM Framework is based on the National Audit Office (NAO)'s 3E Guidance, which DFID is bound by. DFID has added a 4th E in their application of VfM: Equity. Equity is not only an economic concept, but is a social consideration which aims to extend the reach of development benefits to disadvantaged and marginalised groups, mainly (but not exclusively) women and the poorer segments of society. Brief descriptions of each E and what they analyse are provided below.

6.1 Economy

Economy analysis assesses the cost per input used in the delivery of a programme. However VfM is not achieved by the lowest possible price for a given input; it is a function of price, appropriateness, quality, and timeliness of sourcing the input. Economy analysis therefore often incorporates a review of procurement procedures used by a programme.

6.2 Efficiency

Efficiency analysis reviews the cost per output generated by the programme. Efficiency metrics focus on beneficiary and output numbers rather than outcomes for beneficiaries. However, it is important to note that VfM is not necessarily guaranteed by achieving the lowest possible cost per output. The quality of delivery of outputs is also a concern for efficiency.

Key considerations under efficiency are input prices, input types, delivering at the best scale to get economies of scale, processes used to minimize costs and maximize results; quality of delivery and risk management.

6.3 Effectiveness and Cost Effectiveness

Effectiveness analysis considers how well the outputs deliver intended programme outcomes. Cost effectiveness is achieved when given outputs are delivered at the lowest possible cost. The key issues related to effectiveness are coherence of outputs, targeting (the right beneficiaries, the right interventions, etc), sustainability, influencing and wider socio-economic impact[9]. Equity is also a sub-set of effectiveness.

[9] Adapted from the slides of VfM Training for Service Providers by DFID Kenya and Somalia Economic Advisors.

7. Measuring VfM in BER programmes

There are qualitative and quantitative methods for assessing VfM. Qualitative measures can take the form of a description of improvements of procurement practices (economy); improved risk management or quality assurance of outputs delivery (efficiency); or qualitative evidence towards change at outcome or impact levels, such as case studies. Quantitative measurements commonly include Cost Benefit Analysis (CBA)[10]; efficiency savings (recorded, evidenced and tracked); and unit costs.

VfM calculations link reporting of costs to results, in other words, expenditure and logframe indicators. VfM calculations also need to consider all costs involved, to the extent possible, including those incurred by beneficiaries (private costs).

In DFID-managed programmes, service provider companies are frequently asked to provide detailed economy information and VfM trends over intervention years, and service providers are usually subject to ceiling costs agreed with DFID during contract negotiations.

DFID annual reviews of BER programmes increasingly feature reporting on VfM indicators; reporting on economy in particular is becoming common practice and a requirement across all DFID programmes. This is both due to the DFID-wide agenda to enhance cost consciousness among all development actors and also to the fact that often economy calculations are relatively more straight-forward compared to those on cost effectiveness.

DFID has also introduced 'Results Based Contracts' as part of its VfM agenda (where payments are made by DFID to the service provider based on pre-agreed output and / or outcome milestones) and consultancy fee bands. These are not currently applied in World Bank Group managed programmes.

7.1 VfM Indicator typology

A commonly used VfM indicator typology is shown overleaf in Table 1.

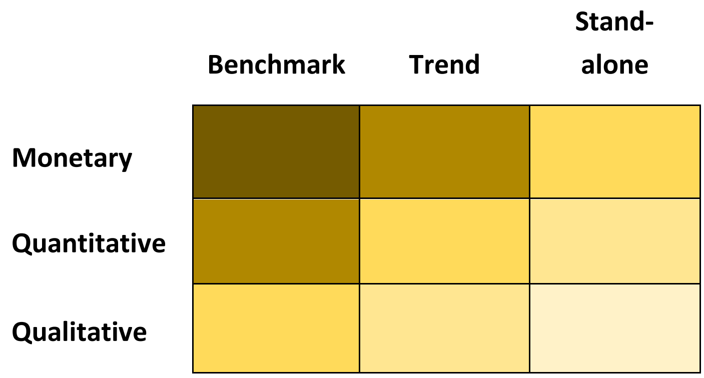
- ***Monetary indicators*** compare the value of the programme (in monetary terms) against the cost;
- ***Quantitative indicators*** compare how much the programme has achieved (in numbers) against the cost;
- ***Qualitative indicators*** compare the kind of change the programme has achieved (in descriptive terms) against the cost.

VfM is a relative concept, meaning that indicators only make sense when they are compared. Therefore the closer an indicator is to the top left corner of the table (monetary and benchmarked), the more desirable it is for VfM purposes, because this makes comparisons

[10] Also applicable in this category are break even analyses, Social Return on Investment Approaches (SROI), etc.

easier. However, this may not always be possible due to lack of data, or difficulties in apportioning costs to results.

Table 1: VFM Indicators Typology



Source: Adapted from Itad VfM Diagnostics for DFID Nigeria Economic Growth Portfolio, 2014.

7.2 Key issues in establishing a programme's VfM

7.2.1 Developing and updating programme theories of change

Understanding and explaining a programme's VfM starts from the links in its Theory of Change, and an assessment of how sufficiently evidence-based and robust these links are. DFID COs interviewed during the research for this Learning Note highlighted repeatedly that this is an area requiring further work: there is a need for more explicit and articulate BER programme ToCs which show more clearly the links from inputs to higher levels of change – including Doing Business scores and more intermediate outputs and outcomes – and the processes by which they can be delivered.

A number of BER programmes have been subject to a specific review on this issue. A 2014 review of BRICK[11], for instance, highlighted some of the anticipated linkages between BRICK intervention areas and higher level impacts, noting that BRICK-supported regulatory reform "*for the most part will benefit larger firms*" and that the programme ToC assumes that "*large firms will employ poorer people*", with further impacts on the poverty headcount through reduced prices (through competition), reforms in pyrethrum and farmers using a Warehouse Receipt System. The review concluded that evidence underpinning these linkages was, for the most part, lacking in the ToC – which undermined the programme's impact narrative – and that further work to collect this evidence would strengthen this narrative[12].

7.2.2 Attributing impacts

Developing and evidencing a detailed ToC is a key step in explaining how BER programmes are expected to deliver higher-level impacts and to provide a road map for programme

[11] Turner, Wach and Bayaz, 'A Research on the Poverty Impact of Market and Enabling Environment Programmes of DFID Kenya', ITAD, Sep 2014.
[12] It is understood that since then there have been changes in the BRICK ToC.

managers to help determine whether a programme is on track to deliver these impacts. However, attributing higher level impacts to BER programmes is challenging.

Some impacts are deemed easier to attribute to individual programmes than others. For instance, the cost of doing business or trade logistics are considered relatively straight forward to attribute to the results of a programme, but higher level impact on prices of consumer goods and poverty reduction are seen as much harder to attribute.

The IFC VfM framework does not highlight attribution as a challenge, perhaps because the framework focuses on more intermediate results (such as private sector compliance cost savings) and their estimated and monetised reform values which are derived from fairly standardised methodologies. Care should still be taken in attributing such impacts, however; in one VfM study undertaken for BICF in Bangladesh, the costs and benefits comparison of individual reform components returned such high results that their credibility was questioned in terms of whether all the identified benefits could be attributed to relatively small-scale interventions by IFC[13].

DFID's Economic Appraisal 'How To Note' identifies two common ways of demonstrating attribution: share of cost contribution (pro rata approach) or based on key stakeholder feedback and agreement. Currently, demonstrating attribution is not a requirement in ongoing VfM reporting, although this is typically addressed in quantified economic appraisals (such as using Cost Benefit Analyses) at project design stage. It is recommended that attribution be considered periodically during implementation or at least at programme end using similar methodologies.

7.3 Suggested indicators to measure VfM in DFID's BER portfolio

None of the IFC-implemented programmes considered for this Learning Note are currently reporting on VfM using annually-tracked indicators. Rather, discrete studies that aim to reveal outcome level changes including specific compliance cost savings are typically used to assess effectiveness.

The VfM indicators outlined in the table below have been compiled from a range of sources including Annual Reviews, Business Cases and programme reports. They are not an exhaustive list and can potentially be expanded in time with follow-on studies. They are relevant to a wide range of BER topics including private sector compliance cost savings; public sector or additional private sector leveraging; job creation; agribusiness related reform and its impact on sales of firms and/or incomes of individuals; and consumer savings through price impacts of competition reform. Distance to Frontier (DTF) ranking of the host country at impact level has also been assessed by BER programmes in the past, although by none of the programmes reviewed as part of this learning note.

DFID recommends that programmes combine quantitative and qualitative indicators in regular reporting. At the outcome level, many of the intended results of BER programmes relate to

[13] VfM Analysis for Bangladesh investment Climate Fund (BICF), November 2015, p.14. No author mentioned.

changes in firm income, compliance cost savings or similar, which are readily quantified or monetised and can be regularly tracked as quantified cost effectiveness indicators. These quantified indicators should be supported by qualitative evidence of cost conscious behaviour or other efficiency measures adopted during implementation (VfM good practices).

Effort should be made to focus on tracking a few key indicators, although proportionality is important, and the number of indicators chosen will commonly depend on the size of the programme, M&E budgets and reporting burdens.

Table 2: Suggested VFM Indicators in BER Programmes

Level	Qualitative measures	Quantitative measures
Economy	o Examples of good procurement practices o External audit recommendations implemented. o How are fiduciary risks mitigated/ addressed? o Are economies of scale being taken advantage of? o Quality of financial management and adherence to DFID reporting requirements.	o Daily average fee rates (short term/ long term) o Ratio of international vs. national fee days utilised o Ratio of management or administrative costs (based on a description used) as percentage of total programme spend[14]. o Economy savings achieved (during a reporting period).
Efficiency	o Is delivery on time and on budget? o What quality assurance mechanisms are in place? o Did any innovation take place? o How are risks related to implementation being monitored and addressed? o Is the programme leveraging additional resources/ investment from others? o Percentage of payments linked to outputs and outcomes.	o Cost per reach on intended beneficiary (individual or firm) o Budget utilisation rate (over reporting period, or total) o Trends on administration or management fees over programme years. o Total amount leveraged (from partners/ government/ private sector other donors)? o Total amount leveraged from private sector vs. total programme spend (investment leveraging ratio).
Effectiveness and cost-effectiveness	o Are the links in the programme Theory of Change sufficiently robust and evidence based? o What measures were taken to promote sustainability? o Were there any unintended impacts, positive or negative? o Synergies among various interventions in a project and evidence as to how they enhance effectiveness. o Evidence on improved climate change resilience and adoption of environmentally friendly practices (where applicable).	o Total compliance savings achieved (per reform initiative, or total of programme) o Compliance savings achieved vs. programme spend. o Cost per beneficiary (individual or firm) o Cost per partner adopting new or improved practices o Total increased income for beneficiaries, or o Cost per £ of increased income. o Increased value of sales by firms. o Quantified/ monetised efficiency savings as a result of reform(s). o Cost per job created. o Cost per job sustained beyond 6 months. o Economic return (cost benefit analysis of distinct programme components)

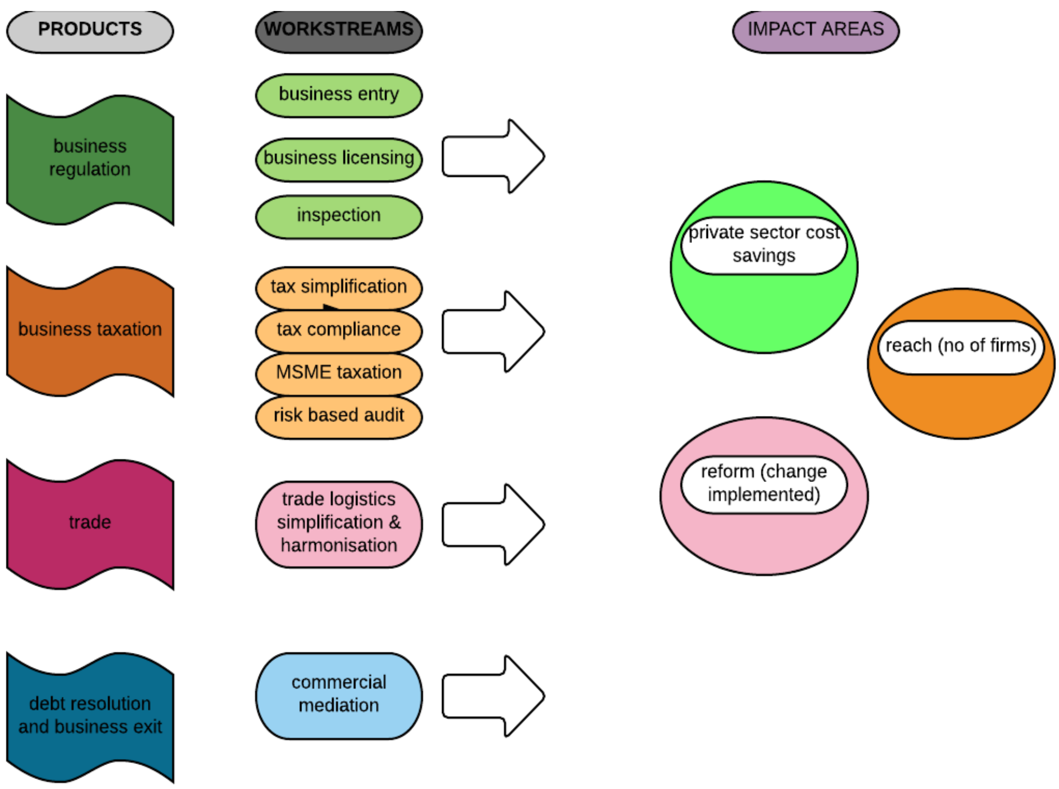
[14] In IFC programmes, this is often in the form of trust fund administration fees. IFC in addition, usually charges management fees per programme component.

7.4 Matching VfM indicators to IFC workstreams

Economy and efficiency indicators are typically similar for all types of BER programming: for instance, most development programmes report on similar process and cost metrics where data is available and most BER programmes report programme cost per target business reached.

At the level of effectiveness and cost effectiveness, VfM indicators vary in their relevance depending on the nature of the work in each intervention. In developing its VfM framework, the IFC considered nine intervention areas, workstreams, which are presented in chart 2.

Chart 2: IFC Products and Workstreams in Relation to the Outcomes Measured in IFC VfM Framework



Source: Flowchart designed based on IFC's detailed table of selected products, workstreams, projects and costs

Table 3 maps relevant quantitative effectiveness indicators to these workstreams. The relevance of indicators will depend on the specific focus of particular interventions, but a preliminary ranking of indicators by relevance is provided in the table (indicator relevance is indicated by the number of ticks, with no ticks indicating that the indicator is not relevant to the workstream).

Table 3: VfM quantitative effectiveness indicators mapped to workstream

	Indicators	Applicable IFC Work streams								
		Business entry	Business licensing	Inspection	Tax process simplification	Tax compliance mgmt	SME taxation	Risk based audit	Trade logistics	Commercial mediation
Effectiveness	Total compliance savings achieved (per reform or total of programme)	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓	✓	✓✓	✓✓
	Compliance savings achieved vs. programme spend	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓	✓	✓✓	✓✓
	Total value of increased income for beneficiaries	✓✓	✓✓		✓✓	✓✓	✓✓✓		✓✓	
	Cost per £ of increased income	✓✓	✓✓		✓✓	✓✓	✓✓✓		✓✓	
	Total increased value of sales by firms	✓	✓		✓	✓	✓		✓✓	
	Monetized efficiency savings as a result of reform	✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓	✓	✓✓	✓
	Cost per job created	✓✓	✓✓		✓✓	✓	✓✓✓		✓✓	
	Cost per job sustained beyond 6 months	✓✓	✓✓		✓✓	✓	✓✓✓		✓✓	
	Economic return/ CBA of distinct programme components	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓✓

8. Emergent issues in VfM measurement in BER and recommendations for further research

Key emergent issues for DFID COs and IFC officials for the conceptualisation and measurement of VfM in BER programmes include capturing impact in terms of job creation and gender and working in fragile and conflict affected states. This learning notes provides a brief overview of the challenges and issues faced in these areas, but further studies on the role of VfM in each of these areas are required.

8.1 Jobs Measurement in DFID's BER work with the IFC

The IFC is currently developing a framework on jobs measurement. This is likely to assist significantly in assessing VfM performance if it enables cross-comparisons between programmes. The main challenge faced by IFC in developing this framework is the difficulty of providing ranges and benchmarks, as have been developed for compliance cost savings elsewhere in the WB Group BER VfM framework (see Section 5 for more information).

'Cost per job created' is a common metric used as a proxy for effectiveness, particularly by business environment reform and M4P programmes. However, applying this metric poses significant challenges in practice: the results reported by different programmes vary widely given the different cost structures of programmes operating in very different contexts and due to different approaches to conceptualising and measuring jobs even in the same country context. For example, the M4P Growth and Employment in States (GEMS) programme in Nigeria agreed a common description for what constitutes a 'job' at the outset across all four of its components. Nevertheless, results reported during implementation varied significantly over time and across the sectors that it operates in[15].

Further examples from recent BER programmes highlight the large variability in VfM results for job creation and the requirement for further research to develop consistent benchmarks: the Supporting Employment and Enterprise Development (SEED) programme in Afghanistan reported the cost per job created as £3,299[16], whereas in the Skills and Employment Programme in Bangladesh the cost per job estimate was £277[17].

[15] GEMS Mid-term Review 2014, available on Devtracker.
[16] SEED Annual Review, April 2015, p.13, available on Devtracker.
[17] Skills and Employment Programme in Bangladesh (SEP-B) Business Case, March 2013, p.43.

Case study: analysing the cost of creating jobs in the Supporting Employment and Enterprise Development (SEED) programme Afghanistan

SEED, which ended in December 2015, was an umbrella programme covering five projects and implemented by several organisations. Its Business Case (2009) did not incorporate any VfM measures. Before programme end, a VfM analysis was undertaken for the April 2015 Annual Review by DFID. In the absence of pre-defined efficiency metrics, this analysis used the two outcome indicators from the SEED logframe as proxies: i) the number of full time equivalent (FTE) jobs created; and ii) creating improved income opportunities for beneficiaries.

This VfM review calculated that the cost of each FTE job created by SEED was £3,299 as measured by programme spend and that for each £41 the programme spent it increased income or saved money for one person. On the first result, the AR concluded that the programme cost was too high in relation to other programmes and on the second that the ration of programme cost to impact low (although the result wasn't clarified in terms of the specific amount saved or earned by beneficiaries on average) (SEED Annual Review by DFID Afghanistan, April 2015).

8.2 Gender, Fragile and Conflict Affected States, and Political Economy

8.2.1 Gender considerations in VfM analysis for BER programmes

Gender considerations are typically addressed as part of reporting under Equity, or under Effectiveness as Equity is sometimes seen as a subset of effectiveness. Many programmes (including BER programmes) choose to address gender by disaggregating beneficiaries by gender. Equity is often a key cost driver in programming and in VfM analysis: equitable reach is almost always more costly than average reach per beneficiary.

For IFC implemented programmes, the unit of analysis is often firm / enterprise and not the individual beneficiary[18]. A disaggregation based on female-led enterprises is undertaken by some IFC programmes (but had not been undertaken by those programme reviewed as part of this learning note[19]), while other programmes have taken a more pragmatic approach and attempted to implicitly 'inject' gender considerations into each component / intervention (even if not considered in detail during design) by focusing interventions on sectors with more potential to impact on women's economic status.

Reporting of direct impacts based on gender disaggregation, as is common in many private sector development and particularly M4P programmes, has been criticised as failing to provide insights into changes in social roles and power relations[20]. The same potentially holds true for many BER programmes. For these programmes, gender impacts can be considered more deeply, for example, by assessing the impact of the programme on access to skills; on

[18] There are exceptions, as in agribusiness interventions. Warehouse Receipt Systems intervention for example, tracks individual beneficiary farmers.
[19] For instance in GEMS 1 in Nigeria, which used M4P approach in very male- dominated sectors that are meat and leather. Post-Completion Report for GEMS 1, Pettigrew S, and Bayaz G, August 2015.
[20] Ruffer and Wach, Review of M4P Evaluation Methods and Approaches, 2013, p.38.

decision-making; or on the effects of increased incomes on the stature of women. VfM calculations can only partially capture such metrics.

8.2.2 Fragile and conflict-affected contexts

The IFC VfM framework presents a range of VfM calculations for private sector compliance savings in FCAS countries as a separate category. Programme VfM in FCAS countries is broader than this, however, and frequently relates to political economy considerations. With regards to political economy, the VfM in Investment Climate Report finds that '*Apart from the current political risk in the country which is captured at project inception, political economy risk is not taken into consideration. A political party dominance and/or a parliament that is yet to be in place are amongst the factors that need to be considered as they might have a significant impact on project duration and sequentially cost'*[21].

Decisions regarding resource allocations among project components (a VfM issue) can be informed by political economy analysis. The lessons learned in the IFC VfM framework include a proposal that '*project approvals should be based on a prerequisite of thorough political economy assessment that should be captured by the project management system so it can be used in Value for Money analysis.*'

Political economy analyses are undertaken for DFID programmes as part of the business case design, but are rarely updated. Political economy analysis should not be a consideration solely at the outset, however, but revisited throughout implementation, especially in a dynamic FCAS environment.

[21] Value for Money in Investment Climate Report, World Bank Group, August 2014, p.31.

9. Ways to strengthen VfM analysis in BER programmes

In addition to applying a stronger and more consistent basket of indicators for measuring VfM of BER programmes, the following measures would serve to further strengthen VfM analysis:

- **Costs**: Many DFID offices consulted for this learning note stated that they would like to know more about input costs in investment climate programmes, which is key to calculating economy indicators. DFID offices would also like to learn more about how the WB Group is promoting efficiency. Achieving this would require that the WB Group share detailed cost information related to economy and efficiency.
- **VfM practices**: Programmes should do more to document evidence of cost conscious behaviour and good procurement practices. This is becoming common practice, and sometimes requirement across DFID offices, so it is expected that IFC managed projects follow suit. Some offices compile such examples and share among DFID programmes in order to encourage learning[22]. One example from an IFC implemented programme in Bangladesh was that expenditure savings were achieved when IFC effectively negotiated with Government of Bangladesh for VAT exemption for consulting services[23]. Cost savings through the use of client offices for meetings rather than hired venues was another example.
- **VfM toolkits:** Similar to the private sector compliance savings value framework, IFC is planning to design a tool for measuring job creation. It is recommended that this framework consider the quality of jobs created, as well as the quantity. The tools can be expanded to examine the public sector cost savings also, as reform in this area would be a good proxy for effectiveness. In addition to a VfM tool where ranges are calculated at the outset, BER programmes are also commissioning studies focusing on individual programme components and their costs and expected/ realized benefits in order to demonstrate effectiveness. For example, IFC prepared an impact assessment on their work on Competition Authority of Kenya. Out of the programmes reviewed for this assignment, VfM cost effectiveness indicators are not being used or regularly reported against by IFC managed programmes, except in one programme in Afghanistan.
- **Benchmarking:** Similar to the efforts under the IFC's VfM tool on private sector compliance savings, defined ranges on other cost effectiveness metrics will be needed in order to compare results. Programmes should work to track their own performance and report as trends (reduced cost trends will indicate good proxies for VfM) in the absence of local, regional or international benchmarks. Several stakeholders stated the need for cross-country comparisons of the job creation impact of investment climate reforms.

[22] DFID Kenya and Somalia, DFID Nigeria.
[23] Value for Money Analysis of Bangladesh Investment Climate Fund (BICF), November 2015, p.5. No author noted.

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