

11. Efficiency or Cost-Effectiveness

Principles and Norms

DEFINITIONS

11.1 *Efficiency* is the extent to which the program has converted or is expected to convert its resources/inputs (such as funds, expertise, time, etc.) economically into results in order to achieve the maximum possible outputs, outcomes, and impacts with the minimum possible inputs. (See also paragraph 13.1.)

Based on DAC
Glossary and
IEG evaluation
criteria

11.2 *Cost-effectiveness* is the extent to which the program has achieved or is expected to achieve its results at a lower cost compared with alternatives.⁵⁹ Shortcomings in cost-effectiveness occur when the program is not the least-cost alternative or approach to achieving the same or similar outputs and outcomes.

11.3 An assessment of efficiency relates the results of a program to its costs. Ideally, this would attempt to put a monetary value on the benefits arising from the activities of the program, compare these with the costs of the program, and calculate the internal rate of return that equalizes the present value of the benefits and costs. But in most cases, a monetary quantification of the program's outputs and outcomes is problematic and would be based on potentially controversial assumptions. In these cases, the assessment of efficiency focuses on ratios such as the number of lives saved, the number of children vaccinated, or the number of additional households served with electricity per thousand dollars invested, while also indicating the margins of error in these estimates.

11.4 An assessment of cost-effectiveness takes the benefits arising from the activities of the program as a given and asks whether these could have been produced at a lower cost compared with alternatives. For GRPPs that are providing development assistance to developing countries,⁶⁰ the principal alternatives are the traditional means of delivering development assistance (bilateral or multilateral), or other GRPPs operating in the same sector.⁶¹ Ideally, such a comparison of

59. *Value-for-money* is a related concept. This assesses the extent to which the program has obtained the maximum benefit from the outputs and outcomes it has produced within the resources available to it.

60. Most GRPPs fall into this category. However, some GRPPs, such as the Prototype Carbon Fund, use trade rather than aid to achieve results.

61. Some may argue that alternative ways of achieving outputs or outcomes without development assistance should also be considered. These might include, for example, community development approaches relying on benefi-

alternatives should assess the costs from both the beneficiary and donor perspectives. If this is not possible, the assessment should always state clearly from which perspective the costs are being assessed. (See standards below.)

NEED FOR GRPP EVALUATIONS TO ASSESS EFFICIENCY OR COST-EFFECTIVENESS

Elaborates on
UNEG Standard
3.8, paras. 17
and 18

11.5 Development aid is a scarce resource. Therefore, GRPP evaluations need to assess the efficiency of the interventions to the extent feasible and to make recommendations for improving the efficient use of resources. Where no efficiency or cost-effectiveness analysis is included in an evaluation, some rationale for this exclusion should be presented in the objectives or methodology section of the TOR and in the evaluation report. In all cases, evaluators should point out areas of obviously inefficient use of resources.

11.6 It may be difficult, both logically and empirically, to conduct an efficiency or cost-benefit analysis for a GRPP as a whole. However, it is often possible to conduct an analysis for individual activities, which may be compared to sectoral benchmarks and generic cost indicators, where available. It may also be possible to compare the costs of delivering similar activities of different GRPPs that are operating in the same sector. In a mature program, an impact evaluation of subsets of activities may also be possible and beneficial. But impact evaluations are generally conducted as a separate exercise parallel to and not part of program-level evaluations. (See Chapter 15, Impact Evaluation.) If the commissioners of an evaluation choose to include an impact evaluation as part of a program-level evaluation, this will require a larger budget, as well as specific impact evaluation skills on the evaluation team.

Standards and Guidelines

RELEVANT METHODOLOGIES AND QUESTIONS REGARDING EFFICIENCY AND COST-EFFECTIVENESS

Elaborates on
UNEG Standard
3.8, para. 14

11.7 If assessing efficiency or cost-effectiveness is among the objectives of the evaluation, a range of analytical approaches may be considered, from an elaborate cost-benefit or internal rate of return analysis, to a more limited cost-effectiveness analysis, or to a quick cost comparison. At a minimum, the evaluation should measure and analyze the program's costs in broad categories and categorize and list the program's activities, outputs, outcomes, and other benefits,

ciary contributions of labor and other resources to specific activities. While these alternatives may be superior with respect to sustainability, they are unlikely to be able to deliver results at the same scale as the GRPP, which is supported by external development assistance.

even if these cannot be valued in monetary terms. Evaluators should, to the extent possible, address the following broad questions:

- Has the program cost more or less than planned? How did it measure up against its own costing schedule?
- How do actual costs compare with benchmarks from similar programs or activities? Are there obvious cases of inefficiency or wasted resources?
- Do the program benefits outweigh the costs of individual activities? (For regional partnership programs, do the national program benefits outweigh the costs for each country?)
- What is the least-cost way of getting the expected results?
- Were the program's outputs and outcomes achieved in the most cost-effective way?

11.8 Additional relevant questions, based on the scope of the evaluation and the technical and financial resources available to the evaluation team, would include:

Based on UNEG Standard 3.8, para. 14

- What would be the implications of scaling the program up or down in terms of costs, cost-effectiveness, or efficiency?
- What would be the costs of replicating the program's activities in a different environment?
- How do costs affect the results and the sustainability of the program?

FINANCIAL VERSUS OTHER ECONOMIC AND SOCIAL COSTS

11.9 Efficiency and cost-effectiveness analysis in evaluation builds on financial information, but may also involve calculating other economic costs such as labor-in-kind and opportunity costs. Analysis of incremental costs may also be useful. Whether cost comparisons are made only in relation to activities and outputs or also in relation to outcomes and impacts will depend on the purpose of the evaluation and the evaluation questions posed (and also on the maturity of the program). Efficiency and cost-effectiveness analysis should explicitly specify the perspective from which costs are analyzed (such as the perspective of the whole program, selected donors, a country or local-level implementing agency, or individual beneficiaries).

Based on UNEG Standard 3.8, paras. 15 and 16

NEED TO EXPLAIN LIMITATIONS OF ANALYSIS

11.10 The analysis of efficiency and cost-effectiveness should explain any limitations of the analysis, which may include various complexities faced (such as multiple program objectives), poor data, or the limitations on the time and resources experienced by the evaluators.

Based on UNEG Standard 3.8, para. 16

QUALITATIVE ASSESSMENTS RELATING TO EFFICIENCY AND COST-EFFECTIVENESS

Draws on internal IEG guidelines

11.11 Where only qualitative assessments are possible, the evaluator should take into account the following factors:

- Implementation progress (delays and redesigning would increase costs)
- Whether the stream of benefits has reached significant levels and is growing at reasonable rates (compared with plans)
- Capacity utilization rates for facilities and services financed
- Adequate operation and maintenance arrangements and financing
- Good-practice standards for services
- Whether the benefits stream is judged to be adequate when compared with the costs.

CONSTRAINTS TO ASSESSING EFFICIENCY OR COST-EFFECTIVENESS

Draws on IEG's experience with reviewing GRPPs

11.12 An IEG review of external evaluations of GRPPs has revealed few cases where efficiency or cost-effectiveness has received the emphasis considered important by the above UNEG and IEG standards. This may be due to the following factors, which governing bodies or commissioners of evaluations should bear in mind when deciding the scope of an evaluation:

- Donor agendas may not consider efficiency or cost-effectiveness of grant aid to be as important as the achievement of objectives (effectiveness) – that is, showing results to constituencies.
- Expectations with regard to efficiency are low in the early years of a GRPP, since the costs of establishing the program and its governance and management arrangements are high relative to activity costs.
- There is inherent complexity. Estimating the value of benefits is always difficult and depends on the perspective adopted (donor, implementer, or beneficiary group). Cost categories are not uniform among programs. Special skills are required. Neither the manager of the evaluation nor the lead evaluator may have the special skills, time, or resources to provide sufficient guidance during the evaluation when problems of measurement are encountered.
- The continuing evolution of a GRPP, with the scale and reach being dependent on the availability of financing, means that the changing economies of scale make the use of benchmarks (or comparison with other programs) difficult.

- The multiplicity of partners and activities makes it particularly difficult to assess results against a counterfactual.

COST CATEGORIES TO BE CONSIDERED

11.13 At a minimum, GRPP evaluations should record administrative costs relative to activity costs – paying attention to trends over time, taking account of the intended versus the actual breadth and scope of a program’s activities, and noting any actual or expected economies of scale.

11.14 Ideally, other cost categories should also be considered, such as the following:

- The transaction costs of convening the partners, such as the travel and subsistence costs for attending meetings of the governing body, not all of which are recorded in the program’s expenditure records
- Upfront expenditures spent during preparation, preliminary resource mobilization, and planning of the institutional framework and governance, even though these costs may have been incurred by different founding organizations and donors, and may not have been recorded in the program’s expenditure records ⁶²
- Additional costs incurred by third parties as a consequence of the program’s activities, for example, by national authorities during implementation.

EFFICIENCY AND COST-EFFECTIVENESS FROM THE BENEFICIARY GROUP PERSPECTIVE

11.15 GRPP evaluations should analyze efficiency and cost-effectiveness of the GRPP from the perspective of the beneficiary groups. Is the menu of program benefits responsive to the needs of the beneficiary group? Is the group getting fair access to the benefits? Are there benefits of aid harmonization or improved aid coordination associated with the GRPP? Given the benefits received, are the costs of participating (such as preparing proposals, reporting, time spent in GRPP meetings) worthwhile? Does receiving the development assistance through the GRPP increase the transaction costs for the beneficiary groups over what would be the case (or what is the case) from development assistance delivered through traditional bilateral or multilateral programs? In what ways could transaction costs to the beneficiary groups be reduced further?

Draws on IEG’s experience with reviewing GRPPs

62. Global programs often incur heavy up-front expenditures to convene an effective working partnership and program platform.

EFFICIENCY AND COST-EFFECTIVENESS FROM THE DONOR/PARTNER PERSPECTIVE

Draws on IEG's experience with reviewing GRPPs

11.16 GRPP evaluations should also analyze efficiency and cost-effectiveness from the perspective of donors and partners. Is the GRPP delivering the expected outputs and outcomes in a timely manner? Is reporting adequate to satisfy donors' and partners' need for visibility and accountability to stakeholders? How do the benefits and costs of delivering the development assistance through the GRPP compare with those of traditional development assistance in which donors and partners take part? Has there been a reduction of overlapping work among donor agencies and partners (such as through joint supervision, monitoring, or evaluation)? Similarly, to what degree is the GRPP contributing to increased process harmonization of efforts between donors within the country? Is this having any effect on donor costs? While it may be difficult to actually measure benefit streams, and while benefits and costs for different donors and partners will differ, surveys of donors and partners can help record and quantify perceived benefits and provide the basis for such an aggregate assessment.

COMPARING ALTERNATIVES

Draws on IEG's experience with reviewing GRPPs

11.17 GRPP evaluations should also compare the progress of activities, outputs, and outcomes with alternative ways of delivering the same activities or achieving similar results more cost-effectively, including through another similar program or through a lower-cost means. For example, if the underlying intent of the program is to forge greater understanding or linkages between two international organizations in a specific thematic area, could this have been achieved more cost-effectively through improved knowledge management and dissemination, or a staff-level working group?

11.18 Commissioners of evaluations may wish to propose specific areas where a detailed analysis of cost-effective alternatives would be beneficial. One such area might be examining alternative ways of providing opportunities for stakeholders to participate in program governance (either in general or in key strategic decisions). (See also Chapter 12, Governance and Management.) While legitimate participation of beneficiary groups from developing countries is a key norm for GRPPs, there may be a variety of ways this can be achieved. Evaluators could examine the trade-off between representation on the governing body and alternative means of participation, including the use of new technologies such as videoconferencing or moderated e-discussions. Another such area might be how best to deliver a subset of activities or services. For instance, evaluators could conduct a comparative analysis of the efficiency of centralized programs versus partially or fully decentralized programs.