

# Triple Line's approach to enhancing value for money in challenge funds

December 2014

## Introduction

**This note illustrates a few of the ways that Triple Line has measured, analysed and enhanced the value for money (VFM) performance of challenge funds.**

Accomplishments over the past year have included: successfully analysing and drawing insights from the *Global Poverty Action Fund's* activity based costing data, and enhancing guidance to GPAF's technical team to enable more consistent appraisal and comparison of

grant holder VFM performance; conducting a rigorous cost benefit analysis of ten *Enterprise Challenge Fund* projects (Australian DFAT) which demonstrated the cost effectiveness of the ECF mechanism; and providing technical expertise to the *Africa Enterprise Challenge Fund* to support improved results measurement and insights into which projects yielded highest development impacts.

## Value for money

Value for money is about '**maximising the impact of each pound spent to improve poor people's lives**' and driving towards a '**better understanding (and better articulation) of costs and results so that we can make more informed, evidence-based choices. This is a process of continuous improvement**'.

*DFID's Approach to Value for Money (VFM) July 2011*

VFM is not an absolute concept, but rather a process of continuously enhancing our understanding of costs and results in order to support improved decision making. This approach to VFM underpins the work Triple Line undertakes in the design, management, and monitoring and evaluation of challenge funds, and guides what we learn from them.

### Going beyond the four E's

The four 'E's – *Effectiveness, Efficiency, Economy and Equity* – are well known in the context of VFM, and provide the building blocks for understanding and analysing overall cost effectiveness. However, these concepts alone are insufficient: driving enhanced VFM performance requires an equally deep appreciation of the design characteristics and objectives of each challenge fund.

For instance, many challenge funds are designed on the assumption that monitoring data is to be collected on a 'light touch', and grant holder self-reported basis. This requires

that judicious care is taken to balance the desire to collect comprehensive development impact data against the burden placed on grant holders to collect such data, particularly since many grant holders have only limited capacity and resources. In this case enhanced VFM performance requires carefully mapping data needs and the key assumptions and evidence sources that require verification. Indicators must be streamlined and guidance on their use carefully designed so as to be practical for grant holders and ensure optimum data consistency and ability for aggregation across the portfolio. Similarly, it is also necessary to recognise that

## Value for money in challenge funds

any one challenge fund may operate across a broad geographic or contextual scope, or have multiple aims or objectives. Each of these factors has significant value for money

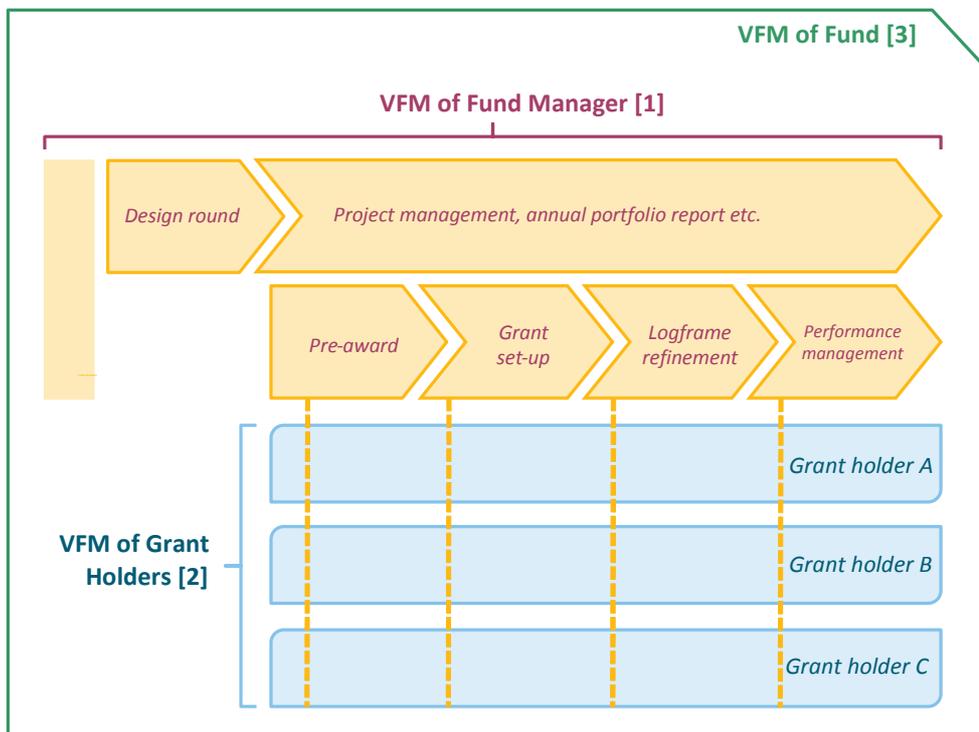
implications. In each of these cases Triple Line has developed tools and approaches to systematically yield improved VFM performance.

### Three levels of VFM in challenge funds

Triple Line identifies opportunities for improved VFM performance in challenge funds by reviewing and enhancing processes at three levels. That of the:

- ≡ **Fund Manager**, first in the context of the Fund Manager's technical team which is responsible for making informed judgments of VFM performance at the micro level of each grant holder at each stage of the grant lifecycle; and secondly, at the macro level of the portfolio of projects, in terms of VFM insights generated by comparative and trends analysis.
- ≡ **Grant holders**, who provide the required data and information on which to assess VFM performance.
- ≡ **Fund as a mechanism**, so that an overall assessment of its relative cost effectiveness can be made. This requires consideration of all costs associated with activities such as establishing and marketing the fund, screening proposals, setting up grant agreements and disbursing funds, supporting grant holders and reporting to the donor.

Figure 1: Three Levels of VFM



## Fund Manager

### Micro level: guidance to technical team

Triple Line has developed a comprehensive system of promoting and measuring VFM at each stage of the project life cycle.

In the case of the *Global Poverty Action Fund*, the Fund Manager examined each source of information received from grant holders throughout the project life cycle. Improved guidance to the technical team was then developed, so as to enable a more consistent appraisal and comparison of each project's VFM performance during concept note, proposal stages and then on to logframe refinement and project implementation.

A large number of small, iterative process changes and guidance improvements have yielded excellent results. For instance, a simple assessment tool was developed which accounts for the influence of external factors on a project's VFM performance. Other activities included devising a typology of project types to drive greater consistency of indicator use, intended to ensure that results are reported

more consistently, and that impact data can be more easily aggregated.

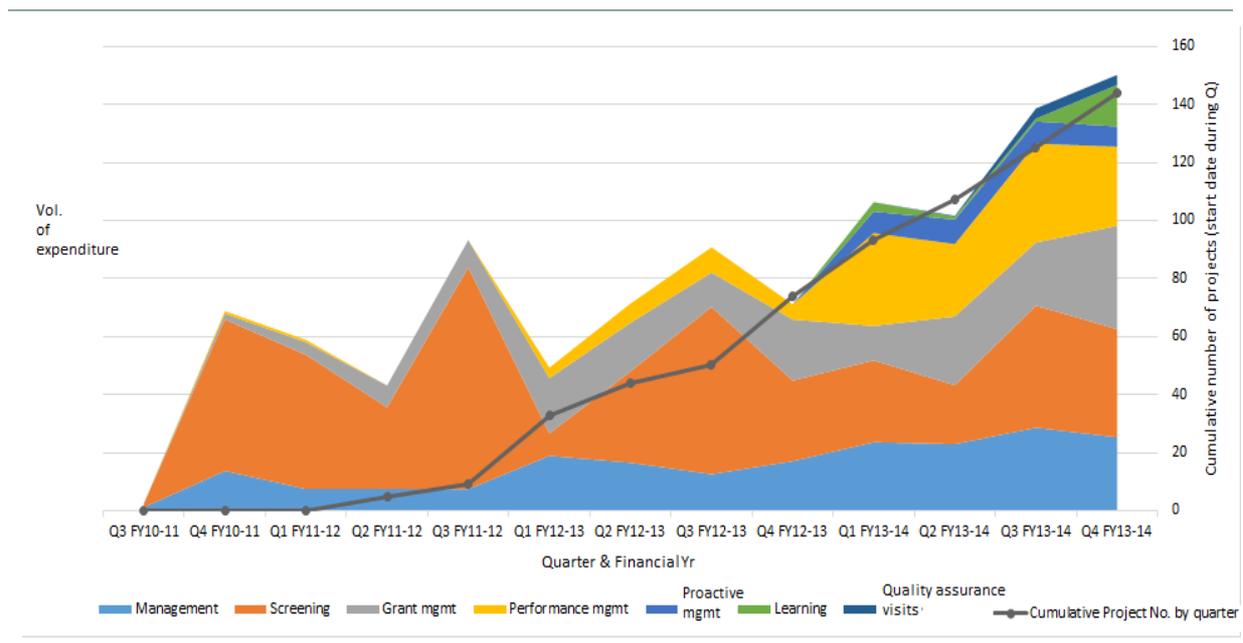
### Macro level: portfolio analysis

In the case of the *Global Poverty Action Fund*, the Fund Manager operates an activity based costing on all fund management functions whereby all inputs are recorded against key activity areas e.g. financial management.

With over 11,000 data entries spanning from late 2010 to the end of the 2013-14 financial year, expenditure covering these broad fund management activities was analysed to produce an overview of the fund management expenditure to date.

This analysis will help inform strategic choices. For example, whether there is a case for increased proactive management and support to grant holders in terms of increased development impact performance across the GPAF portfolio.

Figure 2: Overall absolute GPAF fund management expenditure by quarter



## Grant holders

Improving the scope of measurement, accuracy and reporting by the grant holders on the 4Es is a key task.

Triple Line has significant experience of developing and refining VFM reporting guidance relating to applications for grant funding as well as in the context of grant holder project monitoring and evaluation.

Ongoing activities include continuing to research theme-based standardised indicators for introduction at grant set-up and logframe

refinement stages and revising guidance to applicants to reflect newly identified best practices.

In addition, the Fund Manager has been examining the utility and practicality of VFM analysis based on measures such as cost per beneficiary and working to meaningfully categorise projects with similar cost and value-to-beneficiary structures.

## Fund as mechanism

The cost effectiveness of a challenge fund is heavily determined by its design and key factors such as alignment between a donor's objectives and the strengths of limitations of challenge funds as a mechanism. Triple Line has significant experience in designing challenge funds and ensuring this alignment.

Evaluating the cost effectiveness of a challenge fund may then be undertaken using tools such as cost benefit analysis, particularly in the case of funds which seek to generate economic and livelihood benefits.

## Recommendations

- ≡ Be fully aware of the design characteristics and objectives of each challenge fund when applying the four 'E's (*Effectiveness, Efficiency, Economy and Equity*) as a conceptual tool to drive improved VFM performance.
- ≡ Define value for money metrics carefully and ensure they are used appropriately.
  - Metrics such as 'cost-per-beneficiary' are easily taken out of context and subject to misinterpretation, particularly where attempts are made to compare cost-per-beneficiary figures across projects.
- ≡ Do not underestimate the value that a well-established and high quality management information system may deliver in terms of activity-based costing performance analysis and management, particularly in the context of large challenge funds.
  - Fund Managers are encouraged to undertake a systematic analysis of their fund management expenditure in order to allow for greater benchmarking of costs across funds and in different geographies, operating contexts etc.
- ≡ VFM is about getting the most out of each pound spent to improve poor people's lives. Beneficiary feedback is an essential part of the process of validating the results that have been achieved and whether real value has been delivered.
- ≡ Keep it practical! Do not overburden grant holders as a Fund Manager:
  - Be able to provide practical guidance on data that is required and methods for collecting such data.
  - Focus efforts on ensuring that a narrow set of data and performance metrics are consistently implemented and reported.