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Mainstreaming the Value for Money concept in FAO activities

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The increasing expectations from member countries for FAO to maintain the level of delivery and impact of its programme of work with decreasing budgets puts a spotlight on the notion of value for money (VFM).

In a simplistic way attaining VFM relates to obtaining the greatest impact in the use of organizational funds. VFM is often described and assessed in terms of "the three Es" of economy, efficiency and effectiveness[1]:

- Economy – using the right amount of resources, of the right quality delivered at the right time and place, at the lowest cost
- Efficiency – using the minimum resources to achieve a given quantity and quality of output, or maximizing output with a given quantity and quality of resources
- Effectiveness – the extent to which the outcomes of an activity match the objective or the intended effects of that activity

For example, when considering the economy of actions, possible issues which can undermine the VFM of an action include[2]:

- waste, i.e. using resources which are not necessary for the achievement of the desired outputs or results;
- overpaying, i.e. obtaining resources which are used, but could have been obtained at a lower cost; and
- gold plating, i.e. paying for a higher quality of input than that required to achieve the desired outputs or results.

Perhaps the area where the concept of VFM is more mature at FAO is in procurement and administrative services. CSAP's procurement guidelines begin by establishing that "*The core governing principle of FAO is to obtain the best value for money, i.e. fitness for purpose to meet the user's requirements, as well as the optimum combination of expected whole life benefits versus cost to procure.*" It is evident that the cheapest option may often not be the best value for money and this is a concept that all of us apply in our lives in almost every economic decision we make.

[1] Definitions by the International Organisation of Supreme Audit Institutions (INTOSAI)

[2] European Court of Auditors, Performance Audit Manual, p. 17.

But VFM is equally applicable to the rest of FAO activities. In this regard, there appears to be ample room for improvement in mainstreaming the concept in the Organization. In some cases, the policies exist and the general principle has been established, however its actual implementation can be challenging.

For example, Director-General's bulletin No. 2013/54, dealing with official travel of staff, states that duty travel should be avoided unless absolutely necessary, and sets a number of rules to limit duty travel (this has not only financial benefits but also environmental ones). However, while it can be expected that the increase in the use of videoconference facilities in the past few years and tighter control over training plans has reduced the amount of travel to some extent, it is very likely that further reductions might be possible. In this regard, consideration could be given to the United Nations Secretary-General recommendation[3] to require programme managers to certify that due consideration was given to achieving the purpose of travel through alternate methods, such as telephone conferencing, videoconferencing or webcasting before approving any travel.

Identifying and assessing alternatives: cost and value

It can be deducted from the VFM definition that a prerequisite to be in a position to assess VFM of any given action is that there must be clarity about the cost and value (or impact) of that action. But this basic information is not always easily available at FAO. VFM also requires rigorously identifying alternative ways to obtain the same results. But in some cases it appears that things get done only because “we have always done them that way” or triggered by a seemingly good idea which however has not been carefully thought through.

Regarding measuring the impact (value) of our actions, a major constraint when applying the VFM concept to a non-profit organization like FAO is that this may not be quantifiable, whereas in the private sector inputs and outputs are usually expressed in monetary terms and are therefore easily quantifiable and comparable. In this regard, the results framework that comes with the new Strategic Framework is an important basis for VFM in FAO, as it aligns the work undertaken by FAO with a defined set of deliverables that can be quantified, at least at the output level.

[3] United Nations General Assembly report A-66-676 “Proposals for a more effective and efficient utilization of resources for air travel”, paragraph 91.

Moreover, there is the challenge of knowing precisely the cost of our activities, especially since the main cost driver for the Organization is staff time, staff typically deal with several different activities simultaneously, and there are few parts of FAO where time recording systems are in place. This likely represents a significant constraint to promoting a VFM approach because, while the work planning exercise helps the Organization allocate budgets to action plans that will deliver outputs, there is no monitoring system that would confirm the actual costs incurred in implementing those actions. This is challenging without some type of time recording, given the complexity of FAO's results-framework, where each technical unit contributes to several outputs and each output is attained through the combined work of several units.

It should also be acknowledged that some people consider that knowing the actual cost of single services is not important and that what really matters is whether we have achieved our overall results i.e. they are focused primarily on the impact. However, if we made a comparison with the private sector, this would translate to a company manufacturing and selling twenty different products and obtaining a global profit but not knowing the actual profitability of each of those products. Just a focus on results without considering the costs not only limits capacity for internal decision-making on lines of business but also may result in a company being blind-sided by its competitors who are more cost-conscious, with consequences for its survival.

The same concept can be applied to FAO. Quantifying the outputs that we are delivering is essential, but knowing the cost at which we are actually producing them (the real cost, not the planned one) is equally important. Having such information would allow for better managerial decisions (e.g. transferring funds from some services to others, streamlining or reassessing those services with a marginal impact, identifying activities that may absorb resources and have no or little contribution to our objectives) and would allow the Organization to certainly demonstrate VFM to its stakeholders in an environment where funds providers are increasing facing a choice of partners and question delivery costs as well as results.

To further understand why this is important, we should simply acknowledge that not all our actions contribute in the same manner to achieving our objectives, as enunciated in Pareto's principle[4]

[4] A principle, named after economist Vilfredo Pareto, that specifies an unequal relationship between inputs and outputs. The principle states that, for many phenomena, 20% of invested input is responsible for 80% of the results obtained. Put another way, 80% of consequences stem from 20% of the causes.

(also known as the 80/20 rule). Knowing the relation between the cost and impact of our activities would allow management to make informed strategic decisions about the allocations of resources which could result in significant cost savings or output increases.

This does not intend to say that FAO is not making attempts at prioritizing efforts already. The issue is that insufficient information allows only for a gross analysis of options whereas mainstreamed VFM would allow for fine-tuned decisions. For example a recent OIG review observed that both the production of products by a headquarters service area and the overall impact of those products had increased significantly. However, while it is evident that a few highly attractive products deliver most of the impact, there is insufficient information to fully assess the relation between individual products, their cost and their impact.

In conclusion, thinking in terms of VFM forces managers to understand the actual correlation between the cost of their activities and the results they achieve and to demonstrate unequivocally that no more efficient alternatives exist to attain the same results. As such, the concept could be more vigorously applied to all FAO's activities as it would reinforce the Organization's commitment vis-à-vis its member countries, donors and other stakeholders to undertake all efforts to maximize the impact of its available funds.

The Office of the Inspector General has longstanding experience in reviewing the applicability and implementation of VFM concepts in FAO and in conducting VFM audits and is available to provide advice to FAO managers in the area.

Food and Agriculture Organization of the United Nations

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