Value for Money

About this guidance

This guidance seeks to ensure that UK Aid Direct applicants and grant holders understand what the Foreign, Commonwealth & Development Office (FCDO) means by Value for Money (VfM), and more specifically, that they:

- Understand the terms that relate to VfM in UK Aid Direct guidance and templates
- Understand VfM and why it is a useful tool for project management
- Learn how to use VfM during project implementation.

These areas are addressed below. At the end of the document there is a list of useful web sites for further information and reference.

Definition of Value for Money

VfM is about maximising the impact of each taxpayer's pound spent to improve lives. The purpose is to develop a better understanding of costs and results so that more informed, evidence-based choices can be made. This is a process of continuous improvement.

To maximise the impact of UK aid, there is a need to be very clear about the results expected as well as the costs. We also have to be confident in the strength of the evidence base and explicit in stating the underlying assumptions we are relying on to achieve those results. FCDO's approach requires that we look at the 3Es: economy, efficiency, and effectiveness. Additionally, when we look at the effectiveness of an intervention, we need to consider issues of equity. This includes making sure our development results are targeted at the poorest and include sufficient targeting of women and girls (see Gender guidance). You should frame your approach to VfM in a wider context of how the overall benefits will outweigh the costs. Outline your story of change, what will happen and what benefits will the project bring for the investment by made by FCDO.

Using BOND's guide to value for money, you can construct a comprehensive VfM strategy. Alternatively consider writing a 'manifesto', see the case study on the ukaiddirect website. The next stage is summarising your comprehensive approach and demonstrating this clearly in your application.

The 3Es

- **Economy**: Are we or our agents buying inputs of the appropriate quality at the right price? Inputs are things such as staff, consultants, raw materials and capital that are used to produce outputs.
- **Efficiency**: How well do we or our agents convert inputs into outputs? Outputs are results delivered by us, or our agents, to an external party. We or our agents exercise strong control over the quality and quantity of outputs.

- **Effectiveness**: How well are the outputs from an intervention achieving the desired outcome on poverty reduction? In contrast to outputs, we, or our agents, do not exercise direct control over outcomes. Cost-effectiveness must also be explored. So think about the impact on poverty reduction an intervention achieves relative to the inputs that we or our agents invest in it?

VfM components

Your VfM strategy should consider some or all of the following points and contain a response to the following questions, on behalf of yourself and you in-country delivery partners. We will evaluate your value for money statement in accordance with your responses to the questions above and others. Some of the VfM characteristics of a highly-marked application are outlined.

Economy

- What are the project's major costs categories and what drives the pricing of those costs?
- What actions can you take to control those costs?
- A significant cost of delivering a project are personnel costs. How do you and your delivery partner's personnel costs compare to NGOs working on similar issues or within the same country?
- If personnel costs are higher than the benchmark, then why must they be at that level?
- What overhead cost recovery are you budgeting in the project budget?
- Is this cost recovery percentage comparable with that awarded on your other donor projects? If not, then what reasons are there for the change?
- What cost categories will be subject to a competitive procurement process, and how robust is that process?

Procurement techniques will demonstrate:

- Significant cost reductions achieved through better procurement and supported by evidence.
- Ongoing monitoring of procurement costs planned
- Risks to outputs/outcomes identified, assessed and minimised
- Costs are significantly reduced and managed to very good effect

Unit costs will demonstrate:

- Unit costs are below benchmark
- Additional benefits described and quantified
- Overall costs are lower by a wide margin and represent excellent return

Efficiency

- What economies of scale have you been able to identify in the delivery of your programme?
- What is the project cost per beneficiary? How does this cost compare to cost per beneficiary benchmarking, for your own work and for others who work in your sector? If it is higher, can you justify the reason?
- What is the non-UK Aid Direct financial contribution to the project and what efforts have you made to maximise that?

- Would the cost per beneficiary reduce if you were to increase the scale of the project, and if so, why are you not aiming to deliver a larger project?
- What processes cost the most and how will demonstrate that you are carrying out those processes in an efficient manner?
- What controls will you put in place to ensure that you are delivering the goods or services in the most efficient manner?
- Can you demonstrate your experience in meeting project deadlines and milestones in your other work?

Relating to productivity:

- Costs of activities/ outputs comparable with similar programmes
- Strong evidence that value for outputs is optimised
- Integration and sequencing of activities supports delivery and measurement of productivity
- Very efficient with high inputs/outputs ratio and performance likely
- Beneficiaries are clearly described and are largely FCDO beneficiaries
- Expected results are disaggregated by beneficiary type
- Grant cost per beneficiary is within a range that is acceptable and contributes positively to UK Aid Direct's priorities.

Characteristics of your risk analysis and mitigation strategy:

- grounded in well researched comprehensive conflict/ fragile states analysis
- conflict sensitive
- risk analysis covers key threats and provides comprehensive assessment of overall risk level
- monitoring tools and planning includes risk mitigation and making timely adjustments across
- identified activities, modalities and partnerships
- addresses risk of negative impacts and balances risks with returns expected

Effectiveness

- What elements of the theory of change are the weakest and have you considered project activities to overcome these weaknesses?
- If your project will be delivered in a fragile state, how can you demonstrate your capability to deliver in difficult environments? What work have you carried out that provides evidence of this capability?
- Are the outcome and impact indicators have you chosen relevant and robust? Relevant indicators are clear, rule-driven, causally linked, gendered, pro-poor and cross-sectoral.
- What percentage of your project budget is tied to the results of the programme? Some costs for example are only expended in the delivery of the product or service offer better value for money than overhead or capital costs.

Your theory of change will demonstrate that:

- Outputs that are "necessary and sufficient" to deliver purpose
- Realistic and credible assumptions analysing key externalities in sufficient depth
- A causal chain that is strong and evidence of its strength is verified.
- A high expectation that the project will achieve its purpose
- Indicators that are clearly relevant and robust

The project may have leverage and replication potential:

- Leverage of other activities/investments and wider effects are described with evidence that shows significant potential for expansion or replication
- Very high potential for additional benefits identified. For example, scale up, multiplier or replication

Additionality

An important aspect to value for money is assessing the additionality of the project's activities. To this end, you should also consider these questions in your VfM (effectiveness) response.

- How additional would the grant be for yourselves, your delivery partners and for your end clients?
- Can you demonstrate clearly that you cannot carry out the project without help from UK Aid Direct? If not, how much of the programme could you have achieved on your own without support?
- Can you demonstrate that you will not forgo other important commitments or work if you are awarded a grant?
- Can you show that the planned activities will not displace initiatives that already serve your intended beneficiaries?
- Can you show that other parts of your organisation will not struggle if the persons you choose to implement the project are taken from their current work or commitments?
- If you assist your beneficiaries as planned, are there other positive impacts that will accrue to them that you might take credit for?
- Will there be useful lessons for governments and NGOs to learn arising from this work? If so, how will you provide those lessons?

Equity

- How focused is your project on UK Aid Direct's target beneficiaries - the most vulnerable and marginalised populations, in particular girls and women?
- If there are other beneficiaries, then you will need to present and justify the reasons why others are also targeted.

References and further reading

- https://www.ukaiddirect.org/learning/value-for-money/
- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/49551/DFID-approach-value-money.pdf
- https://icai.independent.gov.uk/report/value-for-money/
- https://www.gov.uk/government/publications/dfids-approach-to-value-for-money-vfm