What do we mean by Value for Money (VfM)?

About this guidance

This guidance seeks to ensure that UK Aid Direct applicants and grant holders understand what the Department for International Development (DFID) means by Value for Money (VfM), and more specifically:

- The terms that relate to VfM in UK Aid Direct guidance and templates
- The key principles for understanding VfM in any context
- How to use VfM during programme design and implementation.

We have also outlined some common VfM misconceptions and VfM considerations during the application process.

Summary

DFID has a duty to those living in extreme poverty and to the UK taxpayer, to ensure that we do everything we can to maximise the VfM of our actions. This means **making the best possible use of our resources to maximise our impact on poor people's lives.**

VfM in DFID means that we maximise the impact of each pound spent to improve poor people's lives.

The key principles for understanding VfM

Maximising VfM means maximising our impact, given our resources. To do this we must:

- Work to understand and increase the **benefits** of our actions to poor people's lives, and their sustainability

- Work to understand and reduce the **costs** of our actions. This means costs to DFID in financial, human and political resource. It also means understanding potential costs to beneficiaries, or to other partners.

- Consider the benefits and costs of our work relative to what we expect would happen if DFID did not act – the **counterfactual**. This includes consideration of what other donors, non-governmental organisations (NGOs) and governments, might do if DFID chose not to intervene.

- Assess our actions against credible **alternatives**. Are there other, better ways to deliver the same intended result?

- Assess our actions **strategically** and consider the **opportunity cost**. With the same resources, could we deliver equivalent or greater impact on poverty elsewhere, or if we were to target different results?

VfM at the programme level

Programmes often operate in uncertain and challenging environments over several years. It is difficult to predict development impact with certainty at design stage. Given this uncertainty, breaking down the steps between programme inputs and development impact using the **results chain** can help guide action.

Figure 1 below sets out the results chain, and what we mean by *economy, efficiency, effectiveness* and *cost-effectiveness*. These consider the costs incurred by a programme to deliver results at different points on the chain. **Maximising cost-effectiveness maximises overall Value for Money (VfM)** by maximising a programme's impact on poor people's lives, given the resources spent. Improving the economy, efficiency and effectiveness of a programme are intermediate steps which help maximise cost-effectiveness. Consider equity throughout each element of the results chain.

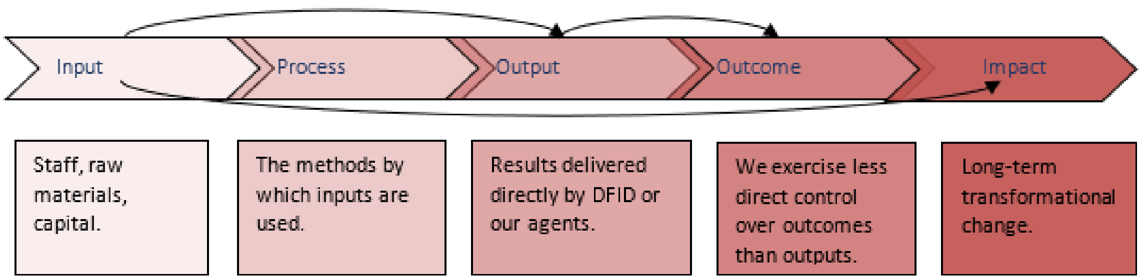

Figure 1 Table showing DFID's Results Chain

The '4 Es' and cost effectiveness

- **Economy**: Are we (or our agents) buying inputs of the appropriate quality at the right price?
- **Efficiency**: How well are we (or our agents) converting inputs into outputs? ('*Spending well*')
- **Effectiveness**: Are the outputs produced by an intervention, having the intended effect? ('*Spending wisely*')
- **Equity**: How fairly are the benefits distributed? To what extent will we reach marginalised groups? *('Spending fairly')*
- **Cost-effectiveness**: What is the intervention's ultimate impact on poverty reduction, relative to the inputs that we or our agents invest in it?

Consider setting up a framework or strategy for looking at the four Es –

- Economy
- Efficiency
- Effectiveness
- Equity.

Different types of interventions and contexts result in different value for money (VfM) measurements.

Consider the best type of approaches for the interventions and context. Why is this the most cost-effective intervention? What are the alternatives? For example, collecting evidence to show that to supply goods in a fragile context may result in a higher unit cost, than in a non-fragile context. Consider VFM holistically throughout your organisation.

- **Economy** analyses unit costs, inputs – are you getting the best quality inputs at the best price? How will you measure this and how often?
- **Efficiency** measures whether you are delivering your intervention in the most efficient way, whether services or training, are you reaching the maximum number of people at the minimum cost for example? How will you measure this and how often?
- **Effectiveness** – are you as effective in achieving your targets as you expected? If not, why not? How will you measure this and how often?
- Also measure **equity** – are you reaching the most vulnerable and those with the greatest need? How did you target them, are they really the most vulnerable? How are you measuring that?

Look at the arguments to scale up or reproduce the intervention in other contexts using the evidence and data from the project's value for money approach

Principles - delivering VfM through the programme cycle

The paragraphs below summarise best practice in achieving VfM at each stage of the programme cycle.

At the **design stage,** achieving VfM means using evidence, experience and external engagement with the people we are aiming to serve to design suitable options. Management and procurement arrangements are aimed at maximising the impact of each pound spent.

Making clear our logic and assumptions through a testable theory of change should pave the way for effective procurement, programme management and evaluation. The expected VfM of a programme can be further improved by risk assessment and mitigation strategies, early market testing, beneficiary feedback and, where appropriate, pilot phases.

At the **procurement/mobilisation stage**, achieving VfM means minimising costs given the quality and quantity of outputs required, through robust and commercially savvy procurement. Ensuring that suppliers or delivery partners' incentives are aligned with maximising development impact during programme delivery and ensuring that the contract or agreement allows effective (and suitably adaptive) programme and contract management (during delivery and at closure) is essential.

At the **delivery stage**, achieving value for money (VfM) means using a delivery plan that allows (delivery) partners to manage and adapt the programme to maintain, or increase impact through delivery. Best practice would see managers efficiently monitoring output indicators which accurately track the programme's progress towards delivering impact, managing identified risk, and validating results through engagement with key stakeholders. This helps managers respond promptly and proportionately if the programme goes off track, adapting the programme so that it remains VfM in light of unforeseen circumstances. Equally, VfM is delivered where programme managers can act on opportunities to increase the impact of a programme, as new evidence and information materialises.

Achieving VfM at the **closure stage** means that programme managers close a programme early if its expected additional impact no longer justifies the expected additional costs. Equally, programme managers extend programmes where the expected impact of a programme extension significantly exceeds expected extension costs, and where an extension has a good strategic fit with the Department for International Development (DFID) and other donor activity. All programmes need to ensure sustainability of outcomes at closure, something that needs to be built into project design and delivery.

Learning, evolving and adapting should occur at all stages of programme design and delivery. Achieving VfM means learning and not hiding, from failure. It means proportionate monitoring and evaluation (including annual reviews), which allows problems to be identified and programmes to be adapted promptly, to maintain or enhance outcomes. It also means effective, proportionate knowledge management to allow lessons learned – either through formal knowledge or informal 'know how' - from a programme to be used in future programme design.

VfM metrics

VfM metrics can play a role in programme management. Metrics are a means not an end. The objective of a metric is driving performance improvement. The aim is to be clear and transparent about the VfM of a project at the start and to manage and improve that value through understanding and monitoring the main cost and impact drivers, ensuring your programme demonstrates theoptimal use of DFID resources.

Examples of VfM metrics

A metric is a measure: a value quantified against a benchmark at a point in time. A VfM metric can measure how much we get per pound spent. For example:

- Input unit costs measure economy of cost drivers; for example, the cost per litre of fuel
- Output unit costs measure efficiency; the costs of achieving one output; for example, the cost of a girl graduating or getting an unemployed person into work
- Outcome unit costs measure the cost of achieving an outcome; for example, the cost per death averted in health interventions
- Cost-benefit and cost-effectiveness analyses, measure cost-effectiveness of alternative interventions.

Value for money (VfM) in your application

Summarise your approach to VfM in your application using the principles above. Include VfM metrics to measure and demonstrate the impact you will have. Outline how your VfM approach responds to DFID's 4 E strategy (outlined above).

We will evaluate your value for money statement in accordance with your responses to the questions above and others. Some VfM characteristics of a highly scored application are outlined below:

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 is personnel costs. How do you and your delivery partner's personnel costs compare to non-government organisations (NGOs) working on similar issues or within the same country?
- If personnel costs are higher than the benchmark, 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
- Planned ongoing monitoring of procurement costs
- Risks to outputs/outcomes have been identified, assessed and minimised
- That costs are significantly reduced and managed to very good effect

Unit costs will demonstrate:

- That they are below the benchmark
- That additional benefits are described and quantified
- That overall costs are lower by a wide margin and represent an 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? If so, why are you not aiming to deliver a larger project?
- What processes cost the most and how will you demonstrate that you are carrying out those processes in an efficient manner?
- What controls will you put in place to ensure 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 Department for International Development (DFID) 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 the 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 your chosen outcome and impact indicators 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 and offer better value for money than overhead or capital costs.

Your theory of change will demonstrate:

- Outputs that are “necessary and sufficient” to deliver purpose
- Realistic and credible assumptions analysing key externalities in enough depth
- A causal chain that is strong, and evidence of its strength 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 non-governmental organisations (NGOs) to learn 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

- How effective are your targeting mechanisms? Are you reaching the most vulnerable and marginalised?
- How are you demonstrating a disability inclusive approach to development?

Common Value for Money (VfM) misconceptions

Costs: VfM doesn't mean we only do the cheapest things. But it does mean that we must get better at understanding our costs and delivering more for each pound spent.

Benefits: we don't just do the easiest things to measure. But we do have to get better at measuring impact. The more robust our evaluations and results, based on meaningful beneficiary feedback, the more confidently we can manage the most effective interventions, increasing our overall impact on poor people's lives.

Risk: VfM does not necessarily mean low risk. Maximising the total development impact of the Department for International Development's (DFID's) work will mean a balanced portfolio of programmes, with high-risk but potentially high-impact activities balanced by lower risk programming with more dependable development impact. The core principle of risk management is to deliver our business objectives and in doing so maximise value for money.

Flexibility: VfM does not mean perfectly predicting costs and benefits before we begin work. Development can be messy, and we have an imperfect understanding of the conflict affected and fragile places where many of those in extreme poverty live. We must learn what works - and what does not - through doing. Delivering VfM requires ongoing validation of results, reassessment and adaptation, as we manage our programmes to maximise impact.

Speed: VfM does not always mean slower procurement for lower prices.

Equity: DFID's approach to VfM does not mean we should take the easy options, ignoring difficult to reach populations or problems which are difficult to tackle. Consider the value for money of the options available to us.

Relevance: VfM is not something that applies only to programme design; it should drive decision making and management throughout the programme cycle.

Further reading:

- Bond's guide to value for money, website link
- ICAI's report on value for money, website link

Elements of this guidance were adapted from DFID's SMART guidance July 2019.