Department for International Development

DFID's Approach to Value for Money – Guidance for external partners

June 2020

Finance and Performance Dept.

Smart Guides have been developed to help build confidence and capability, distilling useful tips and considerations that may help teams think through programme delivery issues and interpret elements of the Smart Rules. However, nothing should be perceived as mandatory.

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This Smart Guide aims to help DFID staff and external partners to better understand what we mean by Value for Money (VfM) and how to maximise it across our work.

The Smart Guide:

- sets out **what DFID means by VfM** in the different areas of our work
- describes some **key principles for understanding VfM** in any context
- outlines some **common VfM misconceptions**
- discusses how to develop suitable **VfM metrics**
- outlines some recommended VfM actions for partners

This guide supplements the core HM Treasury guidance. The Green Book provides the central government guidance on appraisal and evaluation which teams should also consult when considering VfM.

What do we mean by Value for Money?

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**

This means more than just ensuring the benefits of our work outweigh the costs. It means that in everything we do we try to maximise our impact[1] on poor people's lives, given the financial, political and human resources we have available. The Cost-effectiveness of an intervention is the intervention's ultimate impact on poverty reduction, relative to the inputs used and DFID can maximise total impact by ensuring that our actions have the greatest impact per pound possible. Good evidence an intervention is highly cost effective is one the most reliable guide to be confident something is VfM. VfM is a concept that goes far beyond appraising a business case, or reviewing indicators during programme delivery, and should be applied in all that we do.

Maximising VfM applies to all aspects of DFID's work

At a **strategic level,** we work to improve the impact of all UK ODA and international development finance, to amplify the impact of our and others' aid.

At a **portfolio** level, VfM means we aim to allocate our limited resources to maximise impact by doing the right things, in the right places, and in the right ways. It means working to ensure that portfolios are coherent, capitalise on synergies and that the impact of DFID's total spend may be greater than the sum of its parts. This relates to both the DFID portfolio and to DFID Department/Office portfolios. We have strong corporate oversight to monitor and drive VfM.

At a **programme** level, VfM means we strive to design, procure, manage, and evaluate our interventions to maximise impact, given available resources **(*for more detail on delivering VfM at the programme level skip here*).**

At an **administrative** level, VfM means that the ways we work as an organisation maximise the impact that our people and resources can have and that our systems, cultures and behaviours empower staff to deliver more efficiently, whilst ensuring full accountability to the British taxpayer.

Across all these levels, we invest in the **central enablers to delivering VfM**, such as transparency, data, scrutiny, performance based funding mechanisms and learning. A strong evidence base is essential for the provision of more effective development assistance, helping us to maximise VfM, learn lessons for the future and demonstrate impact.

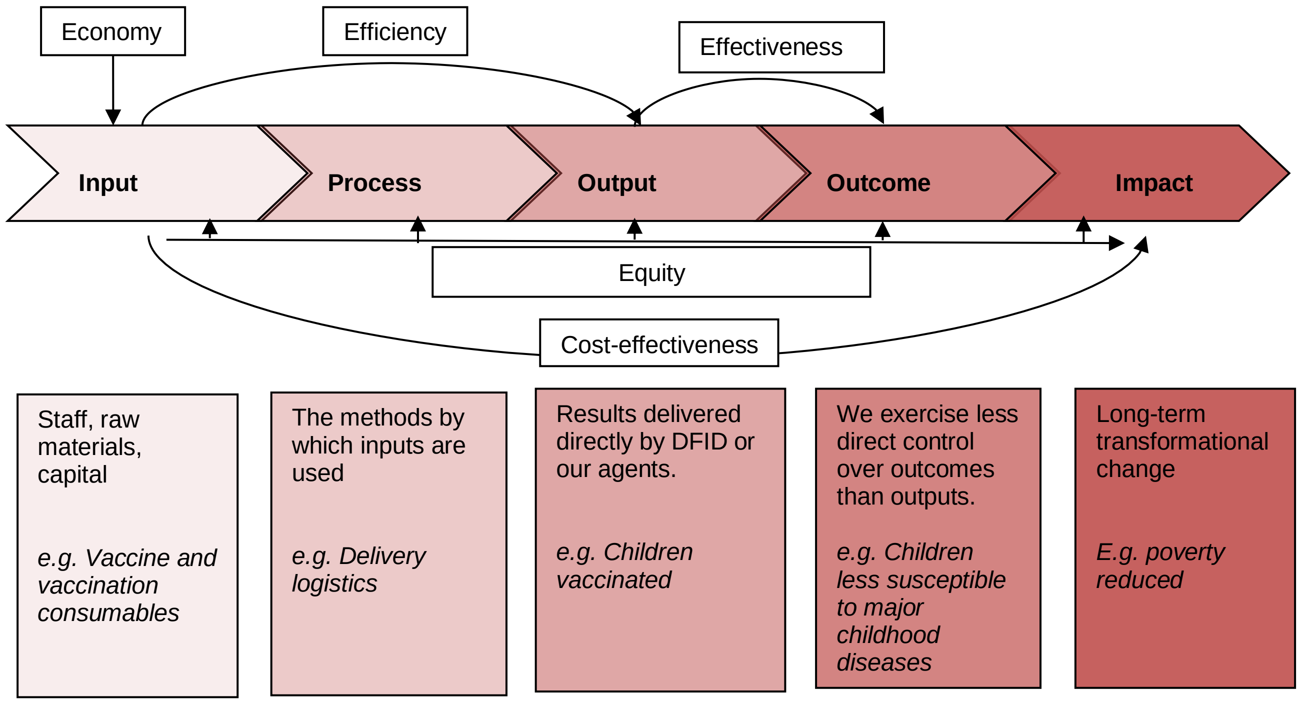
The Results Chain and the 5 Es

At all these levels, delivering value for money depends on having an accurate understanding of how resources are able to translate into impact. Understanding this consists of identifying the **result chain**, which breaks down the steps between inputs and impact (See "VfM in the Programme cycle" for more detail on programme level Theories of Change)

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

[1] By impact, we mean long-term, transformational change.

Figure 1 DFID's Results Chain



The '5 Es'
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 - How well 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?

Figure 2 at the end of this guide sets out diagrammatically what VfM means for DFID.

The key principles for understanding VfM

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

Understand the benefits

Work to understand and increase the **impact** of our actions to poor people's lives:

- Benefits should be understood within the context of where an intervention will be implemented, accounting for relevant contextual factors that could effect the overall impact, including coherence with DFID's portfolios and with programming implemented externally.
- Ensure all relevant consequences and knock-on effects are considered, recognising that some effects may occur at a later date. This should also consider and reflect whether programme benefits will be sustained beyond the period of the intervention.
- Analysis should be supported by available evidence on effectiveness (intervention benefit) and cost-effectiveness (level of benefit per pound). Major differences in cost-effectiveness

can arise within any sector, so good evidence your intervention is cost-effective is central to VfM analysis.
- Risk, and the likelihood of benefits being realised should also be considered and balanced across the DFID portfolio to maximise overall expected impact.
- We should consider whom any benefits accrue to.

We should always aim for impact, but this does not mean we only do the easiest things to measure. The more robust the evidence we have for results, based on good evidence, monitoring and evaluation, and meaningful beneficiary feedback, the more confidently we can scale up high impact interventions and manage or close lower impact interventions, increasing our overall impact on poor people's lives.

Understand costs

VfM doesn't mean we only do the cheapest things**,** but that we strike the balance between cost and benefit which uses our total resources as effectively as possible. We should work to understand and reduce the **costs** of our actions:
- This means costs to DFID including financial, political, and human resources- costs may not always carry an obvious price tag.
- It means understanding potential costs to beneficiaries (including time or effort commitments for engaging in the programme – 'free' support is rarely costless).
- All relevant direct and indirect costs are captured, including costs to other partners and recognising that there may be future costs.
- All relevant non-financial costs or knock-on effects have been considered.
- The risks of real cost changes within the supply chain, due to factors such as exchange rate fluctuations or security, should be considered and whether these may impact VfM through budget pressures or through the ability to deliver fully on outcomes.

We should seek to understand our costs and ways to drive ourselves, our partners, and our contractors to deliver more for each pound we spend. We should remember that economies of scale[2] can be an effective way to reduce costs and increase the VfM of what we do.

Consider the counterfactual

Consider the benefits and costs of our work relative to what we expect would happen if we did not implement a new programme or make changes to an existing programme – the **counterfactual**. This includes consideration of what other donors, NGOs and governments might do if DFID chose not to intervene and of any coping strategies the poor would use to sustain their livelihoods. Understanding what would happen if the intervention under consideration were not to be implemented helps pin down its value added. This counterfactual is often referred to as the 'Do Nothing' option; this does not mean that nothing will be done, still less that nothing will happen, but means continuing without DFID making any changes. Thinking about this helps identify the changes we expect to see as a result of the intervention.

Assess our actions against credible alternatives

Whether there are other, better ways to deliver the same intended result, or to deliver the results with lower costs, should be considered. **Alternatives** could include different programme designs, as well as alternative delivery channels like use of CMPs or Multilaterals. Try not to include improbable alternatives ("straw men") but rather think through sensible alternative approaches. When comparing

[2] Economies of scale are when organisations have lower costs per unit of a good or service because they operate on a larger scale.

options it may be necessary to apply discounting to compare costs and benefits, if the costs and benefits of options accrue over different timeframes. More guidance on discounting is available in the HM Treasury Green Book.

Consider opportunity cost

It is important to 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?

Drawing on learning, evidence and experience from other parts of the department can help ensure VfM has been delivered. It is not possible to show that every action we take achieves more impact per pound than any other possible alternative, however using the evidence available on what does and doesn't work within a sector can be a good starting point for selecting cost-effective actions.

For more detail on what these principles mean at the programme level, see "VfM at the Programme Level" later in this guide.

Common VfM misconceptions

The VfM balance: VfM does not only change when costs change. VfM is a balance between costs and benefits, and improves when the balance shifts away from costs, and towards benefits. Note that cost reductions could be bad for VfM if the lost output or impact outweighs the cost saving. Cost rises might be good VfM if the corresponding extra benefits outweigh the extra costs. Additionally, VfM can change even when budgets don't- if there are changes to benefits or if there are other costs incurred which are not captured within the budget.

Delivery Risk: VfM does not necessarily mean low risk. Maximising the total development impact of 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. And to do that our decisions should be informed so we understand the risk upfront.

Flexibility: VfM does not mean perfectly predicting costs and benefits before we begin work. Because that's impossible. Uncertainty is simply a fact of the world and why evidence and analysis matters. Contexts may change during programme implementation, in which case delivery plans and even objectives may need to be updated in response to needs. We may also have an imperfect understanding of the conflict-affected and fragile places at programme inception and interventions in these environments often must adapt to deliver development impact, as we learn what works and what does not through doing. That requires practical monitoring mechanisms to provide information to make decisions and sufficiently flexible management arrangements to implement those decisions. Delivering VfM requires ongoing validation of results, reassessment and adaptation, as we manage our programmes to maximise impact.

Understanding reductions in VfM: VfM does not mean that decisions which result in lower VfM than original estimates were 'bad' decisions. Contexts may change. Delivering good VfM means considering the costs and benefits of the different options that are possible at the time and selecting the action with the best VfM, from those options. It is important to understand how VfM is changing and, where appropriate, reassess if the programme still represents VfM.

Speed: VfM does not always mean slower procurement to achieve lower prices. The expected benefit of an intervention can change dramatically with the time period it is implemented over. In humanitarian crises or other very time-sensitive situations, the benefits of intervening rapidly can far outweigh the additional costs of procuring and mobilising rapidly. This does not mean that minimising costs and maximising benefits are not centrally important in these situations, but it does mean that the opportunity cost of time is much greater than in other development contexts.

Equity: DFID's approach to VfM does not mean we should always maximise number of beneficiaries and ignore difficult to reach populations. But it does mean we should make informed choices. There is often a trade-off between reaching a larger number of people with a programme and improving outcomes for people who are relatively disadvantaged. DFID's approach to VfM recognises equity as a relevant objective for all programming and effects on equity should be viewed alongside programme objectives, and any trade-offs considered.

Acute vs long-term needs: VfM does not mean we should only do things that have immediate benefit. DFID faces very difficult decisions, for example, in deciding on how much of our resource we devote to humanitarian protection of those in most extreme and acute need, against how much which we devote to longer-term sustainable improvements in opportunities for those in deep poverty. These decisions are informed by our ability to have impact in different contexts, given our resources – in other words, the value for money of the options available to us.

Assessments: A VfM assessment does not have to be perfect to be useful. The Value for Money being delivered by teams and projects changes constantly and is impacted by every decision that is made. Thinking through how impact per pound might be assessed is important because what gets measured gets managed. Imperfection is a given and assessment based on evidence and analysis is a guide. Metrics will never fully capture true value for money, but they can inform decisions and changes over time can indicate if things are getting better or worse. Our approach to VfM does not mean that DFID should avoid projects where benefits are harder to capture or longer-term, if these projects deliver good value in practice.

Relevance: VfM is not something that applies only to programme design; it should drive decision making and management throughout the programme cycle and in relation to our strategic, portfolio and administrative activities.

VfM at the Programme Level

The Theory of Change

Our programmes often operate in uncertain and challenging environments over a number of years. It is difficult to predict development impact with certainty at design stage. Given this uncertainty, each intervention should have a theory of change, which describes **how change is assumed to come about through intervention in a prevailing situation.**

The theory is usually laid out in a diagram showing the connections between interventions and outcomes – elaborating on **results chains (See Figure 1)** to spell out the steps in the causal pathway. It also makes clear that these causal pathways rest on a set of **assumptions**. And these assumptions have varying degrees of evidence to support them. It makes all three things explicit: **causal pathways, assumptions,** and the **evidence** that underpins them. In some cases, a theory of change can draw heavily on evidence of existing pathways for change that are effective in a given context. In other cases, the evidence base may be more limited. Weak evidence does not mean we should not go ahead, but it will influence how the programme is designed and managed.

Creating a Theory of Change is beneficial because it:

1) Provides a framework to **think logically through the assumed change pathways** of an intervention, or design an intervention based on the current change pathways in a certain environment. It also helps identify the most important steps to focus on and manage – those which have either the greatest importance for results or carry the greatest risk or uncertainty.

2) Prompts you to weigh the evidence behind each assumption of change, highlighting:

   I. **Evidence gaps** to be aware of.
   II. Areas of weak evidence that need to be **monitored** and maybe **evaluated**

These are areas to specifically keep in mind in annual reviews.

3) Helps to identify **potential blockages** or **risky pathways** that need to be managed, the potential impact of those risks, and alternative change pathways that could act as a contingency plan.

4) Helps to identify **opportunities** - other partners/events/circumstances that contribute to an intended outcome, which could be strengthened rather than putting a new intervention in place, therefore offering better VfM.

5) Forms the basis of a **results framework**, often in the form of a logframe - helping to identify SMART[3] outputs, outcomes, and impacts, in an open and transparent way. It lays the foundation for annual reviews and assessing programme performance, which are key parts of the programme cycle.

A Theory of Change approach should be used in **design**, **risk assessment**, and to inform the **monitoring and evaluation** framework. Importantly, Theories of Change need to be periodically tested and if necessary revised, for example as new information comes to light. A well thought out theory of change forms the basis for a strong monitoring and evaluation approach, which **drives VfM by enabling** us to understand whether our projects are delivering the results we expect and, in some cases, by contributing to the global evidence base.

Principles - delivering VfM through the programme cycle

Maximising VfM in DFID's programmes means that we design, procure, deliver, and close our interventions to maximise impact, given available resources. The text below summarises best practice in achieving VfM at each stage of the programme cycle.

At the **design stage,** achieving VfM means consideration is given in the concept note and means a robust business case. A robust business case helps programme designers identify interventions which fit within a coherent portfolio, and uses evidence, experience and external engagement with the people we are aiming to serve to design options, management and procurement arrangements that maximise 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

[3] **S**pecific, **M**easurable, **A**greed-upon, **R**ealistic, **T**ime-bound

and evaluation. Programmes should consider the 5Es and how well resources translate into benefit at each stage. 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. It also means developing plans for monitoring outputs, costs and VfM metrics throughout delivery so changes to VfM can be identified, understood and managed.

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 an appropriate balance of risk between DFID and our suppliers or delivery partners; 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.

At the **delivery stage**, achieving VfM means a delivery plan, developed and maintained by the programme's SRO, allowing delivery partners and DFID's SRO to manage and adapt the programme to maintain or increase impact through delivery. Best practice would see managers efficiently monitor output and outcome indicators which accurately track the programme's progress towards delivering impact, managing identified risk and validating results through engagement with key stakeholders. Best practice would also see managers monitor project costs and VfM indicators. These indicators all help managers track and understand any changes to VfM, and to respond promptly and proportionately, adapting the programme so that it remains VfM in light of unforeseen circumstances. Equally, VfM is delivered where programme managers are able to act on opportunities to increase the impact of a programme, as new evidence and information comes to light, such as during annual reviews, or on opportunities to deliver the quantity and quality of outputs for less, if changes to circumstance should allow.

Achieving VfM at the **closure stage** may mean closing a programme early, if its expected additional impact no longer justifies the expected additional costs. Equally, teams extend programmes where the expected impact of a programme extension significantly exceeds expected extension costs, and where an extension has good strategic fit with DFID and other donor activity. Sustainability of outcomes at closure is important and should be considered during project design and delivery.

Learning, evolving and adapting should occur at all stages of programme design and delivery. Achieving VfM means learning from, not hiding, failure. It means proportionate monitoring and evaluation, including through 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 to improve future programme design.

VfM Metrics

In addition to the logframe indicators, VfM metrics can play a valuable role in programme management – helping us to monitor the impact than any changes on costs or outcomes are having on the VfM of our programming and respond appropriately. VfM metrics can help complement the output scores tracked during the Annual Review.

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 the programme remains optimal use of DFID's resources. If VFM indicators are improving over time, a programme is adding value, not just demonstrating it.

What is a VfM metric?

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 instance:

- Input unit costs measure **economy** of key programme cost drivers; e.g. cost per kg of grain, or litre of fuel.
- Output unit costs measure **efficiency**; the costs of achieving one output, e.g. the cost of a girl graduating, or getting an unemployed person into work.
- Outcome unit costs measure the cost of achieving an outcome, e.g. cost per death averted in health interventions.
- Cost-Benefit and Cost-Effectiveness Analyses measure **cost effectiveness** of alternative interventions.
- **Equity** can be captured by disaggregating output or outcome indicators across population groupings; using specific targets for vulnerable groups; and/or conducting distributional analysis of outcomes, e.g. over wealth quintiles.
- **Proxy metrics** are also sometimes used in programmes or portfolios i.e. metrics that drive VfM, but don't directly link a cost to a result (e.g. leverage ratio of private sector finance, business failure rate in a given subsector of the economy).

Metrics to assess VfM for **adaptive programmes** may look slightly different. For instance efficiency metrics for a programme with built in testing and experimentation will also measure the speed and cost with which the programme generates learning that informs programming decisions. Effectiveness metrics may assess how this process supports the programme to contribute to outcome level change.

Principles for VfM metrics

VfM metrics should be developed during project design; however, where projects are already in implementation DFID will work alongside partners to develop suitable metrics. It is therefore important for partners to understand the general principles that we would expect good VfM metrics to follow. Most of these are dependent or overlap.

- **Have a clear methodology**: The metric should be clearly defined, to enable both consistent collection of data and calculation of metric value.

- **Reflect main objectives and cost drivers**: Economy measures should reflect the key cost drivers and the output or outcomes that matter most for a programme, in order to assess cost-effectiveness and best indicate true value for money. This involves understanding which aspects of total cost contribute the most to key outputs or outcomes being delivered and which of those are likely to change in a way that significantly affects the total cost of delivering the outcome.

- **Fewer and better**: It must be possible to assess a metric in practice. It is tempting to think of a long list of things that might, hypothetically, be metrics when designing a business case, but these are longer than what can be monitored in practice. A test of a useful metric is whether you have a baseline or know where to get the evidence: otherwise they are likely to remain purely hypothetical and cannot support a programme to monitor value over time.

- **Remember economies of scale:** Economies of scale can be a critical element in VfM as they may enable more poor people to be helped. Doing fewer things, at greater scale, can often give better VfM than doing many things in an attempt to address multiple problems. Doing things at scale can allow work to be transformative. VfM is a balance of costs and benefits, so it is always necessary to think through the costs and consequences associated with different options and weigh them up.

- **Think nationally:** Outside of a rigorous evaluation it's impossible to make attribution. We should recognise all the possible determinants of development outcomes and think about whether things are getting better overall. Having data on national trends – e.g. what has been happening in health or education in the last 5 or 10 years – is useful contextual information for thinking about what happens during a programme.

- **Use benchmarking**: On their own, VfM metrics do not answer the question 'how well are we doing?' A metric should have an appropriate benchmark against which performance can be assessed, to make a judgement on whether VfM is being realised or not. If well designed, a programme's VfM Metrics can be benchmarked against their estimated values from the project design stage to indicate how the value of a programme is performing over time, against expectations. Our aim is to make things better so evidence of improving metrics is important. Benchmarks can also come from other programmes or similar programmes in other countries to assess a programme's VfM as compared to other programming. Care should be taken in drawing comparisons: differences in country contexts often account for big differences in costs; the average cost of a past intervention does not tell you the marginal cost of achieving the next output; unit costs are rarely known with certainty in advance; and interventions can complement each other. The key is to examine the underlying data to understand the extent to which costs are comparable. Ultimately the valuable insights on VfM are drawn through trying to understand the differences and seeking to explain them.

- **Keep things simple to interpret**: Changes to the metric value should clearly represent an improvement or deterioration of VfM, or simple explanation should be feasible to explain what a metric is showing. It should easily guide decisions on what steps can be taken to improve value for money where it is not being realised. Narrative may be helpful to explain and contextualise changes in VfM metrics.

- **Be proportionate**: Whatever metrics are used, the data required for them should not be excessively costly to gather and the metric should not be unreasonably resource intensive to calculate. The benefits from collecting data must outweigh their own costs.

Recommended VFM Actions for Partners

This section set outs the actions that we recommend that partners take in order to ensure VFM in every intervention. Details on how to take these actions forward should be discussed and agreed with the relevant team/office in DFID.

- **Logframe & VFM metrics:** All interventions need a robust results framework. Many interventions opt to follow a standard logframe format with SMART output, outcome and impact indicators and targets while other approaches may be more suitable for flexible and adaptive programes. To strengthen VfM, the results framework should be agreed between DFID and partners/suppliers at the start of the project and should reflect the theory of change for the intervention. In case VFM metrics/indicators are to be captured outside of the logframe, details on data collection and reporting should also be agreed between DFID and partners. DFID has committed to collecting beneficiary data disaggregated by sex, age, disability and geography (to find out more, please refer to DFID's Inclusive Data Charter Action Plan) – partners/suppliers should discuss with DFID how they can support us in this commitment.

- **Understanding VFM**: Partners/suppliers are recommended to ensure that all of their staff understand the concept of VFM and how to apply it on a day-to-day basis.

- **Reporting on VFM:** Partner/supplier reports should include the information agreed with the programme team in a funding agreement. It is recommended that reports use the 5Es framework to communicate VfM issues and analysis.

- **Input costs and their drivers:** As part of the effort to better understand the costs involved in delivering our programmes, partners/suppliers should be aware of their key input costs and cost drivers, including tracking these over time and, where possible, benchmarking input costs against relevant comparators (e.g. other projects, countries or market rates)**.**

Figure 2: How DFID systems aim to maximise VfM

Department for International Development

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