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**

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, 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?

Common VFM misconceptions

<u>Costs</u>**: VFM doesn't mean we only do the cheapest things.** But it does mean that we have to get better at understanding our costs and delivering more for each pound spent.

<u>Benefits</u>**: 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 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. 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.

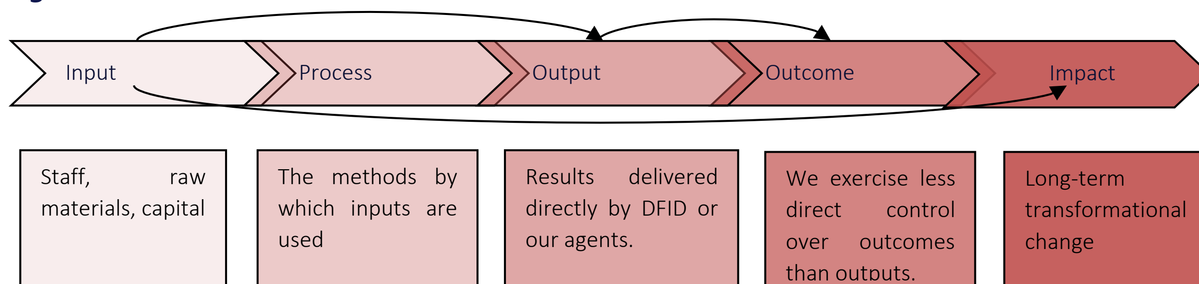
Relevance: VFM is not something that applies only to programme design; it should drive decision making and management throughout the programme cycle.

VFM at the Programme Level

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, 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 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.

Figure 1 DFID's Results Chain



<u>The '3 Es' – and Cost Effectiveness</u>

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*')
<u>Cost-effectiveness</u> - 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 three Es –

- economy
- efficiency
- effectiveness

Add in an analysis of a 4th E - Equity

Different types of interventions and contexts result in different value for money 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 non-fragile contexts.

- **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, then why not? How will you measure this and how often?
- Consider also measuring **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 a proposal and use of evidence, experience and external engagement with the people we are aiming to serve to design options, management and procurement arrangements 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.

At the **delivery stage**, achieving VFM means a delivery plan, allowing delivery partners to manage and adapt the programme to maintain or increase impact through delivery. Best practice would see managers efficiently monitor 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 are able to act on opportunities to increase the impact of a programme, as new evidence and information comes to light.

Achieving VFM at the **closure stage** means that programme managers close a programme early if it's 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 good strategic fit with 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 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 in future programme design.

Useful resources: https://www.bond.org.uk/data/files/Value_for_money_-_what_it_means_for_NGOs_Jan_2012.pdf

https://www.bond.org.uk/sites/default/files/resource-documents/leaving_no_one_behind_the_value_for_money_of_disability-inclusive_development.pdf

Elements adapted from DFID SMART guidance 2017