

# DFID's Approach to Value for Money (VfM)

Department for International Development

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## Top-line messages

- Value for Money (VfM) in our programme<sup>1</sup> is about maximising the impact of each pound spent to improve poor people's lives.
- The purpose of the VfM drive is to develop a better understanding (and better articulation) of costs and results so that we can make more informed, evidence-based *choices*. This is a process of continuous improvement.
- VfM doesn't mean we only do the cheapest things, but we need to get better at understanding what is driving our costs and make sure that we are getting the desired quality at the lowest price. Where we work through partners we need to influence them to do the same.
- We need to understand what works- a judgement based on the strength of evidence supporting an intervention and making our assumptions explicit.
- We don't just do the easiest things to measure, but the agenda does mean we have to get better at measuring. We need to be more innovative in how we assess value and we need to get better at articulating what results we are buying with UK taxpayer's money. Where we work through partners we have to influence them to do the same.
- Our partner countries play a critical role in delivering results. For this reason we support partner countries to lead their own development. We try to work with the grain of the political process in achieving development and we expect the same from our partner organisations that we work through.
- We want to improve the VfM of all aid not just DFID's own.
- When we make decisions about our core contributions to partners such as multilateral agencies we have to ask additional questions that look beyond their effectiveness and also considers their focus and level of ambition. The Multilateral Aid Review (MAR) asked these questions.
- Increased transparency and accountability in our operations will help to drive the VfM agenda and all staff need to be prepared to explain their VfM decisions publicly.
- All staff need to make VfM considerations central in deciding what we do, how we implement and how we learn lessons.

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<sup>1</sup> This document focuses on VfM of our Programme spend and does not deal with issues of Value for Money in our operating costs.

## 1. VfM Principles

- The National Audit Office (NAO) defines VfM as being ‘the optimal use of resources to achieve intended outcomes’. It’s useful to contextualise this when we consider VfM in our aid programme.

**Value for Money in DFID’s programme means:**

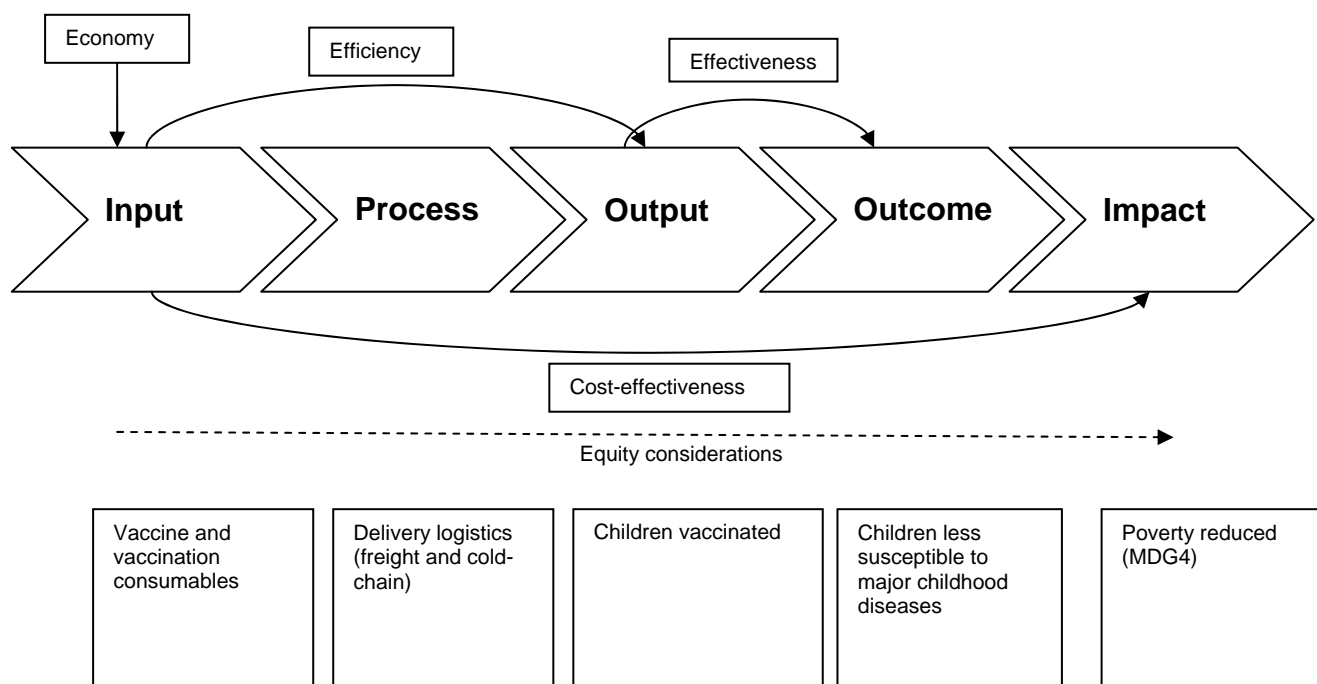
***We maximise the impact of each pound spent to improve poor people’s lives.***

- VfM is not a new concept or a hurdle we have to jump over in order to be allowed to carry on doing development; it’s about maximising the impact of each pound spent to improve poor people’s lives.
- The decision to invest in an intervention requires a judgement of whether the expected development results justify the costs. The diversity in our portfolio makes it difficult to produce comparable measures of what constitutes good value for money for many interventions. So the Investment Committee decided against introducing a standard hurdle rate of return for DFID interventions.
- To maximise the impact of UK aid we need to be very clear about the results (outputs and outcomes) we expect to achieve 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 in achieving the outputs and outcomes. This means looking at the 3Es – economy, efficiency, effectiveness as well as the strength of the links in the chain. When we make judgements on 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. Value for Money is about maximising each of the 3Es, so that we have maximum effectiveness, efficiency and economy for each intervention.
- When we make decisions about our core contributions to partners such as multilateral agencies we have to ask some additional questions. These include questions such as to what extent does the organisation focus on poor countries or humanitarian need and what is their level of ambition when it comes to tackling challenging objectives. A comprehensive list of what to consider is set out in Annex 1 of the Multilateral Aid Review.<sup>2</sup>

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<sup>2</sup> [http://www.dfid.gov.uk/Documents/publications1/mar/multilateral\\_aid\\_review.pdf](http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf)



**Figure 1: DFID's 3Es Framework**

**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? (Note that in contrast to outputs, we or our agents do not exercise direct control over outcomes)
- **Cost-effectiveness:** How much impact on poverty reduction does an intervention achieve relative to the inputs that we or our agents invest in it?

- **Results:** DFID's 3Es framework shows that the Value for Money agenda is not just about cutting costs. What we're directly buying with taxpayer money (outputs) and what this transforms into at the development outcome level are key parts of the VFM agenda. The results agenda is about being clear what outputs and outcomes we can realistically expect from an intervention whether this is from a direct DFID intervention or working through a partner. These results are not just short-term tangibles but should also be longer-term sustainable benefits for developing countries. We need to continue to drive forwards the agenda and influence all our partners to get better at expressing results.

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**Example 1 - Effectiveness: Are DFID's education investments delivering education outcomes of value?**

The National Audit Office (NAO) produced a report on the UK's Bilateral Support to Primary Education as part of their VfM Studies in 2010. One of its main criticisms was that DFID was focusing too much on the attendance of students and not enough on children completing primary school and securing good learning outcomes. For example in Ghana, only 26% of final grade primary school children are proficient in English and only 11% in maths. So we were not ensuring that investment in enrolment was paying enough dividends for the children going to school, many of them for the first time.

In response, DFID has committed to all its education programmes taking steps to measuring and monitoring learning outcomes - and all our Operational Plans must measure primary completion rates.

- **Costs: VfM doesn't mean we only do the cheapest things, but we do have to get better at understanding our costs.** Just because educating a girl in Ghana might cost less than educating a girl in DRC it doesn't mean we should divert all our funds to girls' education in Ghana. Context matters and we take this into account in our VfM judgements. Costs are going to vary based on the different environments we work in. The hardest to reach people and places are more expensive to deliver development results to. We don't shy away from this. The important thing is to understand our cost drivers and to make sure we get the desired quality of inputs at the cheapest possible price. Where we work through partners we need to be confident that they have the right systems and behaviours in place to also do this. We need to encourage them to continually improve in these areas.

**Example 2 - Economy: Key education unit costs**

DFID's 2009 Education Portfolio Review identified wide variations in key education unit costs. For example on text-books, there was a ten-fold variance between highest and lowest cost countries, with a text-book costing \$5 in Nigeria and \$0.5 in Vietnam. The 2010 NAO Education VfM Study found that "unit cost variations remained unexplained" and "only 3% of projects tracked cost-effectiveness or efficiency. As a result, DFID cannot easily analyse trends in value for money over time or between different providers".

In response, DFID has committed all its education programmes to investigate opportunities to drive down unit costs without compromising education quality. We expect all new Education Business cases to systematically track 5 key education input unit costs: teacher salaries; teacher training; textbooks; school/classroom construction; girls' education stipends. We will also seek to track 4 key education output unit costs to the extent possible: cost of supporting a child in primary school; in lower secondary school; to complete primary school; to graduate primary with minimum learning achievement.

- **We need to understand what works- a judgement based on the strength of evidence supporting an intervention and making our assumptions explicit.** The development results that we actually achieve from a

programme depend on whether our intervention logic was correct from the outset. This depends on the strength of the evidence behind the intervention and whether our assumptions were correct. The intervention will represent poor value for money if either the evidence or the assumptions are wrong and because of this we fall short in the development results we actually achieve. We are introducing a variety of tools to help staff access the latest evidence in various themes including systematic reviews of evidence. These will be made available to staff through a 'one-stop shop' on evidence. In the areas where there is limited evidence about what works, we need to ensure there are strong monitoring and evaluation plans in place and we should consider the need for impact evaluation. We should encourage our partners to take a similar approach.

- **We don't just do the easiest things to measure, but the agenda does mean we have to get better at measuring.** We are concerned with long-term, transformational change. We care about the results achieved of all development resources not just our own. But we need to be better at articulating what we are getting for our money. It's very hard to quantify some benefits e.g. what is the value of a free and fair election? But demonstrating results and tackling difficult development issues are not alternatives- we need to do both.
- **We need to be more innovative in assessing value** e.g. explore ways of getting views and opinions from those who are intended to benefit from our aid. Where it proves impossible to get sensible measures of value at the impact or outcome level then we need to make sure we are measuring inputs and outputs and have good evidence that shows how what we are doing will lead to the intended outcome.
- **We need to be clearer about attribution.** DFID can take credit for outputs, e.g. trained teachers, which occur as a direct result of inputs we are responsible for (attribution), although we cannot claim direct responsibility for outcomes such as learning, which can be driven by a number of factors. Despite this, we still need to record our estimated contribution to these outcomes. We need to encourage all those we work with to also get better at working out their attribution and contribution to results.
- **Our partner countries play a critical role in delivering results.** The domestic political process in each country is the key determinant of development outcomes and trajectory in that country. For this reason we support partner countries to lead their own development and we try to work with the grain of the political process. Our relationships and influence with partner countries can have a major impact on the VfM of our aid programme. We will be increasing our work with country partners to help them to improve the VfM of their spending. For instance, this will be an important part of our strengthened approach on Budget Support.

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### **Example 3: Efficiency- Improving the efficiency of education systems**

The NAO report on our bilateral support to primary education identified the high rates of teacher absenteeism and pupils repeating years or dropping-out as particular areas of concern for wasted investment. Although we were contributing to the governments' budget we weren't discussing these important issues with them. If the teachers aren't at work, we and the partner government are paying money that isn't delivering a benefit to children-money that might have delivered more benefits to them or other vulnerable groups by using it in different ways.

In response, DFID is improving the efficiency of education systems through benchmarking and accountability initiatives. DFID and World Bank education advisers will use a range of tools from these initiatives to inform our education programmes and to support our partner governments.

- **Our Commercial Strategy is a key part of the VfM agenda.** Often our spend is through partners and the challenge is to help improve their delivery of VfM. Our Commercial Strategy<sup>3</sup> shows how we can use procurement tools and greater commercial awareness to achieve this: in our funding choices; in the design of our programmes; through assessment of partner capability and in understanding and leveraging impact from markets.
- **How we manage our aid programme is vital.** We need to have strong programme management to make sure our programmes stay on track, achieve the intended results, and are delivered on time and within budget. This can often be very challenging, especially in situations when we depend on the actions of others rather than only our own. We need to be realistic at the outset about what our programmes can achieve and we have to be regularly reviewing all our programmes to make sure they continue to represent good value for money. Where programmes no longer represent good VfM they should be stopped.
- **Improving financial management across the organisation remains critical.** In order to ensure that we get the most value from all our investments we are driving forward improvements in our monitoring and reporting capability to ensure that we can both track and reallocate resources where this is appropriate. We will improve our assessment of the financial case for each intervention and our work on allocations will ensure that funds are targeted at countries and organisations which can make the most impact.
- **We are interested in improving the VfM of all aid, not just DFID's.** We will be placing greater focus on the extent to which partners (such as Civil Society and Multilaterals) who use DFID funds, achieve VfM. This will be achieved through ensuring our partners understand what we mean by improving VfM for their type of spending and rigorously monitoring progress through our Annual Reviews and Project Completion Reports.

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<sup>3</sup> Commercial Strategy available online <http://www.dfid.gov.uk/Working-with-DFID/Procurement/>

**Example 4: Broader VfM issues to be considered when working with Partners (Multilateral example)**

The MAR assessed the VfM offered by the 43 Multilateral Agencies that DFID funds. This comprehensive assessment reviewed each agency against a set of 10 key criteria; whilst it incorporated issues of cost and value consciousness linked to the 3Es it also incorporated broader issues that impact on an organisation's VfM. For, example the MAR assessment of IDA found that the way that they interacted with their partners was poor, particularly around their use of country systems – this behaviour reduces the overall VfM IDA offers.

In response to this through the IDA 16 replenishment negotiations DFID ensured that their results framework has specific targets to track and improve their use of country systems.

- **Choice of delivery agent matters.** The MAR assessed the VfM offered by Multilaterals at a corporate level - it sets out our understanding of their strengths and weaknesses. When choosing a delivery agent at country level offices should satisfy themselves that the weaknesses identified by the MAR either do not apply or can be effectively mitigated (with the appropriate actions identified).

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## 2. How we ensure Value for Money in our Aid Programme

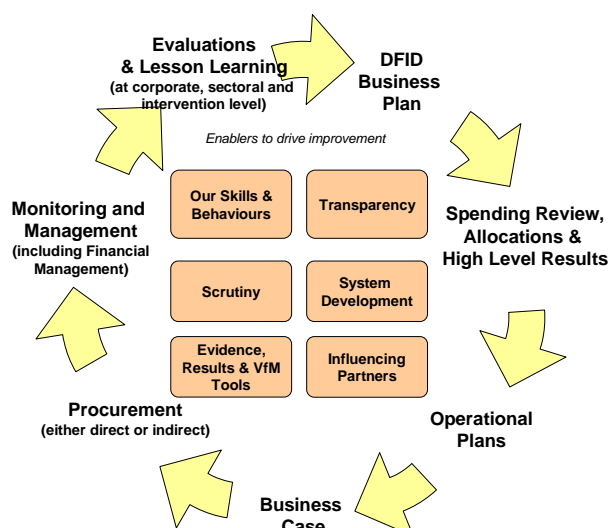
Our VfM framework has two key components:

- (i) A VfM cycle which ensures that we allocate and manage resources so that we achieve the maximum development impact; and
- (ii) Six VfM enablers that help drive the quality of our work within this VfM cycle.

These are all mapped out in figure 1 and their VfM purposes are explained in tables 1 and 2. Many parts of the organisation contribute to this VfM cycle and these roles are also explained in these two tables.

The Investment Committee doesn't feature in the diagram but plays a key role in overseeing the whole VfM cycle and setting priorities for its improvement.

**Figure 2: DFID Results & VfM Framework**



## 3. What this means for you

- The VfM agenda involves a culture change across DFID. The increased transparency and scrutiny means we need to be prepared to be challenged on what we do and how we do it.
- This means that we have to be confident in the decisions we have taken and how we implement. We have to be sure that we have adequately considered the costs and benefits of what we plan to do and that we have a solid evidence base to demonstrate why what we're doing will achieve the expected results. We also need to manage our implementation well and take corrective action where necessary.

- When working with partner organisations we need to ask additional questions to help take account of the different type of objectives and ways of working that other organisations may have.
- Ultimately, it all comes down to maximising the impact of each pound spent to improve the lives of the poor.

Below are some examples of expected VfM behaviours and responsibilities for people with different roles across the organisation.

### **Management Board**

- Accountability for VfM at the corporate level.
- Ensuring that all our programmes represent good VfM.
- Challenging all aspects of our programme; and
- Consistently model good VfM behaviour;

### **Investment Committee**

- Advise the Management Board/ Ministers on:
  1. strategic investment choices;
  2. resource allocation priorities; and
  3. whether our mix of investments is aligned with our strategic vision.
- Provide assurance to Management Board that our programmes represent good value for money; and
- Ensure DFID's investment appraisal procedures and practice are fit for purpose and champion the use of evidence and quantification of outputs.

### **Head of Office/ Department**

- Accountability for delivery of VfM,
- Understand how VfM applies to DFID work and how their behaviour will affect others;
- Building capability in all their staff.
- Be prepared to challenge, and consistently model good VfM behaviour;

### **Advisory staff**

- Include in their role making the link between results and returns (i.e. what we're getting for our money);
- Ask questions and challenge received wisdom- both on allocative decisions and design/implementation;
- Champion the use of evidence of what works;
- Share VfM knowledge with other donors and partners;
- Contribute creative thinking on VfM; and
- Feel responsible for VfM in their area/sector.

### **Programme Staff**

- Feel VfM matters and is valued by DFID;
- Understand practical VfM impact of decisions and how to assess options from a VfM perspective (both the 3Es and the additional issues considered in VfM perspective for partner organisations);
- Managing Project Cycle processes;

- Robust monitoring;
- Improve delivery by understanding basic good practice in procurement and financial management;
- Accurately inputting of data;
- Writing about our decisions in plain English; and
- Understand how they can make a difference on VfM through challenging decisions.

**VfM Experts – e.g. those working on guidance to practitioners**

- Understand how their work links to DFID's overall mandate;
- Speak with a single voice/ core script on VFM;
- Champion VFM in DFID and with partners;
- Embrace overlaps between disciplines; and
- Feel part of an expanding, multi-disciplinary community and an effective network.

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**Table 1: Purpose of VfM Enablers**

<b>VfM Enablers</b>	<b>Process/ Work-stream/ Behaviour</b>	<b>VfM Purpose</b>
<b>Our Skills and Behaviours</b>	Diligence, Good sense and skills of DFID staff.	<ul style="list-style-type: none"> <li>Staff behaviours are crucial to enabling VfM.</li> <li>For VfM agenda to succeed we all need to show diligence in what we decide to do and how we implement (knowing what works and being sure that we are delivering development results in the most effective and efficient way.)</li> <li>This involves a high level of skill and diligence from our staff.</li> </ul>
<b>Transparency</b>	UK Aid Transparency Guarantee and International Aid Transparency initiative	<ul style="list-style-type: none"> <li>Publishing strategy documents, project data and documentation, and individual payments opens our decisions to public scrutiny and enables the public to judge whether we are delivering value for money</li> </ul>
<b>Internal Scrutiny</b>	Existing Management decision-taking process	<ul style="list-style-type: none"> <li>The first line of scrutiny comes internally through our management chain.</li> <li>Managers take responsibility that all aspects of their work represent good Value for Money.</li> </ul>
	Internal Audit	<ul style="list-style-type: none"> <li>Provides internal scrutiny and informs the Accounting Officer (the Permanent Secretary) and DFID managers on the whole system of risk management, control and corporate governance.</li> <li>The quality of DFID appraisals and the Business Case more generally is assured through the Quality Assurance Unit and Chief Economist.</li> </ul>
	Quality Assurance Unit	<ul style="list-style-type: none"> <li>The quality of DFID appraisals and the Business Case more generally is assured through the Quality Assurance Unit and Chief Economist.</li> </ul>
	Special Measures for Multilaterals	<ul style="list-style-type: none"> <li>Improve the performance of multilaterals offering poor value for money - signal to these multilaterals that DFID wants an urgent improvement in its performance and will monitor progress carefully. Progress will be reviewed after two years</li> </ul>
<b>External Scrutiny</b>	Independent Commission for Aid Impact (ICAI)	<ul style="list-style-type: none"> <li>Independent evaluations that focus on whether value for money has been achieved for UK taxpayer and impact of aid has been maximised;</li> <li>Systematic process of follow up on recommendations resulting from these evaluations fosters lesson learning</li> </ul>
	National Audit Office / Public Accounts Committee	<ul style="list-style-type: none"> <li>Continue to carry out VfM studies on DFID to scrutinise whether we are delivering good VfM.</li> </ul>
<b>Results &amp; VfM tools</b>	Evidence	<ul style="list-style-type: none"> <li>We need to understand what works best to achieve our results and ensure investment decisions represent good VfM; RED is leading on research to establish what works and what doesn't.</li> <li>If evidence is flawed or assumptions don't hold we risk not achieving our results;</li> <li>DFID will open in July 2011 a quality assessed internet based evidence databank, which includes evidence papers, systematic reviews and access to a wide range of research and e journals so staff know what type of interventions are likely to work in particular situations.</li> </ul>

VfM Enablers	Process/ Work-stream/ Behaviour	VfM Purpose
	Results & VfM Indicators	<ul style="list-style-type: none"> <li>• The results agenda is about being clear what outputs and outcomes we can realistically expect from an intervention</li> <li>• If we don't know what we're buying we can't assess whether it represents good VfM.</li> <li>• Indicators help us measure results achieved.</li> <li>• VfM indicators are useful tools to help signal whether interventions represent good VfM.</li> <li>• Key international institutions have knowledge leadership roles (e.g. WB) and roles in benchmarking performance and unit cost data. We need them to do that work so we in turn have better data on our results &amp; VfM.</li> </ul>
	Sector VfM Framework, guidance and capability	<p>Strengthen the quality of our sector VfM work:</p> <ul style="list-style-type: none"> <li>• develop a set of core indicators in <i>sectoral results and VFM frameworks</i> and embed at each level of DFID Business Planning</li> <li>• undertake greater internal benchmarking on unit costs and comparators of sectoral investments</li> <li>• Provide relevant sectoral evidence on what works to achieve results at good value for money;</li> <li>• monitoring of aggregate portfolio performance</li> <li>• build DFID wide sectoral results and VfM capability</li> <li>• engage international system and institutions to get better results and VfM from global sectoral investments - and strengthen international benchmarking of country results and unit costs;</li> </ul>
	Commercial Strategy	<ul style="list-style-type: none"> <li>• Focusing strategically on getting VfM from all commercial activities.</li> </ul>
<b>System Development</b>	Innovating and Improving	<ul style="list-style-type: none"> <li>• Bringing in improvements to VfM cycle e.g. BAR and MAR for allocation process, new Business Case, Logframes, Annual Reviews etc.</li> </ul>
<b>Influencing Partners</b>	Ability to affect others	<ul style="list-style-type: none"> <li>• Being aware that DFID is often only one of many funders in each organisation, and so may only hold a small fraction of the political and financial capital</li> <li>• Nonetheless, DFID must effectively use its financial and human resources to influence third parties to implement VfM reforms at a more holistic level (as outlined in the MAR) and engage other partners and donors in support of this agenda. Coordination at both HQ and country level helps to strengthen our ability to do this.</li> </ul>

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**Table 2: Purpose of VfM cycle**

VfM Cycle	Process/ Work-stream	VfM Purpose
<b>VFM Cycle</b>	DFID Business Plan	<ul style="list-style-type: none"> <li>• Sets-out our areas of focus;</li> <li>• Indicators on our impact and costs reported publically;</li> <li>• Performance against the indicators enables public to judge whether we are delivering good value for money at the corporate level.</li> </ul>
	SR & Allocations (BAR, MAR, HERR etc)	<ul style="list-style-type: none"> <li>• Spending Review sets-out resources available to achieve the Business Plan.</li> <li>• BAR, MAR and other reviews help us to choose how to allocate our resources on the basis of results in our areas of focus (from Business Plan) and VfM considerations.</li> </ul>
	Operational Plans	<ul style="list-style-type: none"> <li>• Sets-out our plans to deliver results from BAR, MAR etc.</li> <li>• Getting the right staffing mix to achieve the results;</li> <li>• Teams create own strategy to ensure VfM in their programme.</li> </ul>
	Corporate performance framework	<ul style="list-style-type: none"> <li>• Indicators and targets enable Management Board to assess whether DFID is on track to deliver agreed results in line with planned costs</li> </ul>
	Business Case	<ul style="list-style-type: none"> <li>• Embeds evidence and consideration of value for money early in the decision making and design stages of all projects and programmes;</li> <li>• Multilateral business case sets out the reforms and results we want to see to improve value for money from core financing;</li> <li>• Strengthens DFID's commercial awareness to ensure intervention design yields better value for money in procurement;</li> <li>• Clarifies our approach to evaluation from the outset and in the design of the intervention; and</li> <li>• The quality of appraisal and the Business Case more generally is assured through the Quality Assurance Unit and Chief Economist.</li> </ul>
	Procurement	<p>Procurement best principles drive commercial aspect of VfM. Involves:</p> <ul style="list-style-type: none"> <li>○ being clear what we need;</li> <li>○ having a sound procurement strategy which identifies most appropriate funding method and route to market to deliver maximum VfM,</li> <li>○ developing well focussed terms of reference that enable bidders or other Partners such as CSOs and Multilaterals using DFID funds to be clear what they being asked to deliver and by when;</li> <li>○ having appropriate evaluation criteria and assessment,</li> <li>○ conducting good negotiations,</li> <li>○ maintaining appropriate relationships with the supplier,</li> <li>○ carrying out effective monitoring,</li> <li>○ Payment by results, and</li> <li>○ Learning lessons.</li> </ul>

VfM Cycle	Process/ Work-stream	VfM Purpose
	Financial Management	<ul style="list-style-type: none"> <li>• Ensures that all spending decisions are guided by VfM principles</li> <li>• Ensures that resources are allocated to programmes where they can make the most impact</li> <li>• Provides clarity on how much interventions cost and from which budget;</li> <li>• Provides a clear framework to reallocate funds where appropriate</li> <li>• Ensures good monitoring, reporting and accountability of expenditure.</li> <li>• Enables the organisation to continually drive down costs and promote efficiency across the organisation.</li> </ul>
	Monitoring and Management	<ul style="list-style-type: none"> <li>• Ongoing programme management to keep interventions on track to achieve intended results;</li> <li>• Annual reviews to place emphasis on scoring based on a comparison of the results actually achieved against those expected at project design stage;</li> <li>• Sectoral Portfolio reviews to consider sector wide VfM issues and lesson learning.</li> <li>• Approvers regularly assess whether intervention still represents good VfM.</li> </ul>
	Evaluations & Lesson Learning	<ul style="list-style-type: none"> <li>• Evaluating the results and effectiveness achieved from DFID's policies, programmes and partnerships plays a key role in demonstrating whether specific interventions achieved good VfM;</li> <li>• Going forward – embedding evaluation through a decentralised system with greater ownership from teams enables us to measure results, value for money, and build evidence base about what works.</li> <li>• Teams will be encouraged to go for studies focusing on impact and cost effectiveness, with a strong underlying theory of change.</li> </ul>

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