CRIDF VfM Framework: Overview

This document contains a framework of the Value for Money approach being adopted for CRIDF. It is divided into 3 parts:

- **Part I** summarises the importance of Value for Money (VfM), its links with the CRIDF strategy and how its measurement is intrinsic to the Monitoring and Evaluation framework and CRIDF decision making
- **Part II** contains an **overview** of the DFID Value for Money strategic framework
- **Part III** highlights the CRIDF **processes which will involve VFM decision making** during performance monitoring and reporting, impact assessment, internal evaluations, annual reviews and external evaluation.

The actual tools and methodologies that are used to operationalize this strategy are provided in the accompanying M&E handbook and associated tools.

The VfM Framework sets out how the funding and financial commitment for CRIDF will be justified and the Framework will remain as a reference throughout the CRIDF lifespan.

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CRIDF

Part I: Value for Money (VfM) in DFID Programming

Goal (of the VfM Strategy): Improve CRIDF's VFM with a focus on greater results while minimising the use of available resources and for CRIDF to be transparent and accountable with improved communication of its Value for Money

Purpose: Highlight the VFM definition, framework, and integration with CRIDF existing processes to allow use of an operational VFM toolkit as described in the VFM Handbook.

Primary purposes:

- Allow CRIDF managers to allocate resources which maximise results within the given budget constraint
- To allow CRIDF to better communicate to DFID its internal decision making processes relating to Value for Money (VFM);

Secondary purposes:

- To highlight to donors/beneficiary governments and their own staff where CRIDF has a comparative advantage relative to other agencies;
- To demonstrate that the facility management of CRIDF is economic and efficient, using an approach of comparative cost benchmarks based on primary cost drivers.
- Provide CRIDF PMs with self-assessment tools to allow VFM based results measurement in the quickest and least onerous way, and to provide a better evidence base when reporting to donors

What does value for money mean?

There is currently no common agreement on a definition of Value for Money (VFM), and it is often misinterpreted, either with a misplaced association to complex economic tools or a too simplified understanding that it is a means of merely reducing costs.

DFID and CRIDF's requirement for VfM is based on the UK National Audit Office Definition which is that value for money is ''the optimal use of resources to achieve the intended outcomes". Thus the VFM approach is actually to maximise outcomes in the most cost effective way.

This is consistent with that of most other development partners; as for example by the OECD[1] who clarify and simplify their explanation of VFM concepts as:

- Best use of resources to achieve intended and sustainable outcomes.
- Striking the best balance between economy, efficiency, and effectiveness to achieve the desired impact.

[1] Value for money and international development: Deconstructing myths to promote a more constructive discussion; Penny Jackson OECD Development Co-operation Directorate May 2012

"Good value for money is therefore about weighing up the costs and benefits of different choices and options and selecting the one that achieves the best balance …….. For example, an NGO, which reduces its costs by cutting staff numbers, will not deliver value for money if reductions in staff capacity make the results more difficult to achieve. Likewise, an intervention which is cheap to run but does not produce positive outcomes is not value for money" (BOND, 2012)

Who and when is value for money measured?

For the purposes of CRIDF reporting, VFM monitoring is undertaken alongside and within the general performance reporting. Essentially it involves an explicit linking of resource costs to the performance monitoring as explained in the M&E Framework.

It involves quantification at two basic levels; the costs and the benefits. This allows for a judgement to be made on the cost of achieving results, rather than just the achievement of results per se. This initially allows decision makers to choose the least cost activities and interventions for a given set of results at key decision making points. There is, then the additional requirement for a quantification to be made of the benefits – both as initial outputs but also their likely uptake to achieve the CRIDF outcomes and goals as set out in the CRIDF logframe.

In practice therefore, as for the performance monitoring and reporting, VFM is tracked at the output and outcome level of the over-arching logframe. If possible, and for evaluation purposes, it is useful to value the contribution of CRIDF to the goals such as climate resilience and reduced vulnerability of beneficiaries, though attribution is often an issue.

The question of by when, should the benefits of an intervention be realised in order for the costs to be justified needs to be taken into account. The timeframe in which CRIDF expects to see returns on the investment needs to be defined and it is appropriate to expect some types of interventions to take longer to bear results than others.

VFM relative to what?

VFM is a relative concept and programmes (including their activities and outputs) can only be assessed as VFM against comparable alternatives. VFM is usually best applied as a tool or framework to make relative choices where like-for-like comparisons can be made. For CRIDF potential VFM reference points for these comparisons include:

- Relative performance in the same programme at an earlier time (baseline);
- Relative to performance of another similar project/activity implemented by another agent in the same context/country; and

- Relative to standardised, established country specific, regional or worldwide Benchmarks.

Part II: Overview of the VfM Framework

Conceptual framework

The concepts of economy, efficiency and effectiveness (collectively the "3Es") is the main framework used to measuring VfM throughout the Results Chain as shown in Figure 1:

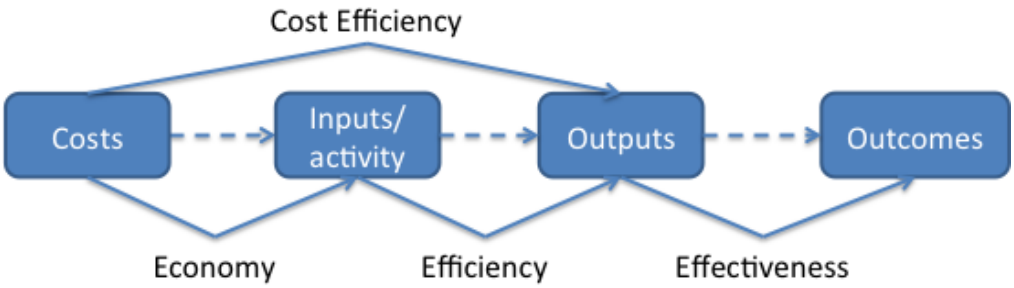


Figure 1 The 3 'E's' of Value for Money

In general, VfM can be assessed across the 3Es in the following manner:

Economy relates to how cost-effectively financial, human or material resources are acquired and used in an intervention. VfM is typically assessed in terms of the unit costs of inputs involved (e.g. how much a TA costs). At the economy level, VfM focuses on cost control, and it is important to scrutinise the unit costs of key VfM drivers, such as personnel costs, procurement costs, travel costs, and other costs, and then compare these costs to the quality received and examination of key cost/value ratios. It must be noted that much of these negotiations have been undertaken upfront in the proposal (fee rates, per diems), so there is less room for manoeuvre here. The act of winning the proposal gives an indication there is already good VfM in terms of cost economy in the baseline of CRIDF as VfM was one of the key criteria in DFID's selection of the winning bid, but sustaining this VfM will need to be monitored in terms of volume and value of deliverables against these costs.

Benchmarking of costs can be undertaken by analysis of generic unit costs and other various cost ratios and compare them to equivalent ratios from other programmes or agencies to assess their magnitude. Examples of ratios are direct support costs as a % of programme, unit personnel costs, ratio of local staff to international staff etc.

Cost ratios can also be collated over time within a programme to benchmark internally, to see the progress that CRIDF is making over the months and years. Cost reductions can be gauged over time due to learning, economies of scale and scope. Economies of scope are an important VFM concept to

analyse in the case of the CRIDF because of its multi-disciplinary approach, particularly in CRIDF+ type activities. Procurement rules lend themselves to competitive tendering whilst maintaining quality along with applicable policies in maintaining partners' and sub contractors' cost control.

Efficiency relates to how resourcefully inputs are converted into outputs. This can be measured by the quantification of inputs required for a given level of outputs. Minimising such inputs whilst maintaining output quality is the incentive for greater efficiency (productivity).

Cost efficiency refers to the cost of achieving a given set of outputs. Good cost efficiency means obtaining both good economy and efficiency. Unit cost of outputs, or relevant qualitative indicators can be used to measure cost efficiency.

Effectiveness relates to how successfully an intervention achieves its intended outcomes and subsequent impacts are realised (e.g. in attracting additional private financing to fund infrastructure investment, increasing the capacity of infrastructure operations, expanding access of target populations, having the greatest influence with the lowest investment). This focuses on the choice or combination of activities to give rise to the desired objectives or outcomes. Essentially to answer the question "is this choice of interventions the lowest cost in achieving the desired outcome?"

Measuring benefits at the outcome level is less clear than for costs, and should include both direct and indirect benefits with suitable attributions. These cover a range of relevant aspects linked to desirable outcomes including expected economic, social, political, institutional, environmental, climate resilience outcomes and behavioural changes associated with the intervention. Unintended consequences are also important to consider. The benefits have to be qualified and quantified, providing a measure of scale and timing of benefits (i.e. short term versus long term benefits). A final stage would involve valuing benefits in monetary terms to the extent possible.

A critical first step would be to assess what is actually realistic in terms of a cost benefit analysis (CBA), a rate of return analysis and/or cost effectiveness analysis (CEA). The results of such an assessment would not only help to determine what is feasible for cost measurement, but also help to inform the team's work around VFM definition and language.

For DFID programmes, a key principle is to make sure development results are targeted at the poorest and include sufficient targeting of women and girls. Thus a 4th 'E' - equity is often added to this framework. This is of particular relevance for CRIDF, which includes equity as a core principle and improving equity as a key aspect of its objectives . An equity "lens" in the VfM model ensures that specific vulnerabilities such as those related to gender or poverty are considered in the analysis.

However, it should be recognised that assisting vulnerable groups often has much greater unit costs of access, and including this fourth criterion should help in justifying what may otherwise be apparently higher costs. The use of equitable approaches are also critical to gaining and maintaining access to affected populations, as when trying to cover needs, there is often a tension between efficiency and equity.

To reach an assessment of the overall value for money (hereon called Overall VfM) of an intervention or programme, it is required to weigh the analyses of its 4 E's (economy, efficiency, effectiveness and equity) and reach a comprehensively balanced and synthetic conclusion.

Risks and Concerns in applying VfM

Value for money is sometimes seen as being a donor preoccupation and that it has less relevance to partner countries or for individual beneficiaries. Although it is clear that DFID has a justifiable need to focus on getting value for money for the UK tax payers, this needs to be balance against the need to also take into account the voice of beneficiaries; and it is usually the end users that can provide the best information about effectiveness (including relevance and sustainability). In many cases end users are not well enough represented to make their voice heard and remain hard to reach.

It should also be recognised that because UK tax payers do not experience first-hand the results of public spending, they demand clear assurance that the people managing their taxes have thought about getting the most out of the money they have been entrusted with, that they have made decisions based on clear criteria and evidence, that they manage risk, and monitor and evaluate to ensure best possible outcomes.

It is however notable that although partner countries are less openly concerned on the value for money that a donor is seeking to achieve at the portfolio level, they do have similar interests in getting good results and doing so as efficiently as possible in individual projects and programmes in their country. Individual beneficiaries are concerned with the benefits for their communities − sometimes short- and sometimes long-term. The value for money of an activity or programme can only be judged against intended objectives that are clearly stated and shared by donors and partners. If they are not shared, both aid effectiveness and value for money will be harder to achieve.

There is a danger that too great an insistence on applying value for money procedures could lead to a risk-averse culture in development co-operation:

- At the portfolio level, allocating aid to the "best performing" countries will mean the more difficult contexts, such as fragile states, lose out. However, by looking at where need is greatest and where conflict prevention can save millions, it can be seen as good value for money to invest in those countries. With CRIDF a clear objective is to look for improved

dialogue and best use of shared resources and thus there will be a cross-over between countries at different stages of their development

- Insisting on exact measurements of efficiency, unit costs, cost-benefit in all projects can exclude types of projects certain aspects are harder to measure, encouraging a focus on things that are easier to measure rather than on what is most needed or even most effective. It can also discourage innovation, since it tends toward the tried and tested types of project, with comparators and data, picked for ease of measurement rather than expected effects.

One reason for CRIDF to include an equity dimension to the VfM analysis is precisely to counterbalance the tendency for a VfM approach to focus on easy-to-reach groups rather than the harder-to-reach minority groups, marginalised poor including women and children.

Another concern in the application of VfM is deciding on the appropriate time frame for the results of the intervention to be achieved. If too great an expectation is placed on achieving results in the short-term then that can have a negative impact on the sustainability and functionability of the outcomes. CRIDF will need to setg out appropriate time-scales for the results to be achieved and this should again be referenced against best practice and experience on similar project types.

Principles of CRIDF's VfM Strategy

CRIDF's VfM strategy is based on establishing VfM principles and appropriate processes in place throughout the project cycle.

These principles and processes include :

- clear/transparent project selection and contracting procedures
- maximisation of economy in the delivery and operational support processes
- monitoring expenditure and minimising costs
- checking that project deliverables are appropriate for the nature of the intervention
- ensuring M&E is clearly planned, and implemented
- including for beneficiary feedback
- establish links and accountability between resources allocated and results

Comparative advantages of CRIDF

One of the key strengths of CRIDF and CRIDF + is to pick up existing projects and completely re-model them to produce a project which is significantly different, in terms of its sector focus, likely results, scale, scope, etc. to what would have been funded in the counterfactual (i.e. without a CRIDF intervention) scenario. Comparative advantage is one of the main avenues for measuring and communicating performance and VfM, since this provides insights as to why CRIDF, as opposed to other programmes or agencies is best placed to carry out the projects with the required speed, quality, innovation and cost-effectiveness. This comparative advantage will give rise to results which score well on VfM grounds. Such results need to be captured through a counterfactual analysis, which involves comparing the CRIDF approved project with the project which would have taken place under Business As Usual.

Improving Value for Money

CRIDF has adopted a 'performance management' approach (see the Monitoring and Evaluation Framework); and the VfM approach has also been established in such a way as to allow for lesson learning and for dynamic management thus allowing for future improvements to be made on VfM, see Figure 1. The basis of this is that the measurement system will be used to compare VfM with other similar interventions; to show this to all interested parties including CRIDF management who then will be responsible to learn the lesson, establish best and recommended practice and better manage accordingly.

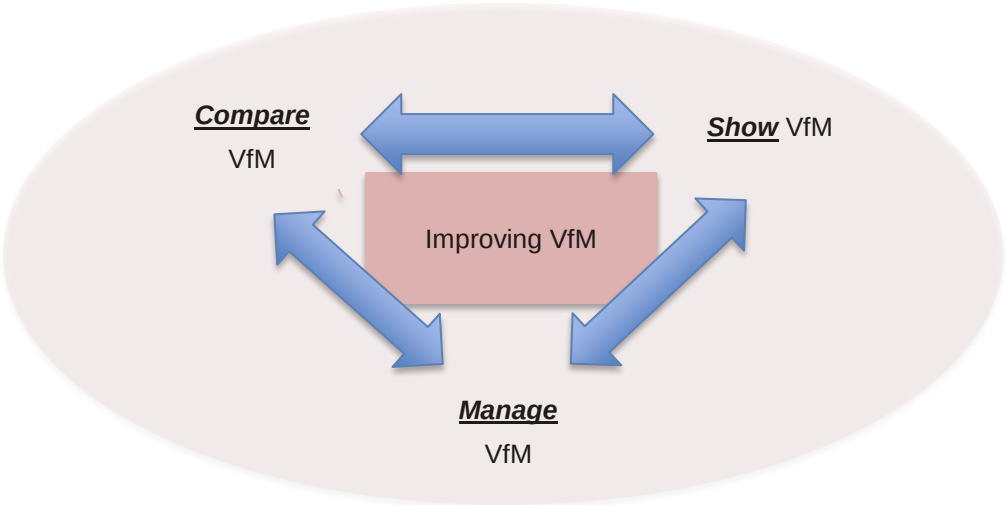


Figure 2 Improving Value for Money - through compare/show and manage

Part III: Applying VfM to the CRIDF Results Framework

CRIDF's approach is to measure indicators of VfM at all the different levels in the programme (i.e. at input, output, outcome and results level).

As can be seen from the preceding section this will require separate VfM tools to measure and report on VfM at the consequent different elements of the results chain.

For example this would involve measuring how efficiently activities are carried out, and how projects are chosen to ensure they deliver the greatest benefits relative to total costs, and looking at the facility as a whole.

If not appropriately designed the collection of data for VfM could become onerous and in itself place too heavy a burden on the workload of the programme. If an efficient VfM system is to be established it is important to set out some guiding principles for the design of VfM tools and data collection:

1. VfM is a **relative concept** – activities can only be assessed as VfM against feasible alternatives or benchmarks. These feasible alternatives or benchmarks must be identified in the CRIDF's context of ongoing implementation. As CRIDF progresses, with time, a databank of benchmarks should be set up; both as external benchmarks from similar activities outside CRIDF, and benchmarks from within CRIDF's own experience
2. As an ongoing management tool, the VfM framework must be **simple and practical -** data must be relatively straightforward and economical to collect, and indicators must be easy to interpret. The right balance between practicality and comprehensiveness must be struck. CRIDF implement a wide range of activities – from internal processes, systems and tools to project specific work and technical assistance.
3. The VfM framework must be **robust** but **flexible** enough to be applicable across the range of activities and intervention/project types to be implemented by CRIDF.
4. P**roportionality** is a key issue in relation to activity size. Activities which are smaller will require a less comprehensive VfM M&E framework. This will naturally come through as smaller activities will have a lower number of deliverables.
5. The tool should be flexible enough to accommodate both **quantitative and qualitative VfM** indicators; as some projects involve more quantifiable inputs and outputs (e.g. construction and assets) indictors, and some more qualitative (e.g. behaviour change and decision making)..

What are the tools?

There are different tools appropriate for the various components and levels of the Facility. These are described in detail in the VfM handbook but in summary:

1. **Activity level (ToR template)** – within the ToR template there is a VfM box to fill in, to ensure that VfM considerations have been taken place during design. This ensures that the design is

efficient and productive (and economical). This tool will be a box to fill in the template with an accompanying guidance note.

Examples of key questions covered in the activity level VfM analysis are:

- how will this commissioned activity contribute to logframe outputs and outcomes?
- Is this the best type of activity to achieve the objectives in the least cost way?
- are there other types of activities (deliverables within the activity) that could better contribute to logframe outcomes, in terms of being less costly and more efficient?

2. **Project level - CRIDF decision making framework (screens, PDPs)** – there are VfM considerations factored in at every decision making stage. These fit into the template of the framework, as boxes that need to be filled in to ensure that VfM (alongside all the other necessary criteria) is taken into account in the choice of projects, choices of activities for bankability, methodologies to value benefits where possible etc.
3. **M&E framework with VfM indicators** – within the PDP and screening process there will be indicators to collect VfM data to allow time series comparisons and benchmarking internally and externally. Such indicators will be taken from the above two tools and expanded upon. The overall goal of this tool is to allow **adaptive improvements in the efficiency of CRIDF** processes and mechanisms. This will be reported in the **DFID annual reviews and mid-term reviews** (which have specific VfM sections to be filled in). Also it will enable good data for ex post impact evaluation of CRIDF after the first phase, to determine how effective CRIDF has been.

   Such data will also enable adaptive management of the process so that appropriate changes, based on knowledge gained, are made to the SOPs, ToR templates, contract with DFID, etc., as needed, to improve VfM for Implementation. This process will be continuously updated throughout the life of CRIDF to monitor our performance.
4. **Logframe** – this will contain supplementary VfM indicators to report back on a programmatic level the performance of CRIDF in terms of VfM.
5. **Economic** analysis. Where quantitative data can be established it will be appropriate to include some indication of the results using cost-benefit analysis (CBA); but it is expected that the difficulty in obtaining verifiable cost data will mean that such CBA's will need to be used with some caution. Similarly with the use of established social accounting procedures some estimates of the 'social return on capital' will be made. The recommended methods and procedures for these 'economic' analyses will be set out further in the VfM handbook.

Benchmarking

In order to gauge the degree to which input costs are reasonable or not, benchmarks can be taken for similar programmes from other organisations, or from other countries. Benchmarking is not usually straightforward, as it is difficult to have a situation in which like for like can exactly be compared. Such analysis should be used as a starting point of analysis and a guidance as to whether the unit cost in question is reasonable or not. Benchmarking against comparators can highlight situations that may point to underlying inefficiencies or distortions.

It will also be important to establish a procedure for include the views and perceptions of key stakeholders.

CRIDF

Logframe VFM Indicators

The suggested VFM indicators are "supplementary" indicators accompanying attached to the logframe indicators.[1] They are designed to provide simple measures of VFM – specifically economy, efficiency and effectiveness, and cost effectiveness. They are mainly a mix of unit cost measures, and qualitative measures. Unit cost indicators will measure cost efficiency - the cost of achieving a given set of outputs. As well as the internal efficiency of the programme, we will also be examining its overall cost effectiveness – "CE" is usually defined as cost per unit measure of outcome. The main outcomes here are beneficiaries reached, or hectares of irrigation supplied. Such CE indicators can be benchmarked externally, to assess their relative performance.

Below Table 1 sets out the suggested VFM indicators at the outcome and output level.

Table 1: Suggested logframe VFM indicators

LF indicator	What are we measuring?	Indicator	Type of measure
Outcome 1			
1.1	CRIDF programme cost[2] of increasing hectares of irrigation	**£** per hectare of irrigation	Cost effectiveness (cost per unit of outcome)
1.2	CRIDF programme Cost per beneficiary targeted for improved water security per project lifetime or beyond	CRIDF **£** per beneficiary (broken down by project types, e.g. hydro, irrigation etc – typology to be agreed)	Cost effectiveness (cost per unit of outcome)
1.3	CRIDF programme Cost per beneficiary HHs for improved resilience to extreme weather events	CRIDF **£** per beneficiary (broken down by project types, e.g. hydro, irrigation etc - typology to be agreed)	Cost effectiveness (cost per unit of outcome)
Outcome 2			
2.1	CRIDF programme Cost per project brought to bankability	**£** per project brought to bankability per **£**100k of project value Ratio of cost of achieving bankability: total implementation value Need external benchmarks for relative comparisons	Cost effectivenss
2.2	Measuring the perceived cost effectiveness of creating a new agreement, and	Qualitative, see below	Cost effectiveness

[1] Not in a formal contractual way, just as further component of VFM measurement

[2] Can define costs by the CRIDF programme costs (including FTE for DFID staff time), or total economic resource costs to society, this includes cost incurred by other stakeholders, end users and so forth. It depends what the VFM requirement is, VFM from a CRIDF perspective, or VFM from a society perspective.

	embedding the knowledge		
Output 1			
1.1	Unit cost of reaching each stage of project preparation	CRIDF Cost per project screened for eligibility/ CRIDF Cost per project screened for achieving bankability; CRIDF Cost per project screened for achieving financial closure per £100k of project value	Unit cost
1.2	Unit cost of bringing SADC infrastructure plans to bankability	CRIDF Cost per SADC infrastructure plan to achieving bankability	Unit cost
Output 2			
2.1	Leverage ratio	Ratio of CRIDF programme spend : public finance Ratio of CRIDF programme spend: Private finance Ratio of CRIDF programme spend : public + private spend Need external benchamarks	Cost efficiency
Output 3			
3.1	Perceptions of the cost effectiveness of the RAS tool for support to SADC Water sector s/hs	Qualitative measure, see below,	Cost efficiency
3.2	Perceptions of the cost effectiveness of the non-RAS tool for support to RBOs	Qualitative measure, see below,	Cost efficiency

Qualitative indicators

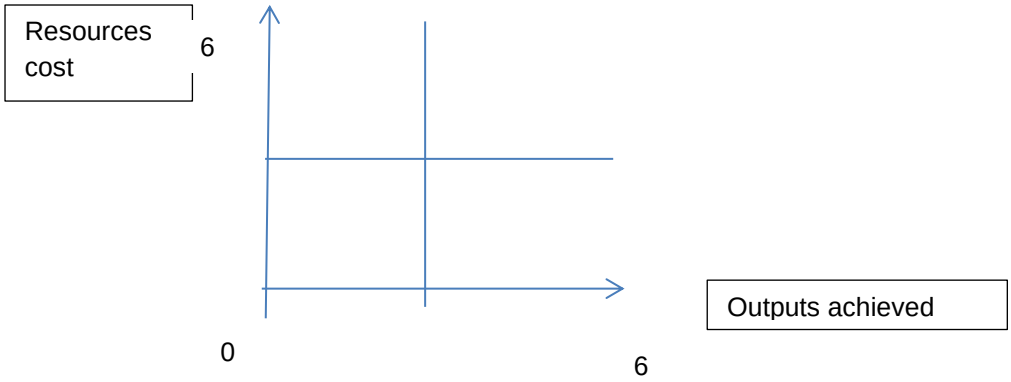
Some efficiencies can only be measured qualitatively, through perception surveys, where we are essentially asking relevant stakeholders their views on the cost efficiency of processes. There are two stages here in the survey, first, stakeholders' views on the performance of indicator in question (captured by standard M&E and LF indicators), and secondly, whether they believe this result was achieved efficiently or cost effectively – essentially we are asking whether they believe the resource costs involved in achieving the outcome were "good value." In order to provide a view on this they would need to have some idea of the resource costs involved, but they may not be privy to this information. If so, the survey would just focus on the former, gaging their views on the results, and the CRIDF M&E manager would provide a view on the resources used to achieve these results, and the two sets of data would be matched.

To assess perceptions an efficiency rating scale of 1 - 6 is recommended. In surveys a 6-point Likert-type scale is recommended to aid analysis. These scales force users to make binary decisions between high and low categories

The following tasks would be necessary to be completed:

1. Need a beneficiary/stakeholder feedback system to gauge the efficiency of activities.
2. Need to do a stakeholder map of all key informants internal and external (validated by DFID)
3. Need a qualitative interview instrument
4. Need to determine whether interviewees have the resource cost information or not
5. If not, then the surveyor must find another means of assessing the resources used
6. The two sets of data need to matched up

Survey results can be displayed in a diagram like the one below:



Unit cost indicators

For the most cost efficient activities, data points should be clustered in the bottom left hand quadrant. For the least cost efficient they should be clustered in the top left hand quadrant.