

“... Effectiveness and value for money are inextricably linked: how can a programme be value for money if it is not effective; and if there is poor value for money, is the programme being as effective as it could be?” ICAI Approach to effectiveness and value for money, November 2011.

1 INTRODUCTION

This paper outlines the principles and process that DFID uses to embed Value for Money (VfM) considerations within its rapid onset and protracted humanitarian programming. It draws from central DFID VfM policy, and a consultative series of external discussions with partners.

This guide is designed as a brief overview to principles and approaches. It does not provide detailed *how to* guidance, in recognition of the variety of approaches and models being developed by partners – in particular the NGO community. It does however recognise that **VfM processes and analysis in humanitarian scenarios, particularly in rapid onset situations, can be substantially different to the approach taken in development programming.**

2 DFID’S THINKING ON VALUE FOR MONEY (VFM) IN HUMANITARIAN PROGRAMMING:

VfM is not a new concept, nor a hurdle to jump over in order to be allowed to carry on providing assistance; it’s about maximising the impact of each pound spent to improve poor people’s lives. **It is part and parcel of the programme management process** and should be considered ‘a way of working’ and its effective consideration representative of robust project cycle management. The DFID The Humanitarian Emergency Response Review (HERR) of 2011 explicitly recognises this - stating that VfM aims to ensure “...*optimal use of resources to achieve intended outcomes. It is about the optimum combination of cost and quality of the goods and services to meet the needs of beneficiaries. As in all other areas of HMG spending it is not just about lowest cost*”.

It goes on to say “*[DFID] needs to seek value for money, not crudely through comparing costs but through focussing on achieving the best outcomes for affected people and improving the quality of future decision-making.*”

In essence VfM is simply a lens through which to analyse whether DFID and partners can demonstrate a robust management process which maximises the likelihood of success, minimises risk, and does this at a cost that is appropriate. VfM should be considered over the whole life of a project, not simply the initial input stage.

To date there has been an inconsistent approach to the application of VfM principles across humanitarian programming. VfM engagement has tended to focus on *Economy/ Cost*. Proposals, however, are rarely if ever so similar that they can be judged only on this criterion, and nor should they be. **The approach to be applied to VFM in humanitarian situations can differ from the developmental approach applied within DFID.** This note explains how and why this is so. It briefly outlines a set of simplified tools/ concepts to assist translate VfM theory and policy into practical management tools and processes.

3 WHY

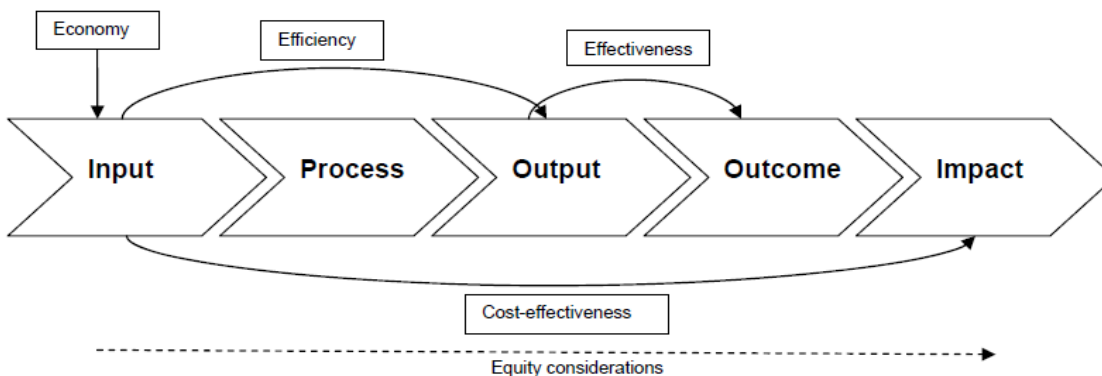
Ultimately we undertake value for money processes so that we can provide a more effective humanitarian response. It helps us to reach more people, more quickly, and be better at what we do. It is important not to lose sight of this. An effective and robust VfM approach provides an additional management tool to help make well informed decisions on humanitarian programming. In addition it provides:

- Evidence that organisations have effectively assessed and considered value for money considerations in the management of humanitarian programming.
- A framework in which cost outliers can be highlighted and assessed, and costs and cost drivers captured and evidenced over time, with a view to sharing best practise and making efficiency savings.

4 THE VFM MODEL

The VfM approach generally taken within DFID is referred to as the **3E VfM framework of Effectiveness, Efficiency and Economy**. In addition issues of **equity** and **cost effectiveness** are also highlighted.

- **Economy (spending less):** Are DFID or our partners buying inputs of the appropriate quality at the right price and at the right time? Inputs are things such as food and non-food items, staff, capital items that are used to produce outputs. Cost of transport and security need to be assessed to be able to get a good picture of economy. For a shelter intervention for example, an economy metric would be the unit cost of a shelter kit.
- **Efficiency (spending well):** How well do we or our partners convert inputs into outputs? Outputs are the results delivered by DFID or by our partners. DFID or our partners can exercise strong control over the quality and quantity of outputs. Ensuring timely arrival of material and staff is particularly crucial in rapid onset crises. For the shelter intervention, an efficiency metric would be the cost per household having received shelter assistance.
- **Effectiveness (spending wisely):** How well are the outputs from an intervention achieving the desired outcome? *A project does not provide good VfM if it is not effective.* Projects can be economic and efficient and still not effective. In contrast to outputs, DFID or our partners do not exercise direct control over outcomes. Effectiveness can best be measured using qualitative methodologies, in particular end user surveys of satisfaction. An example of a quantitative metric to determine cost-effectiveness would be the cost of a percentage increase in people satisfied with their shelter assistance.



However – in a rapid onset crisis it may be most appropriate to consider **speed, quality and cost** considerations, section six provides further detail.

DFID is fully aware that partners have developed their own approaches to VfM that may differ from those outlined here. **The VfM model used (either by DFID or partners) is less important than demonstrating it has been effectively applied** to improve programming for beneficiaries.

5 PRINCIPLES FOR MEASURING VFM IN HUMANITARIAN PROGRAMMES

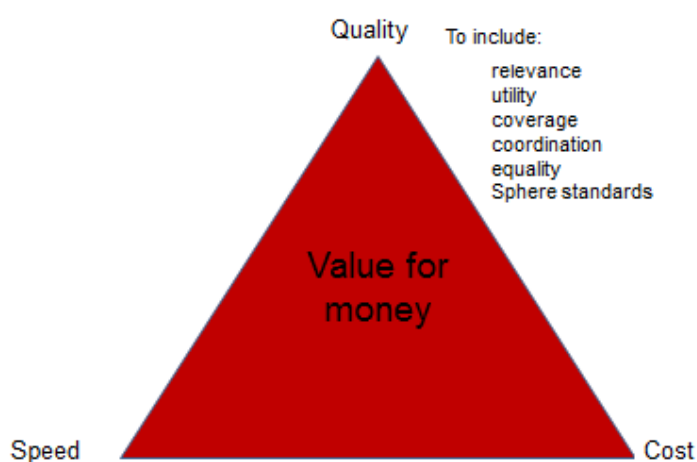
VfM can be assessed at four phases of the programme cycle by DFID – through due diligence/pre-screening of potential implementing partners (as used in the Rapid Response Facility – the RRF), during project appraisal, monitoring of implementation and finally post implementation (through final reports and evaluation). In a rapid onset the RRF pre-screening process provides an opportunity to assess a partner’s efficiency and internal systems, and an assessment of the effectiveness of past performance. Past programming acts as a proxy for part of the VfM process.

DFID has developed a set of principles which act to guide decision making informed by VfM considerations. These principles explicitly recognise that humanitarian programming can present specific challenges due to the limited response timeframe for rapid onset emergencies, and the accompanying lack of information, limited access, shortage of resources and often the limited number of partners with whom DFID can work. These highlight how humanitarian VfM analysis can differ from non-humanitarian programmes. Many of these are interdependent.

Principle	Explanation
Programmes must be Effective	This should be the primary criterion of analysis. To achieve good value for money an intervention must first and foremost achieve its objective in a timely manner.
Assessing VfM can be done during or after implementation when appropriate	Measurement - for rapid onset interventions – may need to be based on performance rather than ex ante programme appraisal (and measured during monitoring and ex post phase). As with all proposals the results chain logic should be robust.
Simplicity, ease of reporting, accountability	It is important that the requirements for reporting are clear and well understood. Reporting on VfM is part of being accountable to the donor (and ultimately taxpayer) and to the desired beneficiaries.
There is a need for transparency	Both the documentation that accompanies the project proposal and the DFID process for assessing VfM should be clear and shared with and agreed by the partner agency.
Assessment may be of actual expenditure rather than budgeted	Budgets presented by partners at the start of a rapid response are by necessity likely to change substantially as the scale and nature of needs become clear. Cost/ economy is best analysed on actual rather than projected expenditure. Cost can be benchmarked over time. VfM acts as a means to better understand project detail and assess partner choice of assistance vehicle. Cost outliers can and should act as a trigger for further discussion <i>ex post</i> with partners to determine the reason behind these costs.
There is a need to benchmark performance	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. CHASE will develop a database of VfM metrics over time.
Analysis of cost drivers rather than unit costs may be more useful.	Assessing the component expenditure of unit costs and tracking these is of greater relevance than unit cost analysis per se. Thus tracking how these inputs change relative to one another, over time or between programmes helps DFID understand programme cost structures more clearly. Budget formats for proposals and reporting of actual expenditure must be to the DFID format, as this will facilitate cost driver analysis over time and between organisations.
VfM must be easy to interpret	Metrics should be readily understandable. Metrics and analysis should easily guide decisions on what steps can be taken to improve value for money where it is not being realised.

6 ASSESSING VFM IN RAPID ONSET CRISES

Time, resource and information constraints in humanitarian work means that it is often not possible to apply VfM analysis in a methodical way at the start of a rapid onset crisis. In such circumstances the **Speed, Quality, Cost tool** is probably the most appropriate means of assessing VfM. This tool explicitly recognises the need for speed, and the trade-offs this may require. Note however that the longer the time-frame over which DFID is operating in a humanitarian situation the greater the scope to move from the Speed, Quality, Cost approach to the standard 3Es approach to the VfM.



The **speed, quality, cost tool** allows for an appropriate level of analysis – given time and information constraints where more rigorous financial approaches are not possible. It focuses on the core components of VfM. Quality (of the response *process* itself, as well as items provided) is taken to include issues of relevance, utility, coverage, coordination and equality, and other criteria as appropriate to the scenario such as Sphere standards. This approach is promoted by the HERR and was used to assess the Pakistan floods response. In these scenarios there is a trade-off between cost and quality when considering economy issues. Likewise when considering efficiency there is a similar trade-off between cost and speed, and between speed and quality when considering effectiveness issues. The DFID Technical Guidance Notes provides more details for further information.

In rapid onset responses **partners should be encouraged to commit to time and quality benchmarks in their proposals**. This will facilitate VfM and programme response monitoring post event. Presenting these metrics in advance will promote consideration as to how these will best be measured. It will be for DFID and partners to identify which indicators will be used to assess these metrics.

Rapid onset crises require quick, simple processes for accessing funding. For example, in a rapid response there may be cost implications of different intervention options, however, speed and quality is essential. **DFID and partners should undertake VfM analysis during and after the implementation phase**. This has implications for DFID and partners with regard to ensuring (and where necessary, developing) **robust monitoring processes**.

It is therefore for partners to:

- Ensure that proposals, initial budgets and final financial reports are provided in the correct format (see Humanitarian Budget Technical Note);
- Ensure that proposals demonstrate a robust, well planned and sufficiently resourced monitoring plan, and that this is implemented;
- Liaise with DFID from the start to discuss how DFID intends to monitor programmes in line with its internal procedures, and expectations on partners in this regard;

- Identify and capture VfM metrics from the start and ensure these are effectively gathered, shared and analysed;
- Ensure time and resources invested in VfM analysis are appropriate to the scale of the intervention.
- Ensure that VfM is assessed and findings shared internally and externally as required in the post implementation phase.

7 IN PROTRACTED CRISES

Chronic and extended crises make up the majority of DFID humanitarian funding, and partners activities. Longer term engagement offers opportunities for comparative analysis to be undertaken over time looking at performance and cost drivers and thus may fit well with the DFID 3E's approach. A longer timeframe will enable the benchmarking of interventions to take place. To enable this it is necessary for DFID and partners to:

- Ensure initial budgets and actual expenditure reports (mid-term when relevant) are presented in a uniform format reflecting cost drivers, and that these are analysed over time. Adopting the DFID humanitarian budget template will enable this. This will allow for an accurate picture of costs to be tracked over time. It will also allow DFID to develop a picture of unit costs between agencies and different responses/approaches.
- Where data exists, DFID will undertake a comparative analysis of cost drivers (and unit costs if appropriate) between organisations. Cost outliers (both high and low) may not in themselves be a decision point, but are an opportunity to discuss further with the partner the details of the proposed approach (or approach taken if assessed *ex post*) and understand better the reasons for the difference. An analysis of cost drivers, rather than the unit cost itself, can assist this process. Support can be provided from DFID CHASE if required.
- Where funding is passed through Common Humanitarian Fund (CHF) or Emergency Response Fund (ERF) mechanisms DFID will encourage OCHA to undertake similar comparative cost analysis – if not for all proposals, at least within certain clusters.
- Ensure that focus is not on cost alone. Other aspects of programme design, including relevance, timeliness, likelihood of successfully achieving its goals, can be of critical importance. There is a requirement to ensure that VfM considerations does not mitigate against innovative (and thus more risky) approaches.

RESOURCES

- ICAI's Approach to Effectiveness and Value for Money (Nov.2011)
- DFID's Approach to Value for Money (July 2011)
- HERR (2011)