Background paper

bond
FOR INTERNATIONAL DEVELOPMENT

Value for money: what it means for UK NGOs

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Bond is a broad network of 360 UK-based international development organisations united by a common goal to eradicate global poverty. To achieve this we influence governments and policy-makers, develop the skills of people, build organisational capacity and effectiveness and provide opportunities to exchange information, knowledge and expertise.

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- Building knowledge and skills to support members in measuring and managing effectiveness through training, peer learning and support, piloting, and resource development
- Creating an enabling environment that encourages and supports organisations to deliver improvements in their effectiveness through engagement with donors, NGO leaders and promoting greater transparency about performance

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The Effectiveness Programme is supported financially by:

ActionAid UK, CAFOD, CARE International UK, Christian Aid, Comic Relief, Department for International Development, Everychild, Islamic Relief, Mercy Corps, Oxfam GB, Plan UK, Practical Action, Save the Children UK, Sightsavers, Tearfund, VSO, WaterAid and World Vision

Acknowledgements

This report was co-written by Bond and ITAD drawing on earlier research work conducted by Belinda Duff and Daisy MacDonald.

Bond would like to thank the following people who served as a reference group for the development of this paper:

Amy Gray (ActionAid), Emily-Ann Bowden (ActionAid), Cait Turvey Roe (Disasters Emergency Committee), Daniel Jones (Christian Aid), Gideon Rabinowitz (UK Aid Network), Jo Feather (Save the Children), Rachel Lander (Action for Global Health), Sam McPherson (International HIV/AIDS Alliance), Sara Cottingham (VSO) and Tim Boyes Watson (Mango)

Preface

The concepts of value for money and results in international development are high on the political agenda and have emerged as priorities for many donor governments, including the UK and the Department for International Development (DFID). This donor focus is reflected in the outcome document of the 4th High Level Forum on Aid Effectiveness and is evidenced in the approach taken by donor governments in their assessment of both their bilateral and multilateral programmes as well as reporting requirements set for NGO grantees.

Faced with increasing scepticism about aid and its impact, decreasing public and media support and acute fiscal constraints in many 'traditional' donor countries, the elevation of the results agenda and a focus on value for money should be seen as part of a genuine attempt by governments to challenge the 'aid sceptics' and demonstrate that aid is a good investment that yields significant results and a real impact on poverty reduction.[1]

However, these emerging themes are not without their challenges, in terms of both NGO practice and broader development policy and practice. There is a risk that both results and value for money will be interpreted and quantified in narrow terms, in ways that do not capture the complexity of development or appreciate the challenging and fragile contexts in which aid is and should be delivered. There is also a risk that the more qualitative aspects of development, such as empowerment, human rights, institutional reform and strengthening, will be viewed as too 'high risk' when subjected to a simple value for money evaluation.

At the same time, there is an opportunity to see these new agendas, if framed and implemented in a nuanced way, as a real opportunity for NGOs as well as donor and recipient countries to critically assess and manage their development interventions to ensure that they deliver the maximum impact for people living in poverty.

Although NGOs have considered these issues for many years, the recent political impetus creates a valuable opportunity for NGOs to positively and proactively shape and define these agendas, ensuring that approaches to value for money and results address the root causes of poverty and are defined in ways that will ensure inclusive and sustainable development. By proposing our own vision of value for money, NGOs can speak with a stronger collective voice and, in turn, will be positively placed to influence how donors and other development actors shape their approaches to these issues.

This paper focuses on the practices of UK NGOs in engaging with value for money. Its goal is to support UK NGOs to explore the concept in the context of their work, identify ways in which they can improve the value for money of their activities and support their efforts to make a strong and defensible case to funders for their continued support to civil society.

While the paper has been developed solely through discussions with UK NGOs, it is hoped that its contents will be of use to the wider civil society community.

Key points made in the paper

- Value for money is a frequently misunderstood term, largely due to its association with complex econometric calculations and tools. While these can be useful in some contexts, at the heart of value for money is a much simpler idea: when designing and implementing an intervention, compare the costs and benefits of different options and make a defensible case for why the chosen approach provides the best use of resources and delivers the most value to poor and marginalised people.
- Viewing value for money in this way means it is much less about specific econometric methods or calculations and more a way of thinking about and approaching programme design, implementation and evaluation.
- While there are aspects of value for money that will be new to UK NGOs, much of the agenda should be familiar as it relates to basic good practice in NGO management.
- In order to deliver and improve value for money NGOs should look at their practice across three areas:

  a. The systems and processes in place for managing value for money
  b. The approaches they use to compare value for money between activities
  c. The use of evaluations to demonstrate value for money
- The foundation of any NGO approach to value for money needs to be systems for organisational and programme management. Unless an NGO can monitor costs and measure outcomes it will struggle to engage meaningfully with value for money. Only once these are in place can an organisation begin to benefit from methods that compare and demonstrate value for money and use them to drive improvements in its work.

"Unless an NGO can monitor costs and measure outcomes it will struggle to engage meaningfully with value for money."

i Introduction

A continual challenge for NGOs is how to better measure and demonstrate their effectiveness. The current political and economic environment has also made it increasingly important for UK NGOs to describe and demonstrate value for money. The purpose of this paper is to support Bond members to understand what value for money means, and to engage with the agenda in ways which are appropriate to the differing resources NGOs have available and the nature of the work they conduct.

i

Introduction

While there are concerns among UK NGOs that the current emphasis on value for money could skew funding towards easy-to-measure and short-term interventions, this paper takes the perspective that, if implemented in the right way, the value for money concept presents an important opportunity for UK NGOs to look at how they can use their resources as effectively as possible in the pursuit of social justice and poverty reduction. By engaging proactively with the value for money agenda, UK NGOs have the opportunity to develop, test and promote the approaches that work best for the sector and help shape the use of the concept in international development.

The guidance provided in this paper is based on current thinking and practice amongst UK NGOs. The key sources of information were business cases put forward by NGOs seeking funding, evaluations, reviews of methods and approaches, blogs, and semi-structured interviews with NGO staff.[2] As far as possible, information was drawn from examples of what organisations are currently doing. The paper does not present a definitive position on value for money for UK NGOs, but offers a framework based on where the sector is to date.

The paper is divided into five sections

- **Section 1** outlines the key drivers of the current focus on value for money.
- **Section 2** offers an explanation of what value for money means, discusses some of the risks associated with the agenda and how UK NGOs can best respond to them.
- **Section 3** presents a framework to help UK NGOs navigate the value for money agenda and identify which approaches and methods are best suited to their needs. The framework identifies three areas that UK NGOs should focus on to deliver and improve value for money: the systems and processes in place for managing value for money; the approaches they use to compare value for money between activities; and the use of evaluations to demonstrate value for money.
- **Section 4** offers some reflections on how to move value for money forward across the UK NGO sector and the scope for collaboration.
- **Annex 1** offers some practical advice on how to make a value for money case and integrate value for money considerations into programmes.

"By engaging proactively with value for money, NGOs have the opportunity to help shape the use of the concept."

1 Why the focus on value for money now?

Value for money is part of improving NGO effectiveness

There is growing awareness among UK NGOs of the need to improve the consistency and robustness of how they assess and demonstrate the effectiveness of their work. Organisations recognise that while the outcomes of their work are often difficult to measure, they need to find methods and approaches that allow them to manage performance and articulate their contribution to change in a more robust way. Value for money raises important questions about how to compare results (benefits) with costs, and pushes organisations to interrogate the extent to which the benefits outweigh the costs and to make explicit these judgements.

Many donors require a value for money analysis

Value for money has gradually grown in prominence in recent years, along with other strands of the effectiveness agenda, but has been brought into even greater focus by the current economic climate and the decision by the UK coalition government to ring-fence official development assistance, while cutting public spending in many other sectors.

This has led to increased demands from the Department for International Development (DFID) that NGOs receiving funding should provide more detailed information on costs and benefits and to assess proposed activities in a more focused and rigorous way. Value for money is also being promoted by other donors, such as the Global Fund and USAID.

Government donors are not the only funders promoting a more rigorous analysis of costs and results. Private foundations, such as the Bill and Melinda Gates Foundation and The Skoll Foundation, coming from a corporate background, are bringing business approaches into development aid and asking questions about the 'social return' that an investment generates.

UK NGOs will struggle to access funding from these sources unless they are familiar with and fluent in the language of value for money and can articulate clearly the value a programme delivers in relation to the investment that is made.

Value for money helps NGOs present a more robust narrative to the public

Value for money is also part of a need for UK NGOs to engage the UK public in a better understanding of what development is. This requires telling a more robust and complete story of what it means to 'do development' and the challenges associated with this. In other words, being able to communicate clearly and confidently about results in relation to costs and to explain and justify the relationship between the two is vital.

2 What is value for money?

Value for money is a much used but frequently misunderstood term because of its association with complex econometric calculations and tools. While these can be useful in some contexts, at its core value for money is actually a much broader and simpler idea: before investing time, resources and energy into an activity or programme, weigh up the costs (what is being put in) and benefits (what is being achieved) of different options and make the case for why the chosen approach is the best use of resources and delivers the most value to poor and marginalised people.

One of the most widely used definitions is that used by the UK National Audit Office (NAO) which defines value for money as, 'the optimal use of resources to achieve the intended outcomes'[3] and identifies economy, efficiency and effectiveness (the three E's) as the core ways of achieving this:

- **Economy** refers to the costs of inputs and resources of an intervention (unit costs are typically used as a measure of economy).
- **Efficiency** refers to how much you get out in relation to what you put in. It's about maximising an output for a given input, or minimising input for an output.
- **Effectiveness** refers to how far a programme achieves its intended outcomes, using qualitative and quantitative assessments of change.

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 across the three E's. 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. As one Bond member notes, 'Effective programmes are those that first and foremost do the right thing, but also do it efficiently'.[4]

What is value for money?

Examples of value for money programmes

An education programme will show:
a. good **economy** by minimising the cost of inputs (tenders for school building programmes, training etc)
b. high **efficiency** by maximising the number of children receiving high quality education through good location of schools and support to families and children to attend
c. high level of **effectiveness** by maximising the number of children leaving school with qualifications and the ability to get jobs

An HIV anti-stigma programme will show:
a. good **economy** by minimising the cost of inputs (for example, training community outreach trainers)
b. high **efficiency** by maximising the number of communities reached through the community outreach trainers
c. a high level of **effectiveness** by reducing the level of stigma and discrimination in those communities

A legal literacy programme will show:
a. good **economy** by tendering for translation services into the local language to ensure the best price and quality
b. high **efficiency** by involving those with influence at the local level such as village elders in the dissemination of materials and making sure materials are in a format accessible to marginalised men and women
c. a high level of **effectiveness** by empowering people to use their new legal literacy to take action on issues important to them for instance, widows' inheritance, custody of children or the legal age of marriage

A good way of understanding value for money is to think of it as putting forward a defensible case in which an organisation clearly articulates and explains the choices that were made during programme design and implementation, the assumptions underpinning these, how resources were balanced with results in making these choices and how costs were managed. (see Annex 1 for practical advice on making a robust case).

Crucially, making a defensible case relies on robust evidence. The quality of the data used is fundamental; the credibility of the claims rests on this. The more explicit, transparent and specific an NGO is in providing evidence that others can review, the stronger the case will be. In this respect, value for money cannot be divorced from the wider NGO effectiveness agenda.

Lastly, the approaches and methods used for value for money purposes need to be appropriate to the intervention, the context and the resources of the NGO.

Value for money and beneficiaries

Value for money should be in line with the mission and values of an organisation. For UK NGOs, this should be about delivering activities and programmes that are of most value to those to who the organisation is ultimately accountable to, for example, poor and marginalised people. Therefore, the perspectives of partners and beneficiaries are key to judging if resources have been used as effectively and efficiently as possible in delivering change. To deliver value for money, they should also be involved in planning and implementing interventions, identifying and choosing outcomes which are of most value, identifying where savings can be made and assessing if outcomes have been achieved. Meaningful participation of beneficiaries in all stages of a programme cycle is key to delivering value for money.

> **"The more explicit, transparent and specific an NGO is in providing evidence, the stronger the value for money case will be."**

What is value for money?

Four possible risks and how they might be handled

In researching this paper a number of issues were raised by NGOs that highlight some of the possible risks associated with value for money. These relate both to how donors use the concept in their funding decisions and how NGOs implement it internally.

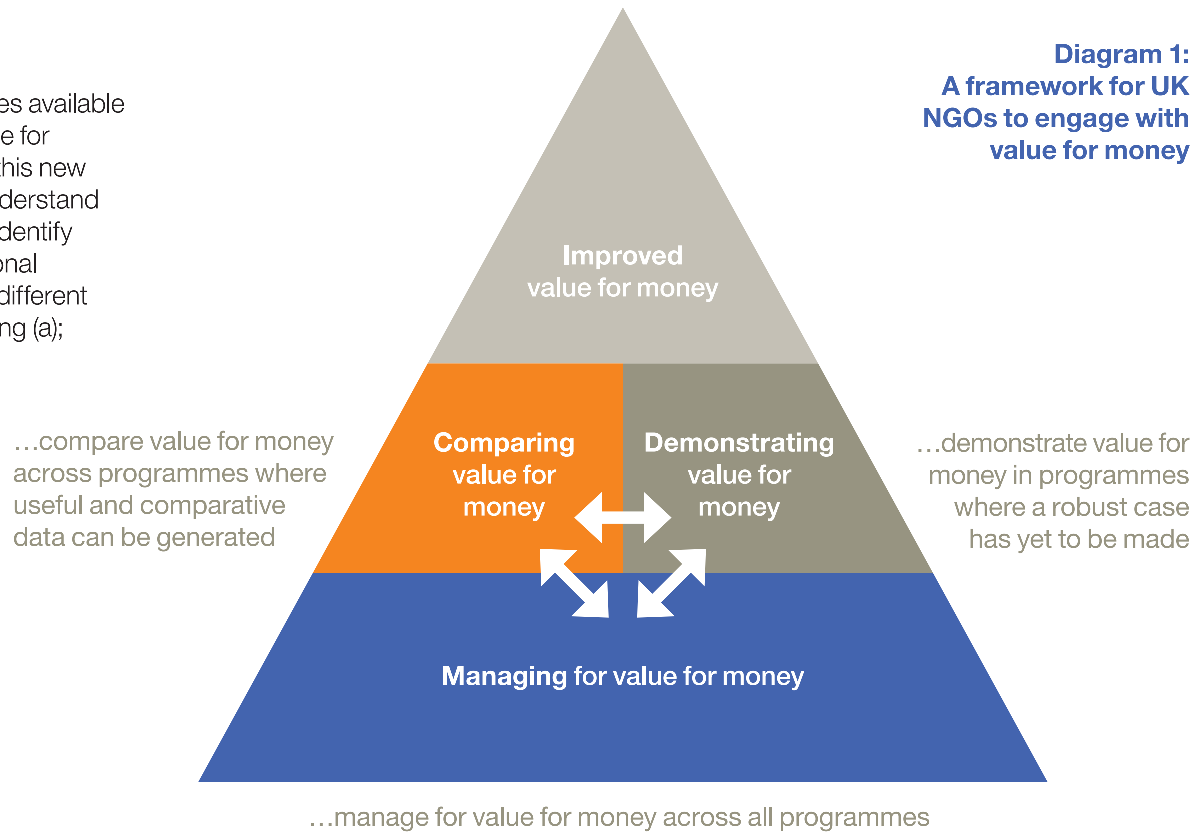
	Risk	Response
Value for money focuses too much on cost savings	Value for money becomes solely about delivering activities at the lowest cost.	This is not what value for money means. It is about finding an appropriate balance across economy, efficiency and effectiveness. If the effectiveness of an NGO's activities is being reduced as a result of cost-savings, this does not deliver value for money.
Value for money leads to competition between NGOs and other service providers	A simplistic focus from donors and commissioning bodies on delivering services at the lowest cost could lead to NGOs losing out to other providers. Yet, in some cases, a different (and cheaper) service provider may not necessarily provide better value for money.	UK NGOs need to get better at evidencing the effectiveness of their approaches and making a robust case for why higher costs may translate into more sustainable long-term outcomes which are therefore better value for money.
Value for money leads to competition with other NGOs	The drive to achieve economies and demonstrate why a programme should be funded has led to concerns that this will pit NGOs against each another.[5]	While too much competition – or the wrong sort of competition – can have negative consequences on quality, greater competitive pressures can present opportunities. For example, it may lead to the emergence of more creative approaches to sharing costs (for example, consortiums). If this results in reduced costs, better coordination and integrated provision, then this potentially offers considerable additional benefits to communities and individuals.
Demonstrating value for money becomes all about monetising outcomes	In seeking to make the case for value for money, methods designed to monetise outcomes are seen as the only robust way to prove it and could give more weight to outcomes which are easier to monetise than those which are still important, but are harder to quantify financially.	When done well, monetising requires clarity about what is being measured and there are many factors that can confound the analysis.[6] While adding value in some contexts, in others monetising may not be the best use of resources. There are other similarly robust ways of demonstrating value for money that NGOs should promote (see section 3 for more on this issue).

3

Value for money: a proposed framework

There is a broad range of methods and approaches available to enable NGOs to improve and demonstrate value for money. This section aims to help NGOs navigate this new terrain and provides a basic framework to help understand the underlying purpose of different methods and identify which mix best suits their own specific organisational priorities and resources. We have identified three different categories of approaches: those linked to managing (a); those for comparing (b) and those designed for demonstrating (c) value for money.

Diagram 1: A framework for UK NGOs to engage with value for money



a. Managing for value for money by putting the right processes in place

A key set of methods for achieving value for money are those associated with good management practice. If an organisation or programme for example, has effective procurement practices, good financial systems, is developing and implementing programmes in a participatory way with beneficiaries, and has a functioning monitoring and evaluation system then it will be well placed to deliver activities that balance economy, efficiency and effectiveness. In the absence of these systems and practices an NGO will find it difficult to show how it weighs up costs and benefits, makes informed decisions about how best to use resources and ultimately delivers results. Of the three categories, managing for value for money will feel the most familiar to UK NGOs with organisations already implementing many of the practices to varying extents.

Approaches being used by UK NGOs for managing for value for money

Implementing transparent contracting procedures. Conciliation Resources hold open tenders for services such as consultancies for external project evaluations. When purchasing other programme inputs (flights and accommodation, publishers, communications) they use reliable suppliers with competitive prices, and ask for new quotes every 12 months for comparison.

Focusing on maximising economy in operational support. Sightsavers are working to reduce percentage expenditure of organisational support functions by reducing the replication of functions across country offices, consulting internally on reducing the number of regional offices, setting a target to reduce the number of expatriate contracts, and investigating moving their head office to more cost-effective premises.

Monitoring expenditure and avoiding corruption. Malaria Consortium do an internal audit, monitor variances in predicted spending and ask budget holders to explain and take action on these variances on a monthly basis, and demand at least two signatures to authorise every payment transaction.

Generating evidence-based theories of change for a programme and ensuring that budgets allocated are commensurate with predicted outputs and outcomes. Penal Reform International prepared a gap analysis of the difference between the present situation and desired outcomes for its programmes, and agreed objectives and a plan to bridge this gap through agreement with its partners. Programme and project budgets are then set and monitored for all activities. Variances are discussed and remedial action taken to adjust spending to comply with the budget.

Ensuring appropriate monitoring, evaluation and learning systems for programmes. Self Help Africa uses an IT system to standardise monitoring and reporting processes, including using indicator dashboards, and is in the process of integrating this with financial software to enable analysis of expenditure against a range of inputs and outputs. This also makes reporting to the International Aid Transparency Initiative Standard more straightforward.

Collecting beneficiary feedback data. ActionAid Uganda uses local partner and beneficiary feedback surveys to monitor whether outcomes are being achieved.

Linking resources to performance data. World Vision allocates funds to field offices on the basis of need (for instance, according to the multidimensional poverty index), as well as taking into account criteria including alignment with strategic priorities, previous performance, audit results, evaluations, management capacity, ability to contribute to impact and economies of scale.

b. Comparing value for money to drive improvement and inform decision-making

Here, the focus is on using methods to make more explicit value for money comparisons between programmatic activities in order to drive improvement and inform judgements about how to invest funds. Comparison can be within a single agency, or between peers.

When making value for money comparisons, it is important that like-for-like situations are used. The value for money of interventions engaging hard to reach populations for example, will look different from interventions reaching out to the general population, and services delivered in remote rural areas may cost more to deliver than those in more easily accessible locations. In addition, value for money comparisons are easier to make between interventions where the output is standardised (for example, latrine or water pump) than those where outcomes are more complex, such as capacity building and policy work, as common units or standard outcomes are more difficult to identify.

Based on discussion with NGOs, it is clear that much work needs to be done in this area. For example, the ability of many organisations to generate solid comparative costing data about key outputs is still weak and many NGOs struggle to generate unit cost data for even simple outputs. Likewise, while recognising the context specific nature of interventions, there is a need for organisations to be able to better articulate the reasons for differences in cost per person reached by different NGOs (and even within the same NGO) for similar interventions.

Arguably, methods and approaches that compare value for money could produce some of the most dramatic improvements for NGOs. The benefit is in the discussion and analysis of why different approaches cost different amounts. This will help to identify where improvements can be made and generate important learning for the organisation and sector. Importantly, this work should, where possible, be a collaborative endeavour, with NGOs coming together to share value for money data and learning.

"Methods and approaches that compare value for money could produce some of the most dramatic improvements for NGOs."

Approaches being used by UK NGOs for comparing value for money

Benchmarking staff and consultant salaries across the sector. Conciliation Resources' remuneration policy includes a pay-market review and a commitment to keep higher salaries on the median average for comparable organisations.

Comparing the expenditure and efficiency of different methods of achieving similar outputs. In a 2010 evaluation of their childhood cataract campaign in Bangladesh, Sightsavers compare the costs and success rates of three different methods of identifying children for cataract surgery, taking into account contextual and geographical differences.

Comparing cost per beneficiary for a service. International HIV/AIDS Alliance calculated total expenditure per person reached in different programmes (applying a weighting factor to those reached indirectly), and has calculated costs per beneficiary for particular services such as prevention or care and support.

Comparing stakeholder perceptions of the effectiveness of different activities relative to costs. Oxfam GB used the Basic Efficiency Resource method[7] to analyse stakeholders' perceptions of how effective different campaign activities (media work, research, and lobbying) in their climate change campaign were in affecting change and compared this to the full costs of each set of activities.

Value for money: a proposed framework

c. Demonstrating value for money through evaluation

The focus of this category of value for money approaches is on using more evaluative methods to demonstrate the overall value for money of an organisation or programme in a way that is plausible and compelling and allows for robust and transparent external validation and assessment. Importantly, it requires data on results that can stand up to scrutiny and analysis.

In the increasingly competitive funding environment, there is a clear pressure for NGOs to get better at articulating if, why and how a programme delivers value for money. The methods and approaches used are varied and include technical econometric modelling such as Cost Benefit Analysis or Social Return on Investment studies as well as standard evaluative approaches. Full applications of Cost Benefit Analysis or Social Return on Investment can be used to demonstrate value for money to an external technical audience as well as to donors in a very transparent way. However, an evaluation of an NGO's programmes which combines robust quantitative and qualitative evidence of outcomes and impact with strong evidence of economy and efficiency on the cost side can also provide a powerful evidence base for demonstrating value for money.

This spectrum of approaches is important to bear in mind when seeking to match method to context. While a programme with a strong service delivery component may lend itself to economic modelling as a means of demonstrating value for money, an advocacy and campaigning programme, where attribution is more difficult to show and the relationship between results and resources more complex, may be better suited to a strong evaluation that explores the relationship between results and costs and makes a judgement on whether the intervention was value for money.

It is also important to recognise that there may not be a need to demonstrate the value for money of NGO programmes or activities if there is already a sound evidence base suggesting that a particular approach or type of programme intervention works and delivers balance between economy, efficiency and effectiveness – such as the role of vaccines in preventing childhood infectious diseases. In this respect, especially when using the more complex and costly econometric models, an NGO might want to focus on the more innovative and experimental types of intervention that have yet to be analysed from a value for money perspective, or interventions that, while tried and tested, are about to be scaled up but have not been looked at through the value for money lens, or interventions that are producing positive outcomes but are costly to implement.

"In the increasingly competitive funding environment, there is pressure for NGOs to get better at articulating if, why and how a programme delivers value for money."

Approaches being used by UK NGOs to demonstrate value for money

Social Return on Investment studies. International HIV/AIDS Alliance conducted a study on an HIV/AIDS stigma programme looking at the reported returns as perceived from stakeholders in the beneficiary communities. Monetary values for the returns were estimated by the beneficiary groups and measured against costs. Comparison data from communities not covered in the programme was also taken in to account.

Cost Benefit Analysis studies. Oxfam GB conducted a cost benefit analysis as part of a wider evaluation of its G8 advocacy activities. The analysis looks at the human resource and financial expenditure and compared the costs against the outputs and outcomes of particular advocacy activities.

Modelling the impact of a programme though Disability Adjusted Life Years (DALYS). Sightsavers, as part of an evaluation of its childhood cataract campaign in Bangladesh, calculated the total number of Disability Adjusted Life Years lost if surgery was undertaken and compared this with the number lost if no surgery was undertaken. Several different estimates were made and the final results were used to make a value for money case for the efficiency of the programme.

Making a judgement on value for money through evaluation. In its PPA evaluation, Progressio looked at the value for money of their model of deploying development workers to support the capacity development of partners. To assess economy and efficiency, they looked at the costs of deployment and the skills and length of service of their development workers. To evaluate effectiveness, partners in Somaliland and the Dominican Republic were asked about potential alternative approaches for capacity building (training for staff and consultancy support), and what might have happened if a development worker had not been deployed. By analysing the relationship between the costs of deployment and the benefits of the capacity support provided, the evaluation showed the development worker model to offer good value for money.

"There may not be a need to demonstrate the value for money of NGO programmes or activities if there is already a sound evidence base."

Value for money: a proposed framework

How can UK NGOs navigate these approaches?

The framework described above provides an overview of how value for money methods can be conceptualised and understood. NGOs will need to work across the three categories to improve their value for money. The relationship between the three categories is illustrated in Diagram 1 (see page 11). As this highlights, the foundation of good value for money (the base of the triangle) is good management systems. These are crucial and cover the full range of programmatic and organisational processes, from sound planning, monitoring and evaluation to good financial systems. Being able to monitor costs and measure results are prerequisites to delivering programmes that balance economy, efficiency and effectiveness.

Built on these foundations are methods and approaches for comparing and demonstrating value for money. Comparative data is quite scarce within the sector so an NGO might, for example, want to start by selecting a limited set of outputs and building up a comparable data set of costing data on these. Over time, the dataset can be used to inform future decisions about what the most efficient costs of delivering the output should be. When thinking about demonstrating value for money an NGO should weigh up where the investment of resources will be of most value and where developing a robust evidence base is most needed.

As the diagram illustrates, the three categories are also very much interrelated. For example, conducting a series of costing studies as part of an attempt to manage projects to be more efficient will, over time, also provide a dataset to help support comparative approaches that will inform future decisions about what the right costs of particular activities should be. Similarly, an evaluation that seeks to demonstrate the value for money of a particular programme will undoubtedly generate learning and data that can be fed back into the organisation in order to support greater comparative analysis that will improve the value for money of similar interventions in the future.

An NGO that is able to formulate an approach to value for money that illustrates a balance between the three categories and highlights which activities are being undertaken in each will be well placed to drive improvements across its programmes.

“The foundation of good value for money is good management systems.”

4

Moving forward with value for money

During the course of developing this paper, several areas for further exploration were identified by NGOs working on value for money:

- As NGOs gain more experience with value for money concepts and methods, there is a need for systematic sharing of information between organisations. When an NGO is applying a new value for money method, it should be building on the experience of others within the sector rather than starting from scratch. Bond, through the Effectiveness Programme, is facilitating a value for money working group to share learning between NGOs on the application of new methods and will be developing resource material that outlines the challenges and benefits of different approaches.
- In order for NGOs to start comparing value for money both between their own programmes and with peers, there needs to be a better understanding within the sector of how outcomes are valued and what costs are assigned to particular activities. Notably, there is a need to understand better the current differentials in unit costs of activities and tease out what is going into an output and/or outcome, to compare like with like.[8] Such information should be shared widely within the sector so that, over time, a robust cost and benefit data set can be generated that is recognised by external and internal stakeholders as verifiable, and as providing a strong evidence base.
- For interventions such as advocacy and capacity development, where the outcomes and pathway to achieving them are often complex and the time horizons for seeing change (and therefore value for money) are extended, there is a need for sector-wide learning on how to make a robust, transparent value for money case. This will be important both for telling the story of NGOs' distinctive contribution to international development but also in supporting better targeting and use of resources when managing these programmatic strategies.
- UK NGOs need to support their southern partners to engage with value for money debates and practices. As value for money is closely linked to improving programmes, NGOs should help partners to adapt and respond to the challenges that it brings and use practical approaches for balancing costs and results, and integrate this thinking into programme management. To provide support in this area, alongside this paper, Bond has produced a practical one-page guide on integrating value for money considerations into the programme cycle. NGOs are free to use and adapt this as they see fit.

A Making the value for money case

In integrating value for money into the work of NGOs, it is useful to think about it in terms of formulating a defensible case. The case should be developed during programme inception and shape how the programme is designed; it should outline how value for money is being managed and monitored throughout implementation and be a key source of evidence for demonstrating value for money as part of a programme evaluation. Importantly, a value for money case is more than just an up front justification for a programme; it should continue to be built and strengthened as the programme is implemented.

A defensible case should have the following components:

1. Justification for why the programme intervention has been chosen and why it provides the best results given the available resources

An NGO should be able to explain the different options that were considered for achieving outcomes, why a particular programme approach was selected, and how it offers the best balance of economy, efficiency and effectiveness and delivers the most value to poor and marginalised people. For example, an NGO might make comparisons between the costs of different strategies for achieving an outcome. This would help identify which strategy offers the higher return on investment. A strong value for money case would also show how beneficiaries were involved in identifying and choosing the outcomes that are of greatest value to them, and developing the strategies for achieving them.

Outlining multiplier effects from the programme results is also crucial. For example, is the programme investing in long term relationships and alliances or working towards structural and systemic changes that will continue to develop beyond the lifetime of the programme? Similarly, are there results promised by the programme, such as learning, that are strategically important for the NGO, partners and communities, or the wider sector?

2. Clear analysis of what constitutes value for money in the context in which the organisation is working

What is considered value for money will vary in different contexts. It is therefore important in a value for money case to explain the contextual factors that will influence economy, efficiency and effectiveness. For example, if costs are higher working with 'hard-to-reach' groups or in fragile and conflict-affected states then this should be clearly explained.

3. Information about the systems and procedures in place to monitor and manage value for money during the implementation of the programme

A strong case will include a well thought through set of systems and procedures to manage value for money. An NGO should demonstrate that these are in place from the start of a programme but also show they are being used effectively during implementation to monitor costs, measure outcomes and inform on going decision-making. For example, on the costs side, measures might include joint procurement of materials, cost sharing between partners or publishing details of the costs per type of activity to beneficiaries to allow scrutiny. In order to track outcomes, an NGO will need to show that baseline data exists, that monitoring data is being collected and that the programme is being adapted based on the use of the performance data.

4. Strong focus on results and clear indication of how the intervention transforms costs (resources and inputs) into benefits (results) in a coherent way

When developing a value for money case it is important that a clear theory of change is in place, which is supported and informed by previous experience and/or existing evidence. The assumptions made about how change happens should be explicit, clear and realistic and, given the timeframes of the programme, the scope and ambition should be achievable.

Depending on the resources available, an NGO may want to consider reviewing its value for money case through a mid-term review or end of programme evaluation. This will help validate and/or improve the case, and inform future choices about how resources are balanced with outcomes. To do this, an NGO will need to have collected credible evidence of outcomes that can be plausibly linked to the intervention and details of how resources were spent to achieve them.

"What is considered value for money will vary in different contexts."

Evidence of how Sightsavers is working to improve its value for money (taken from its 2011 DFID PPA business case)

Justification for why the programme intervention has been chosen and why it provides the best results given the available resources

- Use of a decision-making framework for resource allocation between countries, looking at a series of eye-health and poverty-related factors.
- Assessing the gaps in the eye-health sector and how Sightsavers will fit into the sector with other stakeholders.
- Engaging with relevant stakeholders to design their interventions, including communities, governments, the private sector and local NGOs.
- Refining and scaling up evidence-based models and connecting this evidence to policy-makers to influence best practices and attract funds from other donors.

Information about the systems and procedures in place to monitor and manage value for money during the implementation of the programme

- Aiming to reduce percentage expenditure of organisational support functions by looking at how to reduce replication of functions across country offices, reduce number of regional offices, and reduce the number of expatriate contracts.
- Working to improve operational planning at country level to improve allocation between programme and administration costs.
- Introduction of a new e-procurement system, and use of a target for increasing the number of purchases made using the system.
- Joint procurement of high quality equipment with other agencies working in the same field.
- Benchmarking rate of return on fundraising both internally and externally.
- Internal and external audits.

Strong focus on results and clear indication of how the intervention transforms costs (resources and inputs) into benefits (results) in a coherent way

- Measurable outputs and a clear understanding of costs/output.
- Working to develop a new cost-effectiveness assessment tool building on previous work using Disability Adjusted Life Years.
- Basing resource allocation on previous performance data, with flexibility to increase or reduce funds based on current performance.

More information can be found at:
http://projects.dfid.gov.uk/IATI/document/3138419

References

1 See for example the recent report by the Independent Commission on Aid Impact on its Approach to Effectiveness and Value for Money, http://icai.independent.gov.uk/wp-content/uploads/2010/11/ICAIs-Approach-to-Effectiveness-and-VFM.pdf

2 Organisations interviewed: ActionAid Uganda, International HIV/Aids Alliance, Christian Aid, Self Help Africa, VSO, EveryChild.

3 NAO Analytical Framework for Assessing Value for Money, December 2010

4 'EveryChild Effective Programming Framework', presentation at Global Meeting, December 2010.

5 For example, an inappropriate use of benchmarking could encourage comparison between the services of different NGO programmes that in fact are very different or serve different populations and lead to false conclusions about which is most cost-efficient

6 Factors that can complicate the process of monetising outcomes include: the selection of accurate financial proxies, decisions about what weight to give different outcomes, specific country and policy contexts that determine what measures are considered appropriate and the robustness of the monitoring data being used.

7 The Basic Efficiency Resource Method was developed specifically for Oxfam GB's climate change campaign. It aims to provide a simple framework for evaluating complex multi-component programmes, campaigns, or activities. Building on the basic concepts of Social Return on Investment to evaluate a unit's impact compared to their resources it offers a relative perspective on performance where units of analysis are judged in comparison to their peer units, operating under similar conditions.

8 For example, a cost quoted for an Oxfam hygiene kit in Yemen is $36 while for CARE International it is $7.2, yet it is not evident what the difference is due to. (INGO Yemen Consortium Business Case, 2011/12, p22, http://projects.dfid.gov.uk/IATI/document/3160588) If there are outcomes that are not being measured in one (for example, the way in which kits are distributed may include wider benefits that are being included in the cost of one and not the other), then this is not a fair comparison.

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Published January 2012

Registered Charity No. 1068839
Company Registration No. 3395681 (England and Wales)

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