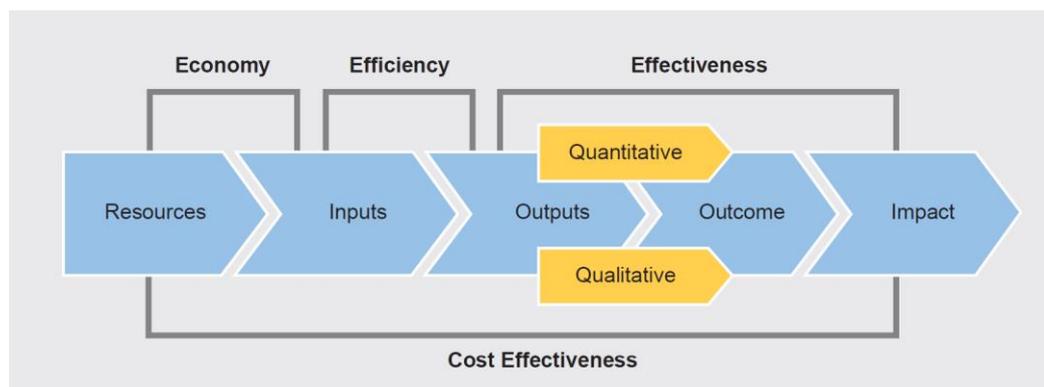


## EDI: Value for money (VFM) principles

This document outlines EDI's approach to Value for money (VFM) and how it should be integrated into the project and more specifically, the budget.

DFID's approach to Value for money (VFM) is about 'maximising the value of each pound spent'.<sup>1</sup> VFM can also be understood as a dynamic process comprising three concepts: 'economy', 'efficiency', and 'effectiveness'—sometimes referred to as the 'three Es'. Figure 1 shows how they are related.

Figure 1: the VFM conceptual framework



**'Maximising the value of each pound spent' means getting the maximum benefit over time from the resources available.** Correspondingly, the most important measures of VFM relate to cost-effectiveness—the ratio of total outcomes to total costs.

EDI's approach to VFM is also influenced by the Independent Commission on Aid Impact (ICAI), specifically as outlined in ICAI's 'Approach to Effectiveness and Value for Money'<sup>2</sup>. ICAI adds to the definition of VFM a fourth 'E': equity, on which it places a particular emphasis, which is relevant to EDI given the intended impact of ground-breaking economics research on policy-making in low income countries.

**Research Team should be mindful that it is their responsibility to ensure VFM throughout the project.** This requires control of costs, careful management of personnel inputs with robust quality assurance principles, and actively and quickly intervening to manage consulting inputs to ensure VFM.

**In this model, the following definitions of elements apply:**<sup>3</sup>

- **Economy:** 'a measure of what goes into providing a service'. Unit costs are typically used as an economy measure. When identifying unit costs, 'the whole life costs of inputs such as the direct and indirect costs of acquiring, running and disposing of assets or resources should be considered.'
- **Efficiency:** 'a measure of productivity, in other words how much you get out in relation to what you put in.' This examines the relationship between inputs and outputs; for example, planned versus actual delivery of milestones by service providers, or

<sup>1</sup> See: 'Approach to VFM', DFID, July 2011.

<sup>2</sup> <http://icai.independent.gov.uk/wp-content/uploads/2010/11/ICAI-Approach-to-Effectiveness-and-VFM.pdf>

<sup>3</sup> Adapted from *Value for Money in the Use of Resources*, Audit Commission.

benchmarked comparison among programmes working to same or similar outcomes but using different pathways to achieve intended outcomes.

- **Effectiveness:** Qualitative and quantitative measures of increase or decrease in outcomes that show that a programme ‘is effective in delivering its intended objectives’. This element examines the relationship between outputs and outcomes.

In addition to identifying the optimal balance of the 3Es (Economy, Efficiency, Effectiveness), judgements reached about VFM have to consider:

- **Factoring in context:** This is defined as the modifiers, as VFM judgements made at the outset always need to consider not only the performance against plan but also the unplanned costs and benefits.
- **Making the distinction between contribution and attribution:** Although challenging, it is critical to develop an approach to attributing results to the project, and where necessary be able to distinguish this from the specific contribution of the project (e.g. resources) to observed results *vis-à-vis* other actors or factors.

## EDI’s VFM approach

Based on DFID recent work on VFM Indicators EDI Research teams identify how assessment of VFM on the project would be based (i.e. which performance indicators covering economy efficiency and effectiveness would be used), and against what baseline performance would be measured.

**The framework defined above should be put into practice by the Research Teams as follows:**

### a. Economy

To ensure that commensurate value is provided in relation to the fee rates research teams should apply, the following processes to the identification of researchers and reimbursable inputs to maximise VFM:

- **Driving down staff costs:**
  - Identify the most appropriate team size and structure.
  - Match skills and experience to needs.
  - Identify the correct VFM fee rate.
  - Benchmark fee rate
- EDI insists that all travel time is non-chargeable by researchers travelling to deliver a substantial piece of work, unless they can demonstrate that major outputs were prepared and delivered in that time.
- The research team applies tight financial controls and operating procedures to ensure that the procurement of goods and services is subject to different approval levels, purchased from preferred suppliers with whom we have negotiated substantial discounts (which will be reviewed regularly), and based on multiple competitive quotations (depending on level of expenditure).
- All international researchers are encouraged to combine inputs to this project with other work, support or oversight commitments they may have in relevant regions with DFID and other donors.

- 
- The Research Teams are able to benefit from OPM's country offices to minimise the costs charged to the project. OPM has country offices in: South Africa, Nigeria, Tanzania, India, Pakistan, Bangladesh, Nepal, Indonesia, Myanmar, Australia and USA. Please outline in the proposal if this would be a cost-saving mechanism for the project.

**b. Efficiency**

Research teams should use the following management steps to deliver efficiency:

- Regular reporting to the PI. All researchers are expected to account for the activities they have performed and the outputs delivered against their TOR, and the risks or problems they have identified. They are expected to have established a workplan, and any expenditure or planned expenditure if they are managing a budget for their assignment.
- Payment of external researchers, and verification of research teams inputs, against milestones which are checked against project plans.
- Oversight and monitoring of project progress to ensure that milestones are being met and any problems of output are elevated to the senior management team for prompt action.

**c. Effectiveness**

EDI will seek to address whether this project has been a good investment and provided good VFM. As such, the monitoring conducted during the implementation of this project will support the measurement of effectiveness. Research Teams are therefore expected to be fully compliant with EDI's requirements for progress reports. These reports will be in a format that allows monitoring of the effectiveness of the project by OPM and CEQA.

**d. Economies of scale**

Researchers should seek economies of scale throughout the project and outline any opportunities to apply these in their budget narrative.

**e. Financial Risks**

Please outline clearly any financial risks in the budget narrative and provide appropriate risk mitigation strategies.