VALUE *for* MONEY

Step-by-Step Guide:

What is the cost of reaching each output and outcome of our project and are these costs justifiable?

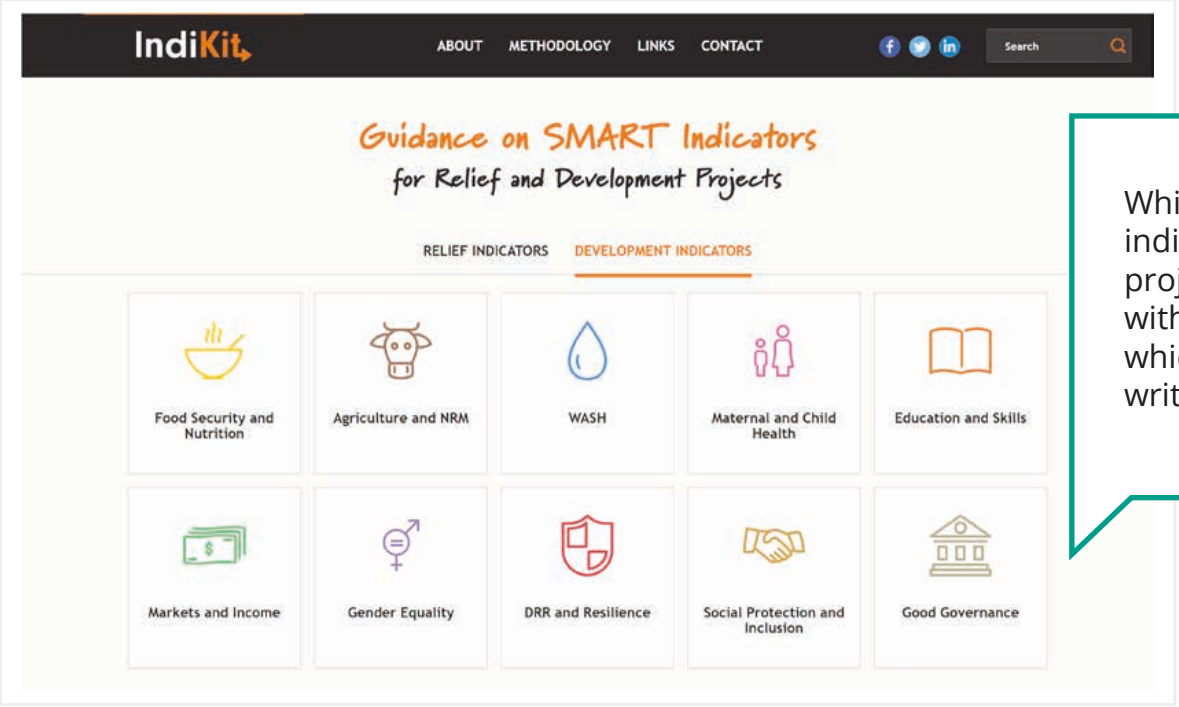
CHAPTERS:

I. Preparation for the VFM Analysis

STEP 1

Check that you have good logframe indicators using Indikit.

Go to: ***www.indikit.net***
Where you have more indicators for the same output, you need to select the one that best reflects the output.



While IndiKit contains hundreds of indicators across different sectors, your project might require you to come up with other indicators. ***This mini-guide***, which is also a part of IndiKit, was written to help you in doing so.

STEP 2

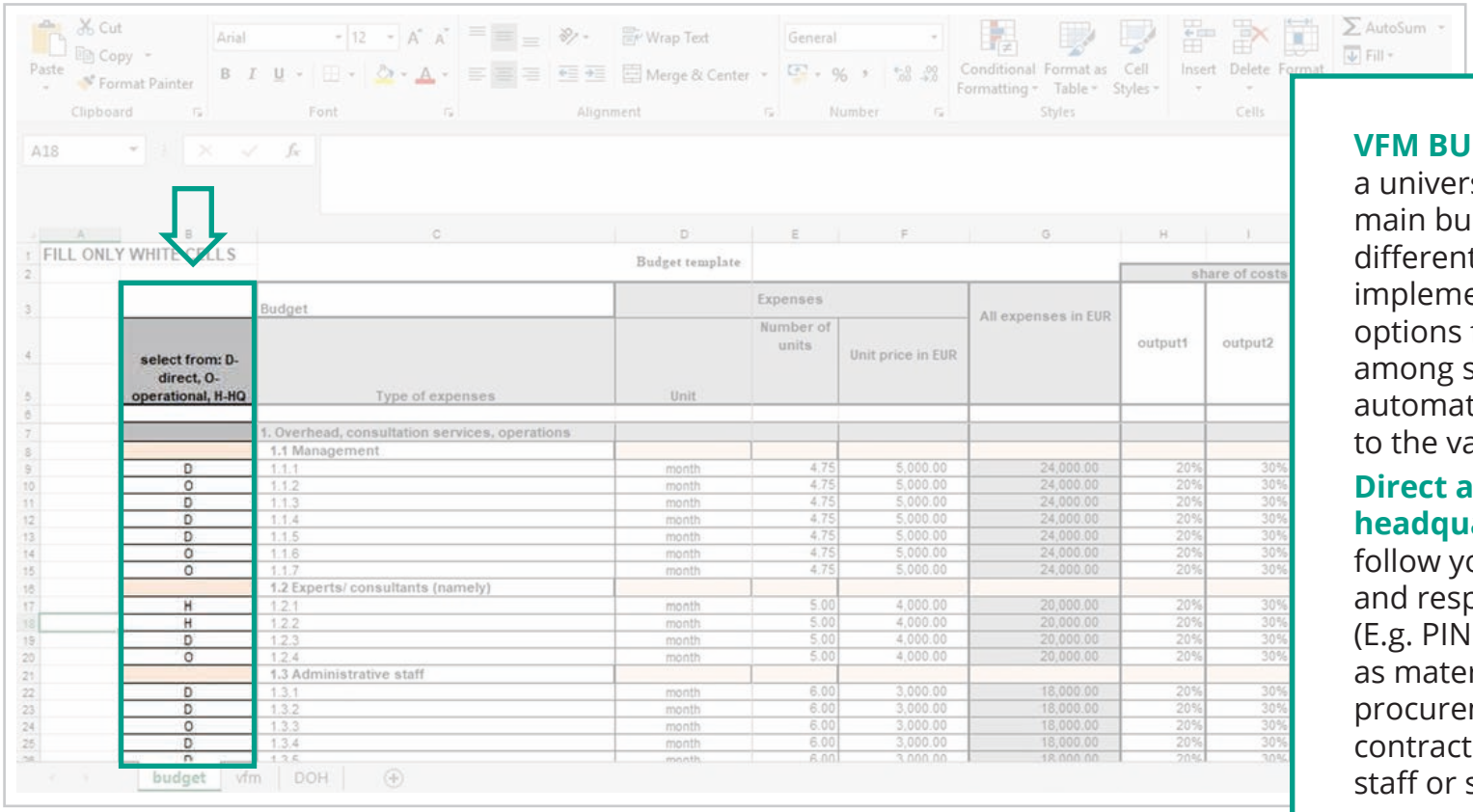
In the project budget document, sort each budget line into direct or indirect costs categories

VFM BUDGET TEMPLATE:

- Download the ***VFM budget template***
- Open the template and fill the details for each budget line: Type of expenses, Unit, Number of units, Unit price. Then for each budget line select either: D for direct, O for operation or H for headquarter costs.

OWN BUDGET DOCUMENT:

- Open the budget file for your project and add a column in front of the column with described types of expenses. Then for each budget line write either: D for direct, O for operation or H for headquarter costs. See column B below.



FILL ONLY WHITE CELLS			Budget template					
		Budget		Expenses		All expenses in EUR	share of costs	
	select from: D-direct, O-operational, H-HQ	Type of expenses	Unit	Number of units	Unit price in EUR		output1	output2
		1. Overhead, consultation services, operations						
		1.1 Management						
	D	1.1.1	month	4.75	5,000.00	24,000.00	20%	30%
	O	1.1.2	month	4.75	5,000.00	24,000.00	20%	30%
	D	1.1.3	month	4.75	5,000.00	24,000.00	20%	30%
	D	1.1.4	month	4.75	5,000.00	24,000.00	20%	30%
	D	1.1.5	month	4.75	5,000.00	24,000.00	20%	30%
	O	1.1.6	month	4.75	5,000.00	24,000.00	20%	30%
	O	1.1.7	month	4.75	5,000.00	24,000.00	20%	30%
		1.2 Experts/ consultants (namely)						
	H	1.2.1	month	5.00	4,000.00	20,000.00	20%	30%
	H	1.2.2	month	5.00	4,000.00	20,000.00	20%	30%
	D	1.2.3	month	5.00	4,000.00	20,000.00	20%	30%
	O	1.2.4	month	5.00	4,000.00	20,000.00	20%	30%
		1.3 Administrative staff						
	D	1.3.1	month	6.00	3,000.00	18,000.00	20%	30%
	D	1.3.2	month	6.00	3,000.00	18,000.00	20%	30%
	O	1.3.3	month	6.00	3,000.00	18,000.00	20%	30%
	D	1.3.4	month	6.00	3,000.00	18,000.00	20%	30%

VFM BUDGET TEMPLATE is a universal template combining main budget chapters used by different international donors and implementers, with additional options for dividing budget lines among specific outputs, and automatic calculations of related to the value for money issue.

Direct and indirect (operation or headquarter) costs definition: follow your organization's policy and respective donors' guidelines. (E.g. PIN policy defines direct costs as material for beneficiaries, its procurement and transport, sub-contracts, salaries of direct project staff or surveys).

STEP 3 Decide the % share of each budget line across the project's outputs.

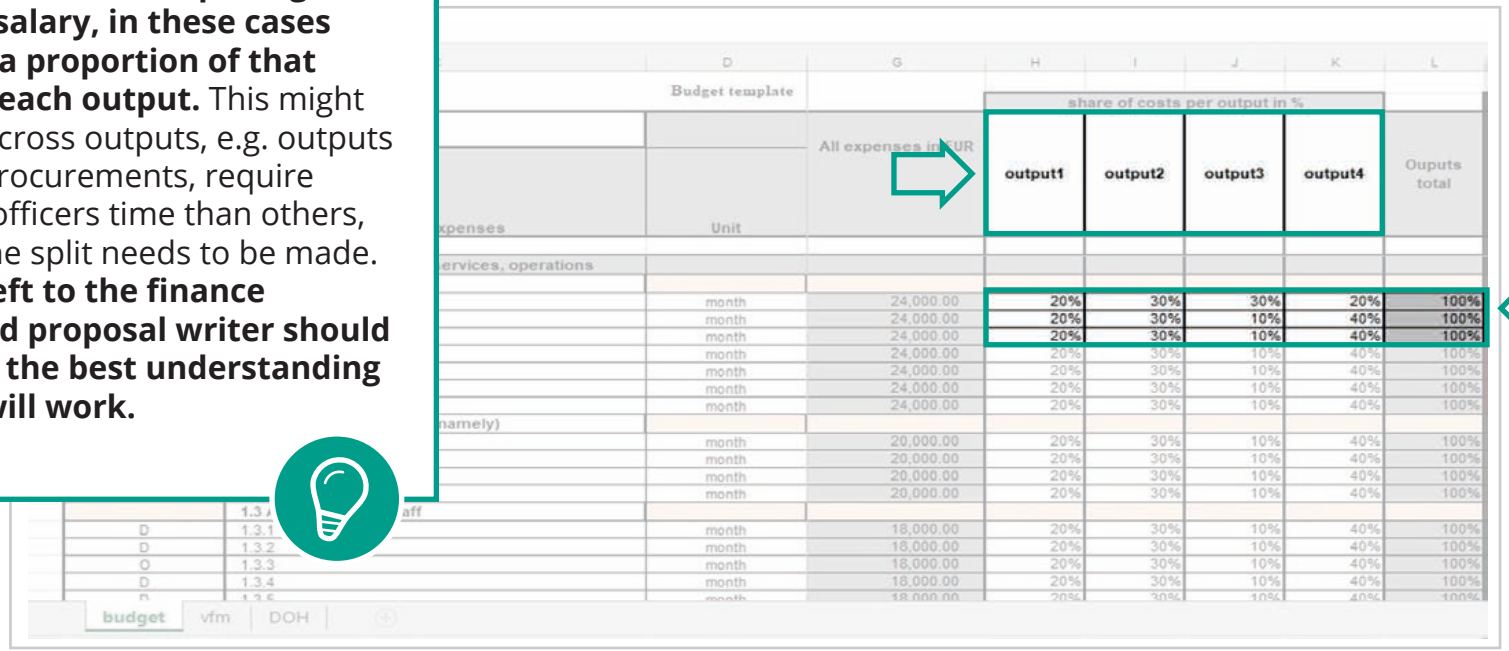
VFM BUDGET TEMPLATE:

- Use columns share of costs per output in % (H-K) and put the outputs' description in the headline of each column. If the project has only 3 outputs, use only 3 columns, if it has more outputs, add the appropriate number of columns behind column K.
- For each budget line, write the % share across each of the outputs. The sum of percentages of all the outputs per one budget line has to be exactly 100 %.

OWN BUDGET DOCUMENT:

- Add an extra column for each output of the logframe, plus an additional column for the output % total (e.g. if you have 4 outputs, add 5 columns).
- Put the outputs' description in the headline of each column.
- For each budget line, write the % share across each of the outputs. The sum of percentages of all outputs per one budget line has to be exactly 100 % (check this by summing all the output % by budget line in the output % Total column).

Remember that many inputs often contribute to more than one output e.g. a Logistics Officer's salary, in these cases you should allocate a proportion of that input's total cost to each output. This might not be an even split across outputs, e.g. outputs that require a lot of procurements, require more of the logistics officers time than others, so an estimation of the split needs to be made. **This should not be left to the finance department: the lead proposal writer should do this as they have the best understanding of how the project will work.**



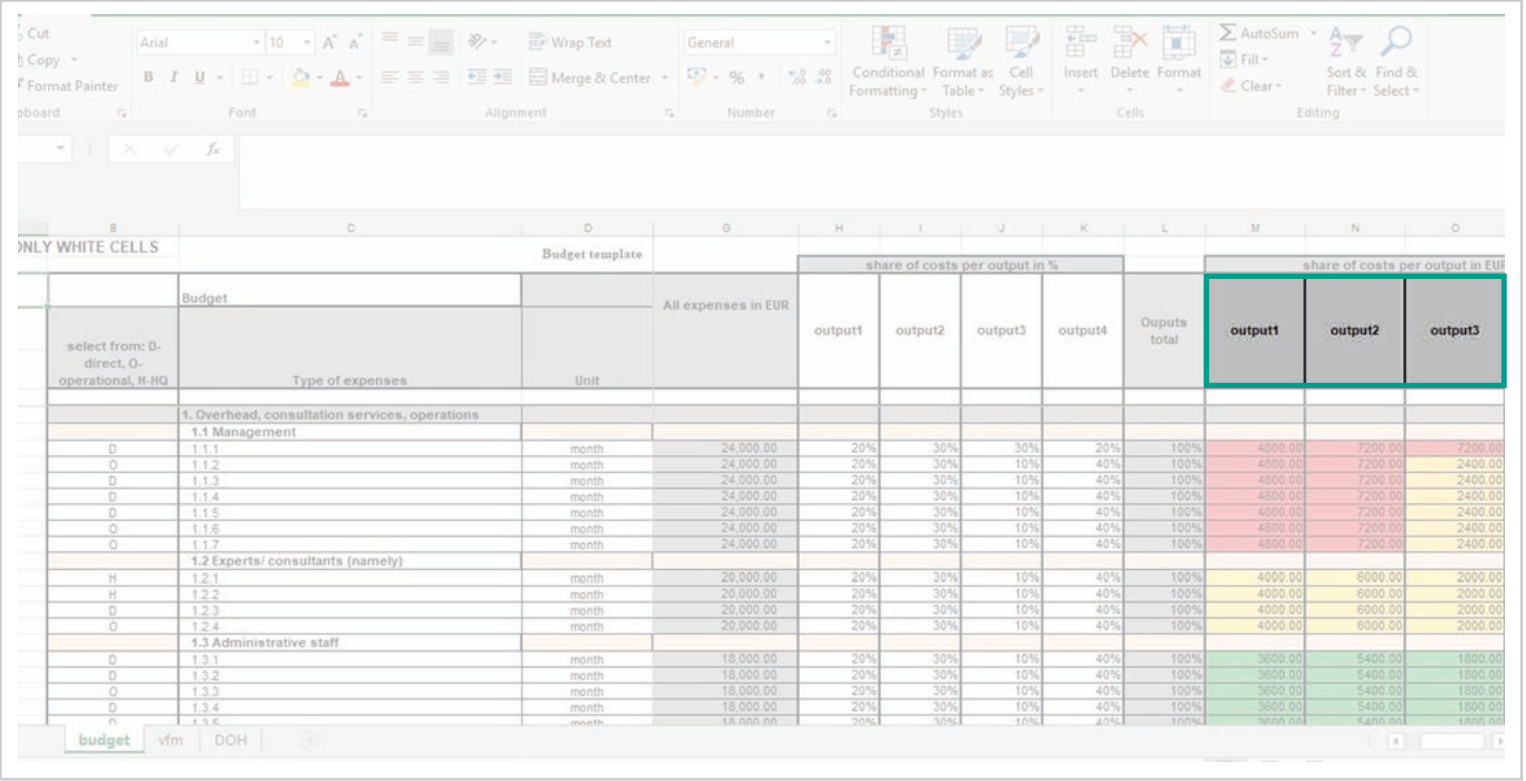
STEP 4 Calculate the cost of each input/budget line per specific output.

VFM BUDGET TEMPLATE:

- It is calculated automatically in columns Share of costs per output in (columns M-P)

OWN BUDGET DOCUMENT:

- Insert another number of columns which equals to the number of outputs
- Put the outputs' description in the headline of each column.
- Calculate the cost of each input/budget line per specific output by multiplying the total cost of the budget by the % shares for each output (assessed in the previous step)



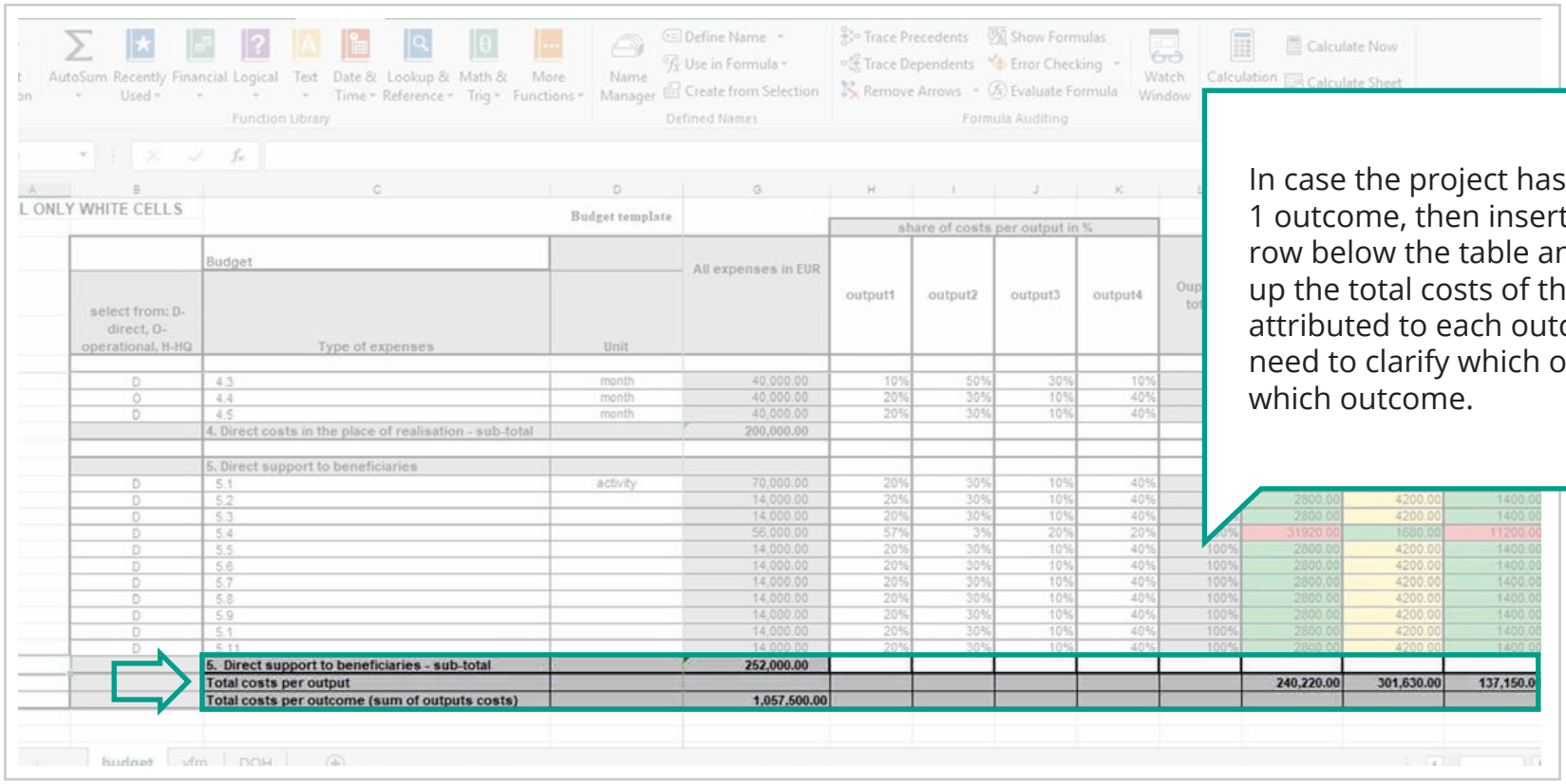
STEP 5 Sum up the total cost of each output and outcome

VFM BUDGET TEMPLATE:

- It is calculated automatically in row 121 and 122

OWN BUDGET DOCUMENT:

- Insert a row below the last budget line and sum up the total cost of each output (e.g. using SUM function)
- Sum up the outputs costs to get costs for an outcome



II. Economy

STEP 6 Find the most expensive unit costs

VFM BUDGET TEMPLATE:

- The most significant costs are detected automatically (in red color) in columns M-P

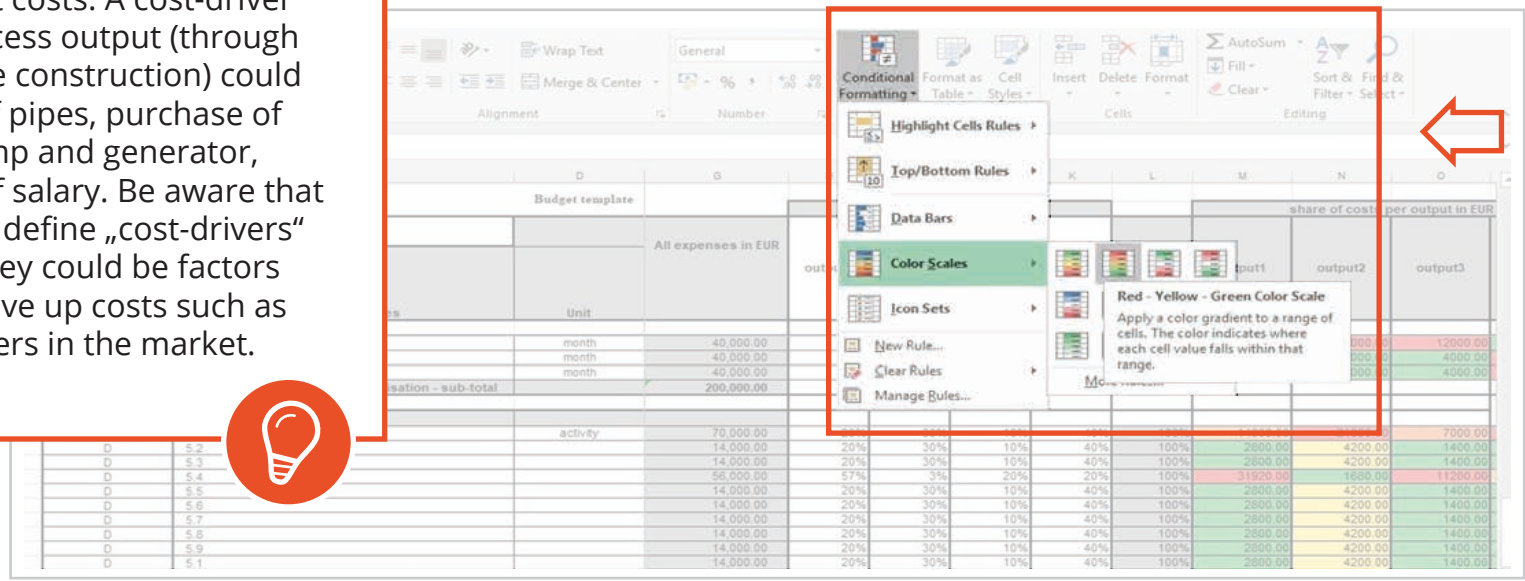
OWN BUDGET DOCUMENT:

For each output cost column:

- select all the cells in the column where any amount bigger than 0 is contributed to the output except from the sub-totals (just individual costs),
- go to section Home,
- click Conditional Formatting and choose the Color Scale.

This will help you see the most expensive costs. It is recommended to use red-yellow-green scale (red for the highest costs, green for the lowest cost).

The most significant costs are called „cost-drivers".
E.g. A cost-driver for a hygiene promotion output could be hygiene promoter staff salaries and transport costs. A cost-driver of a water access output (through water scheme construction) could be the cost of pipes, purchase of borehole pump and generator, engineer staff salary. Be aware that some donors define „cost-drivers" differently: they could be factors that might drive up costs such as lack of suppliers in the market.



STEP 7

Analyse and justify the cost-drivers

For each cost-driver, find the relevant text from the Economy section of the standard ***Text for proposal document*** and adapt it for your proposal.

You should explain how you will monitor the cost-drivers of the project. This is typically done through budget monitoring: The project team together with senior management review budget planning and spending on at least a monthly basis. Risks of over-expenditure and possibilities of cost-savings are identified and modifications are made accordingly.

OPTIONAL:
If needed, you can also do a more in-depth analysis of the unit costs of your key cost drivers following the steps available ***here***.

III. Efficiency

STEP 8 Relate the output cost to that output's indicators to create efficiency

VFM BUDGET TEMPLATE:

- In the sheet vfm, the direct and indirect (delivery) costs for each output and outcome will be calculated automatically.
- Fill the white cells in table with the description of outputs and outcome and relevant indicators (see note below)

OWN BUDGET DOCUMENT:

- Download ***VFM budget template***
- Open the VFM budget template and go to sheet vfm
- Copy the content of the sheet and paste it in a new sheet in your budget document (recommended paste option: Keep Source Formatting)
- Fill the white cells in table with the description of outputs and outcome and relevant indicators
- Calculate direct and indirect (delivery) cost for each output. To calculate „Input (Direct) cost", use the SUMIF function as follows: =SUMIF(highlight the DOH column in your budget table, „D", highlight the output cost column). To calculate „Indirect (Delivery) Cost" use the SUMIF function as follows: =SUMIF(highlight the DOH column,"O", highlight the output cost column)+SUMIF(highlight the DOHE column, „H", highlight the output cost column). Total output costs will be calculated automatically. (Tutorial for SUMIF function is available ***here).***
- Direct, indirect and total costs for outcome will be calculated automatically

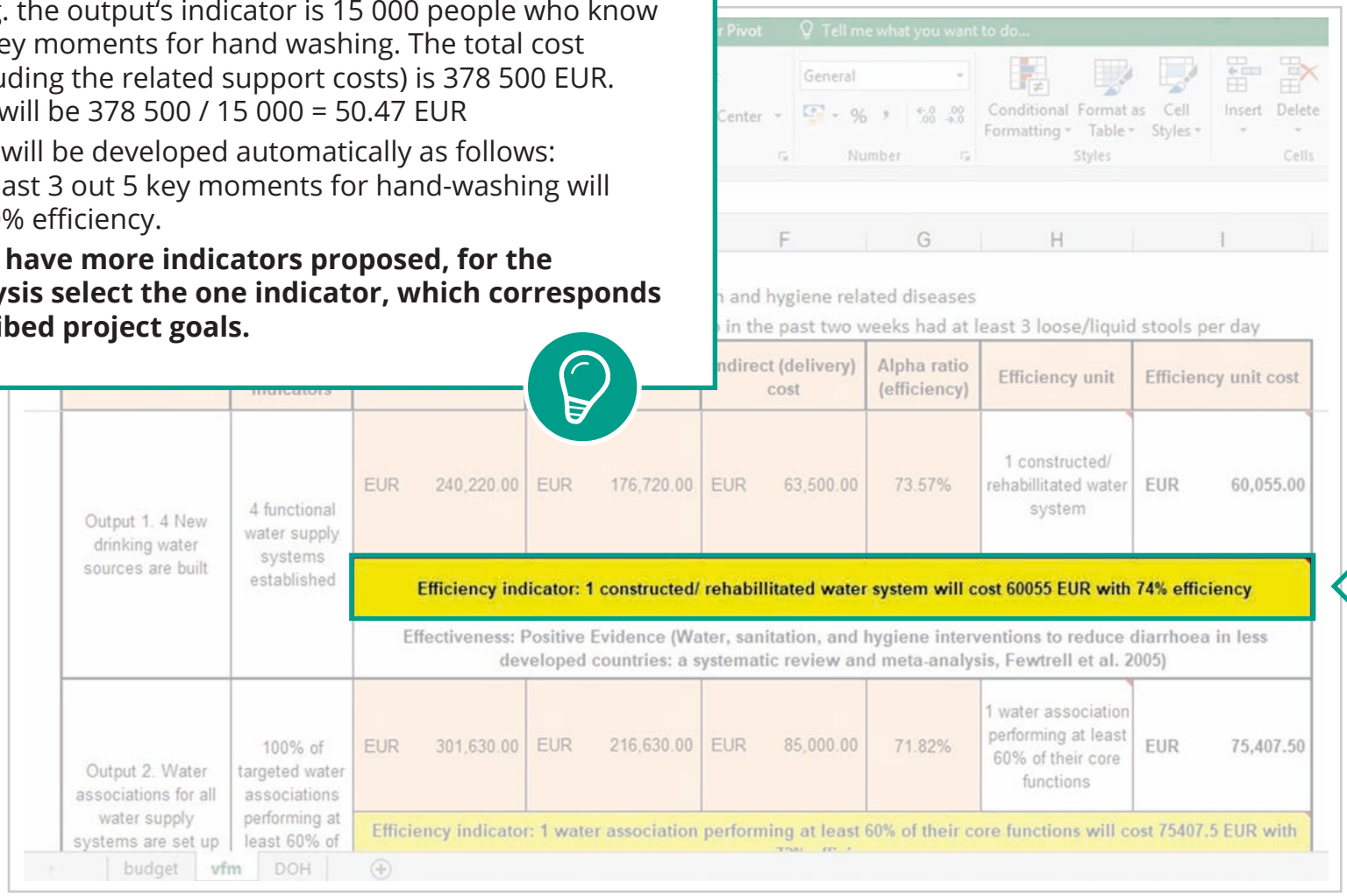
Follow-up on the next page

The alpha ratio (***adapted from DfID***) is the input (direct cost) divided by the total output cost, then multiplied by 100 to give a %. It will be calculated automatically.

- Describe your efficiency unit. E.g if the indicator aims at 15 000 people, efficiency unit will be 1 person
- Calculate efficiency unit cost: total output cost divided by total indicator target. E.g. the output's indicator is 15 000 people who know at least 3 out of 5 key moments for hand washing. The total cost of that output (including the related support costs) is 378 500 EUR. Efficiency unit cost will be 378 500 / 15 000 = 50.47 EUR

An efficiency indicator will be developed automatically as follows:
1 person knowing at least 3 out 5 key moments for hand-washing will cost 50.47 EUR with 70% efficiency.

If output or outcome have more indicators proposed, for the purpose of VFM analysis select the one indicator, which corresponds the best to the described project goals.



				ndirect (delivery) cost	Alpha ratio (efficiency)	Efficiency unit	Efficiency unit cost
Output 1. 4 New drinking water sources are built	4 functional water supply systems established	EUR 240,220.00	EUR 176,720.00	EUR 63,500.00	73.57%	1 constructed/ rehabilitated water system	EUR 60,055.00
		Efficiency indicator: 1 constructed/ rehabillitated water system will cost 60055 EUR with 74% efficiency					
		Effectiveness: Positive Evidence (Water, sanitation, and hygiene interventions to reduce diarrhoea in less developed countries: a systematic review and meta-analysis, Fewtrell et al. 2005)					
Output 2. Water associations for all water supply systems are set up	100% of targeted water associations performing at least 60% of	EUR 301,630.00	EUR 216,630.00	EUR 85,000.00	71.82%	1 water association performing at least 60% of their core functions	EUR 75,407.50
		Efficiency indicator: 1 water association performing at least 60% of their core functions will cost 75407.5 EUR with					

budget | vfm | DOH

STEP 9 Review the efficiency indicators and alpha ratios

- Review the efficiency indicator and alpha ratio by comparing to other information or data from other projects. If you don't have any data available you could look at ***https://devtracker.dfid.gov.uk/*** in the value for money sections of the evaluation documents of previous projects. Remember that for efficiency indicators from previous projects you will need to adjust for inflation.
- Provide a qualitative justification for the efficiency indicators and Alpha values in the proposal. The **"Efficiency Indicator Justification with Equity Considerations" section of the *Text for proposals document*** should be used to fill out the final column of the VFM sheet.
- Decide whether you will include the efficiency indicator into the project logframe, or how it will be used and monitored.
- When reviewing and developing the efficiency indicators, remember to define how they will be measured over the course of the project and whether this measurement is adding an additional work burden to the project team.

IV. Effectiveness

STEP 10

Write the strength of the evidence to show how effective each output is at reaching the outcome

- The strength of the evidence can be challenging to assess but it is an important step as you need to show that the design of your project's logframe is evidence based.
- Firstly, look at ***IRC's Outcomes and Evidence Framework***.
  - Find the outcome and output (intervention) that matches yours. (Go to Explore. Select appropriate area of interest of your project, e.g. Water & Sanitation Diseases. Then review relevant sub-outcomes. E.g. click on People and institutions use sufficient save water, and then click on Interventions)
  - For each output write whether there is Positive Evidence, Promising Evidence, Uncertain Evidence or Negative/Null Evidence.
- If your project's outcomes and outputs do not match any of those provided in the Outcomes and Evidence Framework then you will need to look elsewhere and determine which category your outputs fit into. Useful resources for systematic reviews are available here:
  - International Initiative for Impact Evaluations ***http://www.3ieimpact.org/***
  - The Campbell Collaboration Library ***https://www.campbellcollaboration.org/library.html***
  - DfID's Research for Development Outputs ***https://www.gov.uk/dfid-research-outputs***
- For each output's categorization, remember to reference the research paper in brackets.
- In the case that you cannot find sufficient evidence for your project, you should estimate it based on your organisation's previous experience and reference any endlines or project evaluations that would justify your choice.

Total output cost	Input (direct) cost	Indirect (delivery) cost	Alpha ratio (efficiency)	Efficiency unit	Efficiency unit cost
EUR 240,220.00	EUR 176,720.00	EUR 63,500.00	73.57%	1 constructed/ rehabilitated water system	EUR 60,055.00
Efficiency indicator: 1 constructed/ rehabilitated water system will cost 60055 EUR with 74% efficiency					
Effectiveness: Positive Evidence (Water, sanitation, and hygiene interventions to reduce diarrhoea in less developed countries: a systematic review and meta-analysis, Fewtrell et al. 2005)					
EUR 301,630.00	EUR 216,630.00	EUR 85,000.00	71.82%	1 water association performing at least 60% of their core	EUR 75,407.50

V. EQUITY

Step 9 under the Efficiency section and the ***Text for Proposals document*** provides guidance how to provide a qualitative description of how Equity has been considered in your project. However, **an optional further step could be to a quantitative Equity analysis**, this is provided ***here***.

VI. VFM SYSTEM MATRIX

STEP 11

Assess if the correct systems and processes are in place to ensure VFM with VFM System Matrix tool

Download the ***VFM Systems Matrix*** and follow the instructions

- The VFM Systems Matrix can be used at the proposal stage as checklist of items to be considered during identification and planning or during project implementation as a self-assessment tool or a tool to be used by a project evaluator. It requires the review of the project documents, internal procedures as well as discussions with program and support staff. The Matrix can be used jointly with the step-by-step guide so that a holistic VFM analysis can be conducted.
- This qualitative tool presents project management teams and evaluators a method for assessing the Value for Money using the „4E“ categories: Economy, Efficiency, Effectiveness and Equity. The analysis of each „E“ is divided into sub-categories of the different stages of a project:
  - Identification and Planning
  - Implementation and Monitoring
  - Evaluation and Learning
- A score is calculated for each of the 4E‘s and there is space to provide a narrative summary of the findings.