



Independent  
Commission  
for Aid Impact

## **ICAI Study of Value for Money and Effectiveness**

### **Terms of Reference**

#### **1. Introduction**

1.1 The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

1.2 A core part of our mandate is to assess the value for money and effectiveness of UK aid. To this end, we are commissioning a study to assist us with developing our approach to value for money and effectiveness, drawing on current debates on measuring these concepts in development assistance. The results will inform how we plan reviews and how we focus our reporting, as well as contribute thought leadership to the debate. These Terms of Reference outline the purpose and nature of the study and identify the main themes of the work. A detailed methodology for the study will be developed during an inception phase.

#### **2. Background**

2.1 There is much discussion in the sector about what value for money means and how that relates to the concept of effectiveness in the context of the international development sector. Our view is that, far from being separate and distinct concepts, value for money and effectiveness are closely interrelated. Value for money in this context requires a more complex analysis than identifying the lowest cost or only achieving the most efficient chain of delivery. A programme cannot be said to offer value for money if it is not effective i.e. if it fails to deliver the benefits which were the justification for the expenditure in the first place. For example, if the objective was to deliver drugs to hospitals with a view to improving maternal health, a cost-effective delivery chain may not provide real value for money or effective aid if the drugs were not the drugs which the hospital needed or if the hospital lacked other basic equipment. Similarly, the value for money of a programme must be called into question if it meets its objectives at a disproportionate cost.

2.2 We will therefore need to take a balanced and objective view of what represents value for money and that will include both impact and effectiveness.

2.3 In the UK, regulators of public funds often define value for money in terms of the three Es – economy, efficiency and effectiveness – sometimes adding a fourth, equity:

- **Economy** describes the relative cost of inputs – have malaria nets been bought for the best possible price?
- **Efficiency** measures how much output you get for a given level of input – how many people are actually being protected from malaria given the cost of (or number of) nets bought?
- **Effectiveness** describes the extent to which outputs translate into the desired outcomes – how has the incidence of malaria reduced in people who have been provided with nets?
- **Equity** can be defined in terms of whether the outcomes, and perhaps the outputs, benefit different types of recipient equally – are children benefiting from the provision of malaria nets?

2.4 Whilst this basic framework can be applied equally to Official Development Assistance, it is particularly challenging to judge value for money in the context of whether aid is having genuine impact. All the Es are important in making a rounded judgement about value for money but effectiveness is critically important, whether it is measured in a quantitative or qualitative way. There are wider questions which need to be asked in order to probe effectiveness. For instance, did the provision of malaria nets help communities create a sustainable means of preventing malaria? Was there joined-up thinking with other programmes? Did the provision of nets from abroad prejudice the ability of local net producers to sell their own product? What is the cost-benefit analysis of different methods of supply and delivery?

2.5 All of our work programme, whether value for money reviews, evaluations or investigations, is likely to need to make judgements about whether aid delivered to a recipient country has represented value for money and is effective. This study needs to set the tone for us, drawing on emerging practice and looking to the future as to what will be useful in evaluating the changing strategy and focus of UK aid. The approach will be tested and further developed through the delivery of our programme.

### **3. Purpose**

3.1 To support ICAI in developing its approach and criteria for forming judgements about the value for money and effectiveness of UK Official Development Assistance, which will be tested and refined as the programme develops.

## 4. Relationship to other studies and processes

4.1 The Secretary of State for International Development has announced that ‘value for money will be our top priority for aid’<sup>1</sup> and that ‘we need a fundamental change of direction - we need to focus on results and outcomes, not just inputs’.<sup>2</sup> The House of Commons International Development Committee has expressed concern that channelling more UK aid to fragile and war-torn states will make it difficult to ensure that money is well spent and achieves the most that it could.<sup>3</sup> Moreover, there has been much public and media interest (often critical) in the UK Government’s decision to pledge 0.7% of Gross National Income to international aid from 2013.

4.2 Over the past year, DFID has introduced a range of corporate reforms designed to increase value for money in the UK aid programme. These include:

- **Linking funding allocation to results:** through the Bilateral Aid Review, DFID has introduced a new strategic budget process, linking global allocation decisions to expected results across the UK aid programme;<sup>4</sup>
- **Multilateral aid review:** DFID carried out a value for money assessment of 43 multilateral organisations, assessing each on criteria ranging from cost control to pro-poor focus, outcome delivery, accountability and transparency. 25 organisations were found to offer very good or good value for money, while 18 were found to offer adequate or poor value for money;<sup>5</sup>
- **Project-level business cases:** DFID has introduced requirements for a more rigorous business case to support each new project proposal, with greater emphasis on economic analysis of different delivery options to ensure greater value for money;
- **Corporate reforms:** DFID has introduced a range of corporate reforms designed to increase value for money, including reforms to its procurement processes, measures to reduce administrative overheads and the introduction of portfolio reviews for all sectors with more than £1 billion in spending.

4.3 A number of recent studies have commented on these initiatives. A 2010 National Audit Office report on DFID’s financial management<sup>6</sup> applauded the

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<sup>1</sup> <http://www.dfid.gov.uk/news/latest-news/2010/mitchell-immediate-freeze-on-dfid-uk-based-awareness-projects/>, 17 May 2010.

<sup>2</sup> <http://www.dfid.gov.uk/Media-Room/News-Stories/2010/Mitchell-Full-transparency-and-new-independent-watchdog-will-give-UK-taxpayers-value-for-money-in-aid/>, 3 June 2010.

*Department for International Development Annual Report & Resource Accounts 2009-10*, International Development Committee, February 2011,

<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/60502.htm>.

*Bilateral Aid Review: technical report*, DFID, March 2011,

[www.dfid.gov.uk/Documents/MAR/FINAL\\_BAR%20TECHNICAL%20REPORT.pdf](http://www.dfid.gov.uk/Documents/MAR/FINAL_BAR%20TECHNICAL%20REPORT.pdf).

<sup>5</sup> *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations*, DFID, March 2011,

[www.dfid.gov.uk/Documents/publications1/mar/multilateral\\_aid\\_review.pdf](http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf).

<sup>6</sup> *Department for International Development: Financial Management Report*, National Audit Office, April 2011, [www.nao.org.uk/iidoc.ashx?docId=8184a4cd-c1d9-4c5e-9e88-4d7e4cbe32e7&version=-1](http://www.nao.org.uk/iidoc.ashx?docId=8184a4cd-c1d9-4c5e-9e88-4d7e4cbe32e7&version=-1)

improved linkages between financial and performance data and the introduction of more rigorous project appraisal processes. It also noted continuing weaknesses in the way DFID measures results at project level and was concerned that the scaling-up of DFID's budget and its eagerness to demonstrate quick results could lead to compromises in the quality of project design.

4.4 The 2010 Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee Peer Review noted that corporate reforms underway in DFID had the potential to deliver increases in value for money but warned against too rigid an approach, reflecting the concern of some in the development community that the 'value for money approach' is too focussed on efficiency:

'Whilst the value for money approach is valuable for ensuring efficiency, DFID should retain enough flexibility to avoid undermining its key objectives and assets. These include its flexible approach to aid delivery, its increased focus on fragile states and its new approach to civil society organisations. DFID should be cautious in applying the value for money approach, ensuring that decisions like delivering bigger but fewer programmes and closing projects which are not fulfilling their objectives are adjusted depending on contexts and do not weaken DFID's long-term approach to development.'<sup>7</sup>

## 5. Analytical approach

5.1 This study is intended to assist us with developing an approach to support our role in scrutinising the value for money and effectiveness of UK aid. In itself, it is neither a value for money review nor an evaluation; rather, it is a paper exploring how these reviews could be undertaken. It will suggest to us how to approach analysis for different areas and types of aid e.g. project reviews, portfolio reviews, multilateral reviews and reviews of corporate processes.

5.2 The study will be performed in two phases. The first phase will include:

- a review of on-going measures being taken by DFID to maximise value for money and effectiveness; and
- a survey of current approaches to measuring value for money and effectiveness, drawing on donor policies and academic studies. This survey will draw heavily on CEGA's<sup>8</sup> experience.

5.3 In the second phase, the initial approach that we wish to adopt will be articulated further. This will cover the criteria that we will apply to test value for money and effectiveness and reflect the interests of our audience and where our reviews might

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<sup>7</sup> *The United Kingdom: Development Assistance Committee (DAC) Peer Review*, OECD DAC, 2010, page 64, [www.oecd.org/dataoecd/49/20/45519815.pdf](http://www.oecd.org/dataoecd/49/20/45519815.pdf).

<sup>8</sup> Center of Evaluation for Global Action, a member of the ICAI consortium.

usefully support or challenge DFID's efforts to improve value for money and effectiveness. Our proposed approach will be illustrated through case studies, as far as possible using existing examples and evidence.

## **6. Indicative questions**

6.1 The review methodology will be developed during the inception phase, setting out detailed questions and the methods to be used for answering them. Possible review questions, which will be elaborated on in the inception report, include:

- How are DFID and other donors approaching the measurement of value for money and effectiveness in development assistance?
- What questions is DFID asking about value for money and effectiveness when planning the aid programme?
- How does DFID understand and define costs in relation to aid programmes?
- What progress has been made in developing standardised output measures for different types of development result? Which areas of the aid programme lend themselves to quantitative measurement of results?
- Should an assessment of value for money and effectiveness vary according to whether it is bilateral aid, multilateral aid or budget support and if so, how?
- What techniques have emerged for employing value for money and effectiveness analysis at different levels (project; bilateral portfolio; multilateral portfolio; corporate)?
- Over what period of time is it sensible to form judgements about value for money and effectiveness – how long should we wait after aid has been delivered?
- What data should (ideally) be available from recipient communities in order to inform donors' judgements about value for money and effectiveness?
- What performance measures should be used to define economy, efficiency and effectiveness?
- What methods should be applied to assess value for money and effectiveness? Methods currently in use include randomised control trials and community impact assessments.
- To what extent has a consensus emerged on how value for money and effectiveness should be defined and assessed in an aid context?
- How do the concepts of value for money and effectiveness need to adapt to help evaluate the changing strategy and focus of UK aid?
- How are the beneficiaries of aid consulted and involved in the delivery of value for money and effectiveness (e.g. through the design and ownership of aid and through feedback)?
- What aspects need particular emphasis when assessing value for money and effectiveness in an aid context (e.g. sustainability)?
- How do the governance arrangements in aid programmes affect their value for money and effectiveness?

- What kinds of value for money reviews and evaluations might ICAI usefully conduct to complement and/or challenge existing reforms?
- Overall, what approach best meets the remit of ICAI?

## **7. Methodology and sources of data**

### 7.1 The main components of the approach will comprise:

- a 'fast track' search and synthesis of what might be regarded as the seminal (thought-leading) literature on value for money and effectiveness in an aid context. This will draw on DFID's own work, leading practice internationally, as well as on existing knowledge of members of the ICAI consortium (Agulhas, CEGA and SIPU);
- a series of interviews with stakeholders in the UK and abroad to understand their perspectives. Examples may include but will not necessarily be restricted to: DFID, co-ordinators of multilateral aid, regulatory bodies such as the National Audit Office, the NGO coalition BOND, leading academics worldwide and charitable organisations based in the UK and in developing countries;
- illustration of ICAI's focus and key criteria through case studies, as far as possible using existing examples and evidence. It is suggested that this element of work focusses on three sets of paired comparisons of different types of aid:
  - humanitarian aid, to provide short-term relief to countries affected by natural disaster or population displacement because of conflict;
  - sector-specific aid, for example to improve education, health or justice sectors; and
  - longer-term aid designed to improve governance and stability.

The selection of the two case studies for each comparison will be subject to consultation with ICAI Commissioners;

- either through the case studies (above) or more generally, an investigation into how the views of both aid beneficiaries and aid professionals are canvassed and how they are taken into account in assessments of value for money and effectiveness; and
- consultation with ICAI Commissioners to consider the implications of the findings of the above strands of work for ICAI's remit and how it communicates its judgements on value for money and effectiveness to its audience. This will include KPMG, CEGA and Agulhas from the ICAI consortium.

## **8. Timing and deliverables**

8.1 The review will be overseen by Commissioners and implemented by a small team from ICAI's consortium. The review will take place during the third quarter of 2011, with a final report available by mid-October 2011.