Helpdesk Report

K4D | Knowledge, evidence and learning for development

Value for Money of Different CSO Delivery Options

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Question

How the wider value for money of different CSO delivery options has been evaluated by donor organisations (e.g., wider social, economic, environmental and net present value considerations)?

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The K4D helpdesk service provides brief summaries of current research, evidence, and lessons learned. Helpdesk reports are not rigorous or systematic reviews; they are intended to provide an introduction to the most important evidence related to a research question. They draw on a rapid desk-based review of published literature and consultation with subject specialists.
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1. Summary

This rapid literature review collates available literature on the value for money of different CSO delivery options. It draws on a diverse range of sources from academic and grey literature. The review draws heavily on a number of sources including Coffey (2015), Laws and Valters (2021) and INTRAC (2020).

Value for Money (VfM) is a concept that broadly defines how to maximise and sustain equitable and quality outputs, outcomes and impact for a given level of resources. VfM is a frequently misunderstood term, often associated with complex economic analysis methods. The literature reviewed in this report shows no clear consensus concerning how VfM should be defined. A number of bilateral donors and foundations have their own VfM definitions. Some of these are listed below:

- Maximise the impact of each pound spent to improve poor people's lives - DFID (now FCDO)
- Assess the extent to which the programme has obtained the maximum benefit the outputs and outcomes it has produced within the resources available to it - World Bank
- There are three elements [VfM] to consider…. effectiveness and efficiency… and additionality - The Global Fund
- Value for money is the optimal use of resources to achieve intended results, measured through effectiveness (level of achievement of intended results) and efficiency (following least-cost path) - UNDP

How VfM is interpreted continues to evolve, for example, Independent Commission for Aid Impact has broadened how VfM is assessed by requiring different types of accountability and transparency commitments to ensure that CSOs use funding responsibly (ICAI, 2018).

Despite a range of definitions of VfM being developed and refined, there exist a dearth of detailed attempts to understand how best to conceptualise, measure and manage VfM for programmes which aim to be adaptive.

The most common ways of measuring VfM have been based around the 4E framework. Each E (economy, efficiency, effectiveness, equity) is measured by particular questions. Typically, teams appraising VfM use a combination of unit-cost, cost-efficiency and cost–benefit/cost-effectiveness analysis. These are ways of putting a monetary value on inputs (economy), outputs (efficiency) and outcomes (effectiveness, equity), respectively.

The availability of VfM evidence across many funding arrangements is lacking or incomplete. Additionally, while the effectiveness and impact of specific funding mechanisms was typically explored and assessed in the literature, the relationship between the design and execution of the broader funding arrangement in relation to VfM was usually inferred rather than explicitly assessed.

Broader comments about the strengths and weaknesses of different aspects of how funding is managed and dispersed are presented as follows:

Internally managed funding mechanisms: Funding through strategic funding mechanisms reduces transaction costs as they usually involve fewer partners than large challenge funds and reporting is set at a higher, strategic level. Despite these strengths, fund management is still resource intensive and incurs costs relating to negotiating reporting frameworks.

Establishing unrestricted funding relationships between donors and civil society organisations (CSOs) is also based on trust and prior evidence of effectiveness. This type of funding arrangement typically takes many years and requires a considerable track record.

Outsourced funding mechanisms: Outsourced fund management functions can play an effective role in enabling donors to provide funding to a large number of CSOs and provide more capacity building support than donors could otherwise deliver on their own. Equally, while challenge funds are perceived as more resource intensive and costly to administer rather than unrestricted funding mechanisms, they appear to be successful in contributing to a range of equity objectives.

Multi-donor funding mechanisms: Multi-donor funding can be cost-effective since the administrative burden of these costs is shared by pooling resources. Multi-donor mechanisms also offer some challenges. Donors typically cede some level of control of the mechanism, however there are examples where this kind of compromise leads to different views concerning how the mechanism should work and what its ultimate objectives are. The efficiency by which decisions are made and executed can also be affected by unwieldy management structures and weak lines of communication.

Funding through embassies: Direct funding to non-governmental organisations (NGOs) through donor embassies has a number of tangible advantages. Embassy staff are closer to CSOs that are delivering in counties and this type of funding can be flexibly applied to respond to changing needs and emerging opportunities. The relatively less formal mechanisms by which civil society funding is accessed through embassies creates efficiency savings, as they are typically not subject to the same procurement process associated with larger funding mechanisms. The disadvantages of funding through embassies also relate to their proximity to specific CSOs and the ability of individuals within embassies to successfully diagnose priorities. An inaccurate diagnosis of needs can undermine coherence and the strategic added value of this type of funding.

2. Defining value for money

Value for Money (VfM) is a concept that defines how to maximise and sustain equitable and quality outputs, outcomes and impact for a given level of resources (Global Fund, 2018). VfM is a frequently misunderstood term, often associated with complex economic analysis methods. While these are considered useful in some circumstances, VfM is fundamentally based on a simple idea. BOND (2012: 8) articulates this as:

> When designing and implementing an intervention, [CSOs should] 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.

From 2010 onwards, VfM became an increasingly prominent concept in aid funding driven, in part, by austerity in economies of major aid donor countries. VfM has become a watchword in the management of UK public expenditure, and particularly so in DFID (now FCDO), where a political commitment to a rising aid budget has been matched by an equal determination to secure greatest value from the investment (ITAD, 2014). As aid budgets are increasingly scrutinised, aid agencies and development practitioners face a growing need to demonstrate VfM. However, there is a prevailing tendency to rely on readily quantifiable measures, even when those do not capture the most important aspects of the change that is being pursued (OPM, 2018).

The literature reviewed in this report shows no clear consensus concerning how VfM should be defined. The most widely used VfM definition is from the UK National Audit Office (NAO) i.e. "the optimal use of resources to achieve the intended outcomes"[1]. A number of donors and foundations have their own VfM definitions. Some of these are listed below:

- Maximise the impact of each pound spent to improve poor people's lives - DFID (now FCDO)
- Assess the extent to which the programme has obtained the maximum benefit the outputs and outcomes it has produced within the resources available to it - World Bank
- There are three elements [VfM] to consider…. effectiveness and efficiency… and additionality - The Global Fund
- Value for money is the optimal use of resources to achieve intended results, measured through effectiveness (level of achievement of intended results) and efficiency (following least-cost path) - UNDP

Despite the differences in language and approaches, DFID's (now FCDO's) articulation of what VfM means and how it can be mainstreamed across its programming options is considered more sophisticated than many of its peers. As a 2011 OECD Peer Review of the UK noted, "DFID is pioneering a value for money approach, looking to move beyond measuring and managing for results to being more explicit about assessing whether the level of results achieved represent good value for money against the cost incurred: moving from results to returns" (OECD, 2011: 63).

It is important to note that drives to ensure VfM have, at times, generated tensions with other agendas e.g. adaptive management (Laws & Valters, 2021). Further to this, the Independent Commission on Aid Impact (ICAI, 2018) commented that the emphasis on controlling costs and holding implementers accountable for efficient delivery may be suitable for more straightforward projects. But it can be problematic when used as a guide to VfM in complex situations, where teams need to test and learn to determine which combination of inputs and outputs produces the best results for the investment.

How VfM is interpreted continues to evolve. For example, ICAI has broadened how VFM is assessed by requiring different types of accountability and transparency commitments to ensure that CSOs use funding responsibly (ICAI, 2018).

DFID has historically operationalised its definition of VfM through the '3Es' approach of 'Economy', 'Efficiency' and 'Effectiveness'. Evolving this approach, DFID recognised a fourth, cross-cutting 'E', 'Equity'. Each E is given a precise definition, which was typically framed as a question:

- Economy: Are we (or our agents) buying inputs of the appropriate quality at the right price?
- Efficiency: How well are we (or our agents) converting inputs into outputs? ('Spending well'.)
- Effectiveness: How well are the outputs from an intervention achieving the intended effect? ('Spending wisely'.)

[1] https://www.nao.org.uk/about-us/our-work/value-for-money-programme/

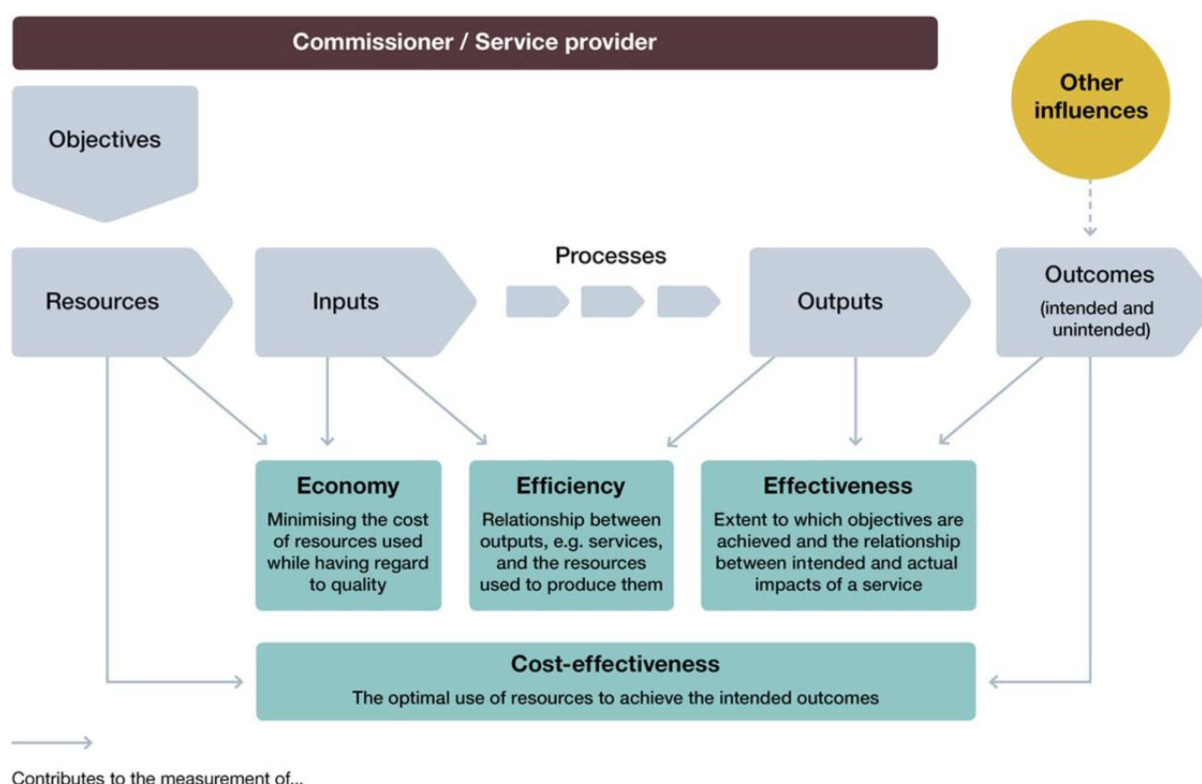
- Equity: How fairly are the benefits distributed? To what extent will we reach marginalised groups? (‘Spending fairly’.)

The ‘4Es’ approach to defining VfM is useful for breaking down and assessing different parts of a delivery process and different dimensions of an impact logic. However, it is important that the VfM of a funding mechanism is assessed in ways that cut across economy, efficiency, effectiveness and equity in order to demonstrate and explain the extent to which the value generated through a funding mechanism (in terms of the quantity and quality of the results) has justified that type of funding mechanism and the costs that were incurred as a result (Coffey, 2015).

In some iterations of the framework, cost effectiveness was added as a fifth dimension, and usually framed in terms of the intervention’s ultimate impact on poverty reduction relative to the inputs that were invested.

Sustainability has also been added by some organisations. For example, Global Fund (2018) argue that sustainability can be understood as the ability to enable a health programme or country to maintain and scale up coverage to a level that will provide for continued control of a public health problem.

Figure 1: Assessing value for money



Source: National Audit Office[2] reproduced under copyright terms

[2] https://www.nao.org.uk/successful-commissioning/general-principles/value-for-money/assessing-value-for-money/

Despite a range of definitions of VfM being developed and refined, there exist a dearth of detailed attempts to understand how best to conceptualise, measure and manage VfM for programmes which aim to be adaptive (Laws & Valters, 2021).

Measuring and assessing VFM

The ways that VfM is operationalised varies by donor. USAID and the World Bank support the use of economic analysis as part of their management of VfM, including both cost-benefit analysis (e.g., rate of return respective to costs) and measuring the benefits that are expressed by funding recipients. Other donors, like Irish Aid and DFID, have increasingly employed results-based management (RBM) and payment-by-results methods to manage and improve the VfM of funding relationships with their CSO partners. A broad overview of approaches to measure and assess VfM include (Intrac, 2020):

- **Cost-Benefit Analysis (CBA)**: In CBA, outputs and outcomes (benefits) are converted into monetary terms. This allows for an investigation of whether the monetised benefits of an intervention exceed its costs. Interventions can then either be ranked against each other according to their cost-benefit ratio, or they can be judged on their own merits, according to whether the benefits outweigh the costs by a sufficient amount.
- **Social Return on Investment (SROI)** works in a similar way to CBA, but draws on stakeholder perspectives to turn traditionally intangible social, economic and environmental outcomes – such as women's empowerment – into monetary measures. As with CBA, SROI can be used to assess the absolute 'worth' of an intervention in monetary terms by establishing a cost-benefit ratio. SROI can also be used to choose between interventions in different programme areas (e.g. two projects or programmes with differing goals).
- **Cost Effectiveness Analysis (CEA)** is used to establish the relationship of costs to a unit of outcome (e.g. how much investment generates a higher 'nutrition score' for targeted children, or a specified number of new jobs). CEA is used to compare projects or programmes with very similar goals, and usually quantitative success indicators. Unlike Cost-Benefit Analysis, CEA cannot come to an overall conclusion on whether an intervention was good VfM in an absolute sense. This is because it cannot establish whether the total benefits exceed the total costs.
- **Cost Utility Analysis (CUA)** can be used where benefits are intangible, or not easily (or ethically) converted into monetary terms. CUA instead compares interventions in terms of how much satisfaction (called utility) a target group derives from the outcomes relative to an investment. CUA is often used in participatory and health research, for instance when estimating Quality-Adjusted Life Years (QALYs) which can then be compared to other interventions or a given benchmark. QALYs combine the values of length of life and quality of life into a single measure.

- **Results-based management**: in recent years, DFID and other donor agencies have made strong commitments to managing their programmes in order to maximise the results they deliver. This approach aims to bring together objectives, an understanding of what needs to be done to achieve them, performance monitoring and evaluation of what has been achieved. This process is used widely, in a variety of forms, by agencies such as DFID, the World Bank, USAID, various United Nations organisations and the Asian Development Bank.

Box 1: Laws and Valters (2021: 12) reflections on donor preferences for demonstrating VfM

The literature contains examples of more multifaceted tools such as Social Return on Investment (SROI), Basic Efficiency Resource (BER) analysis and Multiple Criteria Decision Analysis (MCDA) (Shutt, 2016). However, DFID's Smart Rules on programme management and its Smart Guide on VfM stated an explicit preference for business cases to demonstrate the expected benefits of programmes in monetary terms (ICAI, 2018: 20). This steered advisors and implementers away from using these kinds of methods.

The most common ways of measuring VfM in DFID/FCDO-funded programmes has been based around the 4E framework. Each E is measured by particular questions. Implementing teams usually answer these questions using analytical tools to gather data and arrive at a simple value statement of the programme's activities and achievements, e.g., the cost per person vaccinated or trained. Typically, teams use a combination of unit-cost, cost-efficiency and cost–benefit/cost-effectiveness analysis. These are ways of putting a monetary value on inputs (economy), outputs (efficiency) and outcomes (effectiveness, equity), respectively (Coffey, 2015).

VfM is usually reported against a range of metrics, but grouping the reporting of VfM around the three (or four) Es does not automatically provide meaningful information. This is particularly so if the focus is, as is frequently the case, reporting cost savings under the heading of Economy. Such practices have led to a widely held view that VfM is essentially a process for cutting costs or saving money and encourages a 'race to the bottom' irrespective of the effect on programme performance (Coffey, 2015; ICAI, 2018).

A common view in the literature is that VfM can be optimised by strengthening the processes that determine the balance between the 4Es, resulting in costs being relatively low, productivity being high and successful outcomes being achieved, with the benefits being distributed equitably (Barnett et al., 2010: 9). What this has meant in practice is that implementers have tended to focus on achieving the intended outcomes in their theory of change while minimising the costs of delivery (Bond, 2016).

Critiques of existing approaches to VfM

Laws & Valters (2021) argue that the standard 4E framework that DFID (now FCDO) used – economy, efficiency, effectiveness/cost-effectiveness and equity – is relevant for adaptive programmes[3]. They, however, argue that FCDO needs to redefine 'efficiency' around the

[3] Adaptive programming suggests, at a minimum, that development actors react and respond to changes in the political and socio-economic operating environment. It emphasises learning and the development practitioner is encouraged to adjust their actions to find workable solutions to problems that they may face.

pace and rigour of testing and learning, and 'effectiveness' around the plausible contribution that programmes make to outcome-level change. In the absence of these shifts, VfM may lead to analysis and practice that is out of step with how change happens in complex systems.

For adaptive programmes, these initial 4E questions and the analytical tools that are used to answer them may not provide a sensible way of assessing value. For example, Laws and Valters (2021) assert, a programme designed to help communities adapt to climate change may require experimentation to determine what combination of inputs and outputs produces the best results for the investment. This information may only become apparent after a long time, making it hard to align output costs precisely with outcomes. Calculating the costs of delivering outputs, while still important, tells us little about the potential effectiveness of the programme and therefore its overall VfM (ICAI, 2018: 16)

Later iterations of DFID guidance on VfM (DFID, 2019) acknowledged that learning and adaptation may be important for achieving ongoing VfM. But they did not explicitly recognise that different ways of measuring and managing VfM may be required in order to properly incentivise and capture these qualities, in comparison to more traditional programmes. Laws and Valters (2021) assert that If features like 'quality of learning and engagement' or 'responsiveness to context' are more important determinants of success for adaptive programmes than the delivery of pre-planned outputs, then we may need to supplement standard VfM indicators (such as cost per unit of output or outcomes) with measures that are specifically designed to capture the value of testing, learning and adapting, including learning about the relative VfM of different approaches to a particular problem. It will likely also require a greater openness to qualitative evidence, particularly for adaptive programmes dealing with issues like governance or human rights, where it is hard to develop credible ways of describing results using numbers alone.

Table 1: ***Traditional value for money measures and adaptive alternatives***

	Traditional/simple	Adaptive/complex
Economy	Are we (or our agents) buying inputs of the appropriate quality at the right price?	Are we (or our agents) investing resources of the right quantity and quality to support testing and learning?
Efficiency	How well are we (or our agents) converting inputs into outputs? ('Spending well'.)	Are we (or our agents) testing which combination of outputs is likely to contribute to outcome-level change, with appropriate rigour and pace, and adapting accordingly?
Effectiveness	How well are the outputs from an intervention achieving the intended effect? ('Spending wisely'.)	How confident are we that the current outputs will contribute to intended outcomes? Do we have a plausible theory of change that is being tested in a robust way, and signs of a good initial return on our investment? If there is low confidence or evidence of poor returns, are steps being taken to redesign those outputs?
Equity	How fairly are the benefits distributed? To what extent will we	How fairly are the benefits of the intervention expected to be distributed? Do we have a plausible theory of change, being

	reach marginalised groups? ('Spending fairly'.)	tested in a robust way, about how to reach marginalised groups?
Cost-Effectiveness	What is the intervention's ultimate impact on poverty reduction, relative to the inputs that we (or our agents) invest in it?	What is the intervention's ultimate impact on poverty reduction, relative to the inputs that we or our agents invest in it? Is the overall investment worthwhile and/or funded at the correct scale, based on the performance of the programme against the other Es and its relevance to broader changes that are being pursued at a portfolio level?

Source: Laws & Valters, 2021: 17 reproduced under CC BY-NC-ND 4.0.

Other efforts to address some of the short commings of existing approaches to VfM have been proposed by organisations such as ITAD and authors such as Shutt (2016). ITAD (2014) have developed a VfM indicator framework that categorises results (value), against which costs can then be allocated. It employs two categories, or typologies, to structure firstly VfM indicators, and secondly VfM measurement. These categories can be applied to each of the 3Es of Economy, Efficiency and Effectiveness. The fourth E equity is addressed through the introduction of equity-focused indicators into any of the other three categories, or by disaggregating any indicator in any category as a means by which fairness can be explored.

ITAD (2014) propose three types of VFM measurement indicator:

- **Benchmarked measurement -** compares programme achievements with similar achievements outside the programme (within country or outside country). They are thus external, relative indicators, and provide evidence of best value or best cost or both.
- **Comparative measurement** - shows progress over time (e.g. years) or space (e.g. districts) - demonstrating cumulative effect or showing comparative improvement between "cases". They are internal, relative indicators.
- **Stand-alone measurement -** shows what has been achieved within a reporting period. These are stand- alone and absolute indicators, and may be thought of as 'oneoff' realisations of value. They can be compared against the planned target for that period, in which case, the value in VfM terms depends on the credibility of the original plan as both realistic and stretching

OPM (2018) also developed a framework to support a more nuanced consideration of quality, value, and importance. It involved developing and implementing a framework for:

- Organising evidence of performance and VfM;
- Interpreting the evidence on an agreed basis;
- Presenting a clear and robust performance story.

The approach is designed to be used in alignment with broader monitoring and evaluation (M&E) systems – both for efficiency's sake, and to ensure conceptual coherence between VfM assessment and wider M&E work. The VfM framework seeks to achieve these aims by:

- Using explicit criteria (dimensions of VfM) and standards (levels of performance) to provide a transparent basis for making sound judgements about performance and VfM;

- Combining quantitative and qualitative forms of evidence to support a richer and more nuanced understanding than can be gained from the use of indicators alone;
- Accommodating economic evaluation (where feasible and appropriate) without limiting the analysis to economic methods and metrics alone;
- Incorporating and building on the 'Four E's' approach to VfM assessment which is familiar to international aid donors.

Image 2: ***Overview of OPM VfM approach (OPM, 2018: 21)***

This image has been removed for copyright reasons. The full image can be viewed athttps://www.opml.co.uk/files/Publications/opm-approach-assessing-value-for-money.pdf?noredirect=1

A further critique of the 4 E's approach to VfM is presented by Bond (2016) who comment that unfortunately, equity is not always included and even if it is in theory, it is often seen as an add-on rather than a core component of VfM assessments. The inclusion of equity is essential to ensure that VfM does not exclude those who are harder or more expensive to reach. Bond (2016) continue that equity should not be seen as undermining the other areas of VfM, even if it results in higher costs per beneficiary, or fewer beneficiaries for a given cost. These additional costs are not wasted if they are necessary to reach those who are most marginalised; they are necessary to maximise the effectiveness of an intervention.

A common way of approaching VfM assessments is to make comparisons, and this was a common concern of organisations Bond (2016) engaged with. While comparisons can drive improvement and inform decision–making, they are only effective if comparing like with like. DFID's published VfM assessments recognise the challenges in making quantified VfM comparisons between different programmes. For example, DFID's Guidance Note on Shifting Social Norms to tackle Violence Against Women and Girls (VAWG) found that "great care should be taken in attempting to benchmark VfM across different VAWG interventions and contexts. Programmes that are more costly, deliver benefits in difficult circumstances and have benefits that are challenging to measure may still provide good VfM" (DFID, 2016).

Independent Commission for Aid Impact

Box 2: ***Approaches being used by UK NGOs to demonstrate value for money (Bond, 2012: 15)***

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.

ICAI (2018) reviewed DFID's approach to VfM in programme and portfolio management and found that DFID has strengthened its processes and systems for ensuring it gains maximum value for each pound spent, has taken swift remedial action to tackle under-performing programmes, and has become a strong global champion on value for money. The review also found that DFID has been diligent in its efforts to cut waste, detect fraud, and improve efficiency, and that this work is improving the return on the UK investment in aid.

However, the review found that DFID's approach was not adequately reporting and capturing results and VfM at the country portfolio level, or how programmes work together to deliver lasting impact, including reducing future dependency on aid. It also found that weakness in the annual review process could undermine DFID's approach to value for money. It found that targets were frequently revised, and that there could be pressures for optimistic scoring of programmes.

3. Typologies of civil society funding mechanisms

Coffey (2015) comments that understanding of what constitutes a 'funding mechanism' includes how funding is dispersed (e.g., restricted funding vs. unrestricted funding) and how funding is managed (e.g., internal programme managers vs. outsourced fund manager). The key difference between restricted and unrestricted funding centres on who controls funding and the ability of recipients to use that funding flexibly. Restricted funding is used for specific purposes, thus providing donors with the assurance that funding will be used in manner as they have decided. By contrast, unrestricted funding provides greater control to recipients as they are freer to choose how funding is used, albeit often with some conditions (e.g., reporting requirements, relevant to a donor's certain strategic objectives).

Donors typically manage the dispersal and accountability of funding through one of two approaches: funding is either managed by a donor's internal staff or this function is outsourced to a third party, such as an international non-governmental organisation (INGO) or management company.

Table 2: ***Overview of different funding arrangement characteristics***

Funding arrangement typologies	What type of funding arrangement is there	Accountability mechanisms
Unrestricted (core) funding	Unrestricted funding used for a combination of organisational as well as project/programme-related costs	Grants based on negotiated outputs/outcomes Includes an external evaluation manager defined by log frame and relatively longer time frame (5 years)
Project / restricted funding - single donor	Designed to deliver specific outcomes and outputs funded by project or programme-related costs	Grants based on outputs/outcomes related to the fund's objective defined by results framework or log frame and relatively short time frame (2-4 years). Included fund-level evaluations and some grant-level evaluations
Project / restricted funding - multi-donor (sometimes referred to as pooled funding)	Characterised by agreements between multilateral organisations with dispersement of funding through a single organisation Funding was provided on thematic and geographic relevance to the programme included (in some cases) challenge fund mechanisms	Was defined either through grants or contracted services agreements Includes fund-level evaluations but typically not individual grant/contract evaluations

Matched funding	Match funds were raised by CSOs through public or public giving and matched by for example Comic Relief and DFID. Used for a combination of organisational as well as project/programme related costs	Grants based on outputs/outcomes related to the fund's objective defined by results framework or log frame and a short time frame (2-4 years)
Payment By Results (PBR)	Categorised by a contract between DFID and a supplier with negotiated acceptance of terms	Performance against log frame and contractual targets
Commercial contracts	Categorised by binding legal arrangements between DFID and a supplier with unqualified acceptance of terms. Can include tendering through countries or through procurement framework agreements	Services are managed through a binding legal contact. Can include contract reviews /evaluations

Source: Author's own *adapted from Coffey, 2015: 7-8*

VfM of CSO funding

The availability of VfM evidence across many funding arrangements is lacking or incomplete (Coffey, 2015). Of the six funding arrangements identified, Coffey (2015) found evaluations or studies that were relevant to five of these arrangements. Additionally, while the effectiveness and impact of specific funding mechanisms was typically explored and assessed in the literature, the relationship between the design and execution of the broader funding arrangement in relation to VfM was usually inferred rather than explicitly assessed.

The Coffey (2015) review also did not find a rigorously evidenced example that established how the value generated through a funding arrangement (in terms of the quantity and quality of the results) justified the donor's decision to select that funding mechanism and the costs that were incurred. The review did, however, find some examples of helpful practice. The authors of the review stressed that a lack of evidence does not mean that funding arrangements are bad value for money. In what follows, I provide an overview of Coffey's (2015: 12-21) findings:

Unrestricted funding (also called core funding): The review examined one example where the VfM of an unrestricted funding arrangement was inspected. In this case, the VfM of the mechanism was assessed against the key effectiveness criteria defined in its Theory of Change. The evaluation found evidence that supported DFID's rationale to manage the relationship with CSOs through internal resources – particularly the strategic importance of developing/maintaining relationships with Programme Partnership Arrangements (PPA) agencies in light of their sector importance and the amount of funding that they receive. The 2014 evaluation did not, however, assess how the costs that were incurred as part of the fund management related to the overall performance of the fund mechanism.

Observations: While many donors like DFID, Danida and SIDA provide larger pots of unrestricted funding, some donors do not. Negotiating outcomes and the depth of the relationship that is needed to in order to provide substantial sums of unrestricted funding takes time and trust, both which incur transaction costs on behalf of donors and CSOs. It should be noted that DFID provides relatively smaller grants of unrestricted funding to CSOs

through other funding channels, however the possible VfM evidence of these unrestricted funding mechanisms was not identified or examined as part of the Coffey (2015) review.

Project/restricted funding – single donor: The review found multiple examples of project/restricted funding arrangements. The examples of DFID funding mechanisms under this typology included elements of outsourced fund management, typically including challenge funds. The VfM elements of all of these mechanisms were assessed in some way through their respective reviews and evaluations (including benchmarking), and in the case of the Civil Society Challenge Fund (CSCF), there was an explicit assessment of whether or not an outsourced mechanism was good VfM. This latter approach produced a more rigorous interrogation of the decision to use an external fund manager, although it did not assess the cost effectiveness of doing so.

Observations: Restricted funding provides donors with a greater level control of how funding is used and with what results than unrestricted funding. Moreover, with the exception of the example from Irish Aid (managed internally), the other restricted mechanisms cited included out-sourced management arrangements successfully provided funding and some level of capacity building support to hundreds of different organisations. While the effectiveness of this capacity building varied, the overall accomplishment of funding a wide range of CSOs supports DFID's equity agenda. The costs associated with an external fund manager are not insignificant, but the level of management oversight is more than what could realistically be achieved through limited resourcing. Especially when applying a 'challenge fund approach'. Some of the possible VfM weaknesses in providing a large number of smaller grants is that the difference in transaction costs associated with managing a small grant as opposed to a large grant are minimal, raising efficiency questions. Equally, the ability of an outsourced fund manager to effectively support the dissemination or mainstreaming of learning amongst CSOs, or sharing this learning with donors, appears weaker since they removed from donors that drive learning agendas. Finally, the Coffey (2015) review found examples where the costs and time of donors to manage the performance of fund managers often exceeded what was initially envisioned, raising effectiveness and resourcing questions.

Project/restricted funding - multi-donor (sometimes referred to as pooled funding): The Coffey (2015) review found a number of examples of multi-donor, project/restricting funding arrangements. Most of the secondary literature concerning these examples did not explicitly assess the VfM of this type of funding arrangement per se with two notable exceptions: the Supporting Transparency Accountability and Responsiveness (STAR) programme in Ghana and the Accountability in Tanzania (AcT) Programme. STAR was subject to a VfM audit by Ernst and Young, the only such audit included in the Coffey (2015) review. Although the audit did not assess the suitability of the mechanism in relation to the donor's strategic objectives, it provided a comprehensive assessment of the mechanism and performance of the fund manager against DFID's '4Es'. The audit's methodology included a mix of questionnaires and management check list tools, a relatively large sample of fund manager and grantee interviews and an in depth-assessment of fund management processes, systems and policies. The final audit report presented findings and actionable recommendations to improve the quality, cost, effectiveness and transparency of the programme as arranged by procurement and contract management processes; (economy) financial management (efficiency) institutional arrangements (efficiency); and programmatic performance (effectiveness and equity). The AcT Mid Term Review assessed the VfM of the mechanism and the performance of the fund manager in a number of different ways, including: benchmarking costs; comparing management options; assessing how well the fund manager and grantees understood and managed their costs; and an overall

assessment of the added value of the mechanism's approach (particularly capacity building concerning the use of outcome mapping). The AcT Mid Term Review also highlights the role of the fund manager in commissioning studies to assess the economic return on investment where this was possible.

Observations: The restricted nature of this funding arrangement ensured the relevance of results against donor objectives. Pooled funding was perceived as reducing/sharing transaction costs and building upon the capacity and knowledge networks of donors. This approach was consistent with the objectives of the Paris Declaration on Aid Effectiveness. Potential weaknesses of this arrangement included competing visions of success amongst donors and the risk that the agenda of some donors may trump that of others. Some studies have also identified the efficiency risk of extended management and reporting chains that are often associated with larger, multi-donor programmes (Coffey, 2015).

Matched funding arrangement: The Coffey (2015) review found one example of a matched funding arrangement. The Common Ground Initiative (CGI) was also outsourced with relatively less management oversight by DFID. The VfM of this mechanism was not assessed in a rigorous way.

Observations: Many of the same strengths and weaknesses of those mechanisms included under the project/ restricted challenge funding typology apply to CGI. The outsourcing of the fund management function to Comic Relief allowed DFID to leverage Comic Relief's experience managing smaller grants and its networks with southern partners to provide funding to new and diaspora-led organisations. However, the support management structure of Comic Relief in relation to the different needs and large number of projects was not always appropriate. The review also found no conclusive evidence that CGI provided more funding than would have otherwise been available to recipient organisations which has been a key objective of the fund (Coffey, 2015).

Commercial contracts: The Coffey (2015) review found several examples of funding mechanisms that provide support to CSOs through commercial contracting arrangements. The reflection of the VfM of the technical assistance programme, Federal Public Administration Reform Programme (FPAR), was noticeably weaker, partly because no evaluation or mid-term review was publicly available. Moreover, although this programme works through and with several CSOs partners, the focus of its resources is on changing capacities at a government level.

Observations: The benefits of supporting civil society through contracts at the embassy level as found by the Government of the Netherlands are consistent with the experiences of donors like Danida. Unlike the Government of the Netherlands, however, some donors have avoided promoting civil society funding through embassies owing to the risk associated with the potential duplication of funding to CSOs through their funding mechanisms. For this reason, DFID and Irish Aid traditionally have not allowed recipients of their strategic grants to also be eligible for embassy funding (Coffey, 2015).

Relative strengths and weaknesses of different funding mechanisms

Although the Coffey (2015) review was not able to provide evidence-based predicators of which funding arrangements provides the best VfM, there was enough evidence to allow Coffey (2015) to make broader comments about the strengths and weaknesses of different aspects of how funding is managed and dispersed. These are the types of VfM

considerations that donors could weigh when considering what funding mechanism to select. Coffey (2015: 25-26) conclude that:

Internally managed funding mechanisms: Management arrangements drive costs, especially reporting requirements. It follows that funding through strategic funding mechanisms reduces transaction costs as they usually involve fewer partners than large challenge funds and reporting is set at a higher, strategic level. Despite these strengths, fund management is still resource intensive and incurs costs relating to negotiating reporting frameworks. Establishing unrestricted funding relationships between donors and CSO is also based on trust and prior evidence of effectiveness. This type of funding arrangement typically takes many years and requires a considerable track record.

Outsourced funding mechanisms: Outsourced fund management functions can play an effective role in enabling donors to provide funding to a large number of CSOs and provide more capacity building support than donors could otherwise deliver on their own. Equally, while challenge funds are perceived as more resource intensive and costly to administer rather than unrestricted funding mechanisms, they appear, according to Coffey (2015), to be successful in contributing to a range of equity objectives. An ICAI report found that outsourcing fund managements mechanisms results in effective learning within DFID (ICAI, 2013).

Multi-donor funding mechanisms: Multi-donor funding can be cost-effective since the administrative burden of these costs is shared by pooling resources. Pursuing efficiency savings is consistent with the Paris Declaration on Aid Effectiveness and allows donors to leverage the influence of different countries and knowledge networks. Multi-donor mechanisms also offer some challenges. Donors typically cede some level of control of the mechanism, however there are examples where this kind of compromise leads to different views concerning how the mechanism should work and what its ultimate objectives are. The efficiency by which decisions are made and executed can also be affected by unwieldy management structures and weak lines of communication.

Funding through embassies: Direct funding to NGOs through donor embassies has a number of tangible advantages. Embassy staff are closer to CSOs that are delivering in counties and this type of funding can be flexibly applied to respond to changing needs and emerging opportunities. The relatively less formal mechanisms by which civil society funding is accessed through embassies includes efficiency savings, as they are typically not subject to the same procurement process associated with larger funding mechanisms. The disadvantages of funding through embassies also relate to their proximity to specific CSOs and the ability of individuals within embassies to successfully diagnose priorities. An inaccurate diagnosis of needs can undermine coherence and the strategic added value of this type of funding.

Coffey (2015) conclude that the investigation into the VfM of different funding arrangements reveals significant evidence gaps. None of the evidence across the five different funding arrangements that was identified provided the necessary depth of analysis to robustly establish the VfM of different funding arrangements. One of the key challenges in assessing VfM is that donors can select the 'optimal' funding arrangement in light of their respective needs and objectives, but this does not mean that it will deliver good VfM in light of other influencing factors and context. Mechanisms may work better in different locations depending on the baseline presence, activity and abilities of the CSOs they are engaging with. One mechanism might be more suitable when the objective is building capacity from a

low base, whereas another might be better for disbursing funds to a well-established, well-functioning CSO sector.

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