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LAMP Notes: How to develop a VfM Strategy

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This is a working document that we will revise regularly to keep up with recent practice and guidance, any thoughts? Let @lampdevelopment know!



What is a Value for Money Strategy?

A Value for Money (VfM) Strategy is a document that sets out an organisation's or a programme's approach to achieving the maximum impact for the resources available. The strategy describes the principles on which the programme is designed to deliver good VfM for the donor and beneficiaries, and how this will continue during the course of implementation.

A VfM Framework (see *LAMP Notes: A VfM Framework*) is developed alongside the VfM Strategy to set out the specific ways the project will measure, monitor and report VfM on a quarterly and annual basis. It helps to establish a consistent way of measuring and reporting VfM.

For further reading on VfM see LAMP's VfM resource section: [VfM Guidance and Approaches](#) and LAMP's thought piece on [the Future of VfM](#)

Why do we need a VfM Strategy?

Every programme is different. It is important for each programme to define what value means in the context within which they are working. A value for money strategy also allows a programme to take the concept and apply it to the realities of the programme, both in terms of design (e.g. programme architecture; theory of change) and implementation (e.g. project management and performance levers).

An organisation will already have in place many processes to ensure resources are well used. Developing a VfM strategy is an opportunity to confirm how each of these processes promotes value for money and in turn helps to achieve impact, rather than taking an 'off the shelf' approach to VfM.

A VfM Strategy will also identify the core questions to be answered during programme implementation to measure and demonstrate whether the programme continues to provide good value for money (this assumes the programme itself has been assessed as good value for money before commencing – see LAMP's Economic Appraisals [Thought Piece](#)).

What goes into a VfM Strategy?

The contents of a VfM Strategy may include the following sections:

1 *Introduction*

Introduce the project stating the total cost and the expected outcomes. A value for money proposition may have already been developed in the business case economic appraisal. However, it is worth restating it here, in the context of programme implementation together with any key assumptions. The VfM proposition should describe how the project is designed to deliver good VfM for the donor and beneficiaries.

Example: Investing in girls' education yields significant economic and social returns. It is estimated that one additional educational level achieved increases lifetime earnings by 8%¹.

2 *Value for Money Approach*

Start by defining what value for money means to the programme using a VfM Statement.

Example statement: Value for money is about maximizing the impact of each pound spent to improve poor peoples' lives.²

Describe the framework that will be used to demonstrate/monitor/measure whether this is being achieved. As a starting point the [3 Es is often used](#) (Economy, Efficiency and Effectiveness). These are applied to the project results chain (input, outputs, outcomes) However, DFID and other donors have built on this framework to make it more relevant for their purpose. For example, Equity and Sustainability are often included.

¹ Arnold, Conway and Greenslade (2011). Cash Transfer Literature review, DFID Policy Division

² DFID Approach to Value for Money (VfM) 2011

3 *VfM Principles / Objectives*

Describe principles that the programme follows in order to deliver good VfM. A useful guide are the principles outlined in DFID’s Smart guide³ and also in BOND (see [project cycle resource](#)). These principles are specific to the programme itself and can be developed in collaboration with the Monitoring and Evaluation, Finance and Programme leads to ensure alignment across the programme.

Example principles:

- *Programme X will undertake effective contract and supplier negotiation and management to ensure that input supplies remain competitively priced against market benchmarks.*
- *VfM does not necessarily mean low risk. It is about balancing high-risk high impact activities with low risk more dependable impact programming.*

4 *External and Internal factors influencing VfM*

Describe the internal programme processes that will be in put in place to ensure good value for money. For example:

- Programme design and TOC
- Financial Management and Audit
- Procurement
- Human resources and STTA
- Admin / Operations / IT / Risk
- Training and workshops
- Monitoring and Evaluation
- Operational research

³ DFID’s Smart Guide Approach to Value for Money, March 2015

- Knowledge Management

Describe the external factors that may influence VfM e.g. security risks, political factors, government partners, any assumptions that were made in the business case.

5 Core questions – how will the programme measure good VfM?

Develop a set of key VfM questions for the programme that can be used to examine if the programme is delivering good VfM. These questions can be developed by applying the core questions derived from DFID Guidance on VfM:

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| Overall value for money question: Are we maximising the impact of each pound spent to improve poor people’s lives? |
| <i>At each stage of the value for money framework:</i> |
| Economy: Are we buying inputs of the appropriate quality at the right price? |
| Efficiency: How well are we converting inputs into outputs? (‘Spending well’) |
| Effectiveness: How well are the outputs produced by an intervention having the intended effect? (‘Spending wisely’) |
| Cost-Effectiveness: What is the intervention’s ultimate impact on improving health outcomes, relative to the inputs that we or our agents invest in it? |
| Equity: Are benefits distributed equitably to impact on poor people’s lives? |
| Sustainability: Will benefits be sustained in the longer term, beyond life of the project? |

LAMP tip: Set up a workshop with the programme, finance and M&E leads. Develop a long list of questions by applying the questions above to the programme while also considering the programme design and key assumptions made in the business case. From this long list, select a shortlist of questions to be included in the VfM strategy based on the relevance of the question and feasibility of collecting evidence to answer the question.

The VfM Framework (see *LAMP Notes: How to develop a Framework*) uses these questions to develop a set of indicators, list of case-studies and qualitative evidence needed to answer the questions and to determine whether or not the programme is good value for money during implementation.

The VfM Framework specifies the detailed method for measuring and monitoring the VfM of a programme. It is useful to have a VfM Framework as a separate document from the VfM Strategy as the framework may be adjusted over time in light of data availability.

The VfM Strategy is likely to remain the same, though it could be adjusted due to changes in programme implementation, learning and context.

Next steps for developing a strategy

- Review key documents including Business Case for programme, technical and commercial proposal, VfM approaches
- Run a workshop to develop a VfM approach and identify core VfM questions
- Set up financial and M&E systems to provide VfM data
- Develop an outline of a VfM Strategy
- Develop a VfM Framework

LAMP Tips

Keep the strategy brief – it does not need to be a long, wordy document, but it does need to include all the detail that will show how the programme will deliver good value for money.

References

This work is reliant upon a number of key resources including:

DFID's approach to Value for Money, [link here](#)

DFID's Smart Guide Approach to Value for Money, March 2015

Arnold, Conway and Greenslade (2011). Cash Transfer Literature review, DFID Policy Division, [link here](#)

Bond, Integrating Value for Money in the Programme Cycle, [link here](#)

ICAI, DFID's Approach to value for money in programme and portfolio management, [link here](#)

Julian Barr and Angela Christie, CDI, Improving the Practice of Value for Money Assessment, [link here](#)

National Audit Office, Assessing Value for Money framework, [link here](#)