Value for Money Framework

REDUCING POVERTY
THROUGH FINANCIAL SECTOR DEVELOPMENT

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Key points

Value for Money Framework

01

This VfM paper provides practical, user-friendly guidance and a structure for assessing and reporting on VfM. It has been developed as a resource for the FSD network. It aims to support a consistent approach to VfM assessment and reporting across the network, while retaining sufficient flexibility to accommodate differences in context.

02

Building on OPM's Approach to Assessing VfM (King & OPM, 2018), the framework treats VfM as an evaluative question about how well resources are being used, and whether the resource use is justified. Addressing an evaluative question requires more than indicators - it requires judgements to be made.

03

Explicit evaluative reasoning provides the means to make robust judgements from evidence. It involves defining VfM criteria (specifying what economy, efficiency, effectiveness, cost-effectiveness and equity look like in a FSD context) and VfM standards (levels of performance).

04

VfM criteria and standards provide a sound and transparent basis for identifying what evidence is needed, organising the evidence, interpreting the evidence, reaching clear judgements about performance and VfM, and telling a compelling, accurate performance story.

05

The framework requires the use of mixed methods evidence (indicators and narrative) to support well-informed, nuanced judgements. It seeks to maximise use of rigorous evidence from existing monitoring and results measurement (MRM) frameworks, Impact-Oriented Measurement (IOM), and the Compendium of Indicators.

06

This VfM paper is designed to support accountability as well as reflection, learning and performance improvement across the FSD network. It can also be used to systematically identify areas where MRM systems can be improved, to provide better evidence and benchmarking of sound resource management, delivery, outcomes and impacts.

Accompanying this VfM framework is a guide, setting out a step-by-step process together with tools and templates for FSDs to follow in designing, and undertaking a VfM assessment. A reporting template is also provided, setting out a suggested structure for FSDs' VfM reports.

Front cover image: AFR/Kristina Just • Layout: Kristina Just

Value for Money Framework

Foreword

Financial Sector Deepening programmes (FSDs) face increasing pressure to prove that they are good value for money. This includes demonstrating that they are delivering their interventions as efficiently as possible, while at the same time achieving their desired development impact. To achieve this, strengthening of internal procurement processes and monitoring and results measurement approaches continue to be areas of key focus. For instance, an FSD network-wide consultative process commissioned by FSD Africa in July 2014 led to the development of the Impact Oriented Measurement (IOM) framework, a guidance paper on how FSDs can better measure their contributions to changes in the financial markets they seek to influence.

While these efforts continue to inform improvement of processes amongst FSDs, making them more efficient and effective, a few operational gaps still exist. Firstly, there are disparate schools of thought amongst FSDs, their funders and oversight organs, and Subject Matter Experts on what VfM really means, and what it entails to assess VfM performance. Consequently, questions abound on what is the most effective VfM measurement approach. This has created the need for a comprehensive approach that attempts to reconcile these different schools of thought and at the same time satisfy the different stakeholder interests. Secondly, assessing VfM performance has often been viewed as a stand-alone process that at best is conducted periodically. Thus, the opportunities to align VfM measurement with other organizational processes and implement corrective measures (as is needed) are sometimes lost. Thirdly, lack of a standard VfM approach limits inter-FSD learning.

In August 2017, FSD Africa began a consultative process with the objective of developing a robust VfM assessment approach that could progressively be applied by FSDs, FSD implementing partners, and other FSD-like organisations. Working with specialists from Oxford Policy Management (OPM), discussions were held with FSDs, DFID, Bill & Melinda Gates Foundation (BMGF), Swedish International Development Agency (SIDA) and United Nations Capital Development Fund (UNCDF). Key desires identified during the consultation were to have a VfM assessment methodology that:

- Enables FSDs to communicate a clear and accurate performance story
- Supports accountability, learning and improvement
- Supports a consistent approach while recognising differences in context and helps prevent invalid comparisons of performance
- Facilitates presentation of evidence in a way that informs FSD investment committee decisions
- Is practical and user-friendly, minimizing data collection and reporting burden
- Aligns with existing approaches such as IOM, the FSD Compendium of Indicators, FSD MRM systems, and DFID’s VfM criteria

The result of this consultation is the FSD VfM framework and VfM guide. These have been designed to support a consistent approach to VfM assessment and reporting across the FSD network, while retaining sufficient flexibility to accommodate differences in context.

The Framework:

- Sets out explicit criteria and standards to provide a transparent basis for making sound judgements about performance and VfM
- Is aligned with the IOM guide in a deliberate fashion, to ensure consistency of frameworks, concepts and terminologies
- Links explicitly to the Compendium of Indicators to guide the selection of outcome and impact indicators for VfM assessment
- Combines quantitative and qualitative forms of evidence to support a richer and more nuanced understanding than cannot be gained from the use of indicators alone;
- Incorporates and builds on the 'Four Es' approach to VfM assessment which is familiar to FSDs and a good number of donors
- Maximises use of existing data from current FSD MRM frameworks and reporting activities – both to minimise any extra data collection, and to ensure the VfM assessments are aligned with other MRM and reporting processes

The Guide sets out a step-by-step process and a series of templates to guide users in designing and completing a Value for Money (VfM) assessment. It should be used in conjunction with the VfM framework.

It is hoped that FSDs will use this comprehensive VfM assessment approach to support accountability, learning, improvement, and making of investment decisions. The FSD MRM Working Group serves as an ideal community of practice to support effective and consistent application of the approach.

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FSD Africa Head of Measurement and Results Management

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Abbreviations and acronyms

AAER	Adopt-Adapt-Expand-Respond
CEO	Chief Executive Officer
DCED	Donor Committee for Enterprise Development
DFID	UK Department for International Development
4Es	Economy Efficiency Effectiveness Equity
FAQ	frequently asked question
FSD	Financial Sector Deepening (programme)
FSDA	Financial Sector Deepening Africa
ICAI	Independent Commission on Aid Impact
IOM	Impact-Oriented Measurement
IP	Intellectual Property
M&E	monitoring and evaluation
MRM	Monitoring and Results Measurement
OPM	Oxford Policy Management
Sida	Swedish International Development Cooperation Agency
SRO	Senior Responsible Owners
ToC	Theory of Change
UNCDF	United Nations Capital Development Fund
VfM	Value for Money

Contents

Tables

Figures

Rubrics

1. Executive Summary

This document sets out an approach and framework for assessing Value for Money (VfM), for FSD Africa (FSDA). It has been developed as a resource for the FSD network. The VfM framework is intended to be practical, user-friendly and to minimise the reporting burden for MRM staff. At the same time, there is a minimum level of effort required in VfM assessment to ensure credibility. The framework also aims to support a consistent approach to VfM assessment and reporting, while retaining sufficient flexibility to accommodate differences in context and guard against making invalid comparisons.

To meet these needs, the VfM framework:

- **Uses explicit criteria (dimensions of VfM) and standards (levels of performance) to provide a transparent basis for making sound judgements about performance and VfM, using an approach described by King & OPM (2018)**
- **Combines quantitative and qualitative forms of evidence to support a richer and more nuanced understanding than can be gained from the use of indicators alone**
- **Is aligned with the Impact-Oriented Measurement (IOM) guide in a deliberate fashion, to ensure consistency of frameworks, concepts and terminologies**
- **Links explicitly to the Compendium of Indicators (which is under development) to guide the selection of outcome and impact indicators for VfM assessment**
- **Incorporates and builds on the 'Four Es' approach to VfM assessment which is familiar to FSDs and donors.**

This VfM framework is accompanied by a document titled Value for Money Design, Assessment and Reporting: A Practical Guide (referred to hereafter as the 'VfM guide'), setting out a step-by-step process and a series of templates to guide FSDs in designing and completing a VfM assessment.

2. Introduction

2.1. FSD Africa and the FSD Network

This project was contracted by Financial Sector Development Africa (FSDA). FSDA was created in 2012, is funded by the UK Department for International Development (DFID), and is based in Nairobi. It aims to reduce poverty through the development of financial sectors across sub-Saharan Africa.

FSDA also provides strategic and operational support to the FSD network. The network comprises a group of ten financial sector development programmes (FSDs). There are eight national FSDs in Ethiopia, Kenya, Mozambique, Nigeria, Rwanda, Tanzania, Uganda and Zambia; and two regional FSDs – FinMark Trust in Southern Africa and FSD Africa.

The network partners follow the making markets work for the poor (M4P) approach. They are funded by multiple donors and have an overall budget of over $450m.

2.2. Background and objectives

FSDA has previously commissioned work in the area of results measurement. Whilst these studies have been relevant and informative, it is felt that gaps in knowledge remain and the network could be better supported in this work with better tools.

Oxford Policy Management (OPM) has supported this prior work through the Impact-Oriented Measurement (IOM) project which provided guidance for measuring and evaluating the impact of the FSD programmes. Following this, FSDA carried out a needs assessment which identified the lack of a harmonised approach to results measurement as a further opportunity for improvement.

Concurrently to the development of this VfM framework, Adam Smith International provided bespoke in-country monitoring and results measurement (MRM) support to FSDs on results measurement. In addition, OPM ran a parallel project to produce a Compendium of Indicators for outcome and impact-level results measurement.

The gap that the VfM framework aims to fill is to provide guidance and a structure for assessing and reporting on VfM, as this has been relatively neglected in past work in this area. To ease the application of this framework, OPM was also tasked with creating the associated measurement tools and guiding the FSD network's MRM and other relevant staff in the use of these.

2.3. Development of the VfM framework

This VfM framework was developed in a collaborative fashion. In particular, telephone/Skype consultations were undertaken with MRM Leads from FSD, CEOs, DFID senior responsible owners (SROs), other funders and with FSDA, to help align the VfM framework with their existing MRM systems and their stated needs for VfM assessment, to the extent feasible.

In addition, a review of FSDs' capacities (as documented in the outputs of other FSDA-commissioned work undertaken by various consulting firms, together with review of recent VfM frameworks and assessments) was carried out in order to 'meet them where they are' in terms of the extent of guidance given.

Verification consultations with FSDs were undertaken midway to check back and help ensure that the VfM Framework's content was shaping up in the appropriate direction. This process was carried out by email, by submitting a concept paper and seeking written feedback. A final draft was discussed in a day-long consultative and training workshop following the FSD network conference in Livingstone, Zambia, on 17 November 2017. Written feedback was also invited on the final draft.

These processes were undertaken to facilitate the building of a high degree of consensus and rigour into the VfM framework, informed by practical insights derived from FSD network partners themselves. The idea was to maximise the sense of ownership for FSDs to use the framework, thus contributing to their programmes' and FSD Africa's overall aims to increase prosperity, create jobs, and reduce poverty (by bringing about a transformation in financial markets).

Subsequently, during 2018, the VfM Framework and Guide were piloted with FSD Moçambique, FSD Uganda, Access to Finance Rwanda, and FSD Africa. Refinements were made to the Guide based on learning from the pilots.

Despite the consultative processes, discussions with experts, and piloting of the approach in four FSDs, this VfM framework may still be considered preliminary. Once FSDs have been through a cycle of using the framework to design and conduct a VfM assessment, the framework may be reviewed and updated to ensure it is appropriately aligned with FSD activities, outcomes and impacts and that it meets FSD network partners' and donors' VfM assessment needs.

2.3.1. Needs identified for a VfM framework

Consultation with the abovementioned stakeholder groups revealed that the VfM Framework and Guide should:

- Be practical, user-friendly, and minimise the reporting burden for MRM staff
- Enable and empower FSDs to communicate a clear and accurate performance story, using appropriate metrics, together with narrative to support nuanced and meaningful judgements
- Support a consistent approach to VfM assessment and reporting across FSDs, while also retaining sufficient flexibility to accommodate differences in context and avoid making invalid comparisons
- Support and balance the objectives of accountability, learning and improvement
- Provide a logical and transparent basis for making judgements about VfM, based on a clear understanding of how FSDs are intended to add value
- Align with FSDs' strategies and theories of change, including clarity about immediate, intermediate and ultimate outcomes or impacts, and their respective time frames
- Emphasise value (not just cost) and balance efficiency and effectiveness with equity, recognising that there may be trade-offs
- Cater to a range of levels of MRM readiness (for example, by offering some structure to support specification of inputs, outputs and outcomes for VfM assessment purposes)
- Incorporate economic indicators, especially at long-term outcome and impact level (where appropriate and feasible) alongside other indicators at input, output and intermediate outcome levels
- Observe the principle of parsimony by including only as many indicators as are necessary, sufficient and of appropriate quality to support meaningful VfM assessment
- Respond to donor requirements by referencing the 'Four Es', widely used within the international development sector, as an overarching framework, and by building on DFID and Independent Commission for Aid Impact VfM guidance
- Offer a practical approach to contribution analysis, recognising real-world capacity, data and time constraints
- Build on existing FSD MRM frameworks, knowledge and skills, as well as new tools under development, to ensure conceptual alignment, make appropriate use of rigorous impact evidence, and minimise duplication of effort
- Accommodate and integrate top-down (sector/market perspective) and bottom-up (programme/intervention perspective) outcome evidence
- Be useful for informing investment committee decisions.

2.4. Overview of this document

The remainder of this document sets out the core elements of the VfM framework.

SECTION 3	SECTION 4	SECTION 5
outlines the conceptual approach to VfM assessment including the core underpinning frameworks of evaluative reasoning, IOM guidance, and the Four Es.	sets out the practical steps involved in designing and undertaking a VfM assessment, together with the related issues of contribution analysis and dealing with complexity and emergent strategy.	sets out the criteria and standards that are the centrepiece of the Framework and will inform the selection of quantitative and qualitative evidence, the basis for making judgements, and the structure for reporting findings.

3. Approach to VfM assessment

3.1. What is Value for Money?

Value for Money (VfM) is an evaluative question about how well resources are being used, and whether the resource use is justified (King, 2017). When resources are invested in a programme, the opportunity to use them in some other way is foregone. Economists call this loss of alternatives opportunity cost. Consequently, choices need to be made in resource allocation, with a 'good' choice being one that compares favourably to the next-best alternative use of resources (as well as meeting other requirements).

However, the next-best alternative is not always clear or measurable. In lieu of evaluating alternative options, VfM assessment can help to evaluate whether an investment is well managed and worthwhile on the basis of observable features of programme delivery, short/medium/long-term outcomes, and agreed definitions of what 'good' performance would look like (King & OPM, 2018). In keeping with this perspective, DFID (2011) defines VfM as "maximising the impact of each pound spent to improve poor people's lives".

3.2. An evaluation-specific approach

Evaluation has been defined as "the systematic determination of the merit, worth or significance of something", (Scriven, 1991). In plainer language, the core purpose of evaluation is to determine "how good something is, and whether it is good enough" (Davidson, 2005). Therefore, evaluation necessarily involves making judgements: "it does not aim simply to describe some state of affairs but to offer a considered and reasoned judgement about that state of affairs" (Schwandt, 2015).

The fundamental problem in this endeavour is "how one can get from scientifically supported premises to evaluative conclusions", (Scriven, 1995) – in other words, how to make a sound judgement using a logical and traceable process.

Explicit evaluative reasoning provides the means to make robust judgements from evidence. Essentially, it involves developing definitions of what 'good VfM' looks like. These definitions are developed before the evidence is gathered and analysed, providing an agreed basis for making judgements (King & OPM, 2018).

Although there is more than one way to approach this task, a widely used approach is to:

Establish criteria of merit, worth or significance – the dimensions of performance that are relevant and important to an evaluative judgement	**Define performance standards for each criterion, in order to distinguish between 'excellent', 'good', 'acceptable' or 'poor' performance**	**Gather and analyse evidence of performance against the standards**	**Synthesise the results into an overall judgement**

Source: Fournier, 1995

The use of criteria and standards, agreed upon in advance, may be new to VfM assessment but is a prime example of explicit evaluative reasoning, which is core to good evaluation (Yarbrough et al., 2011). Evaluative reasoning enhances the credibility and use of evaluation for accountability, learning and adaptation, by providing a transparent (and therefore challengeable) basis for making judgements (King et al., 2013). This is the approach that is recommended for FSD network partners.

[2] https://www.fsdafrica.org/knowledge-hub/documents/towards-impact-oriented-measurement-for-the-fsd-network/

3.3. Alignment with IOM

The Impact-Oriented Measurement (IOM)[2] framework is a comprehensive resource designed to help FSDs (and similar organisations) to manage the challenge of measuring their contribution to changes in the market systems they seek to influence. IOM offers guidance (not a prescription) and was informed by practical insights derived from FSDs, as well as DFID and other experts.

FSDs implement complex, multi-faceted market development programmes. This is a challenging context for MRM systems to operate in. IOM helps FSDs respond to these challenges and to increasing pressure to show results – especially medium-term market system outcomes and longer-term impacts on poverty reduction.

The IOM report made recommendations about measurement tools, processes, indicators and management of an MRM system. We understand these are currently at different levels of implementation and use across FSDs; nevertheless, we suggest it is appropriate and desirable that the VfM Framework use the IOM report as a key point of reference and alignment. In doing so, it is anticipated that the imperative to provide VfM assessments may help incentivise FSDs to continue embedding the IOM recommendations.

This VfM framework builds on the IOM report in a deliberate fashion. For example, the IOM design project included developing a common terminology for MRM work, and this VfM Framework adopts this terminology for consistency. The IOM report consolidates the complex portfolio of FSD project work into a unifying MRM framework that is coherent and measurable – and this VfM framework seeks to align with this to the greatest extent possible.

An FSD's theory of change (ToC) is the bedrock of the IOM system – as it should be for a VfM framework – supporting selection of indicators as well as contribution analysis. The relationship between the ToC and the VfM framework is detailed in section 4.1.

Like the IOM framework, this VfM framework seeks to promote greater coherence across FSDs as to how they approach VfM assessment. However, just like IOM, VfM assessments will necessarily involve adaptation to context.

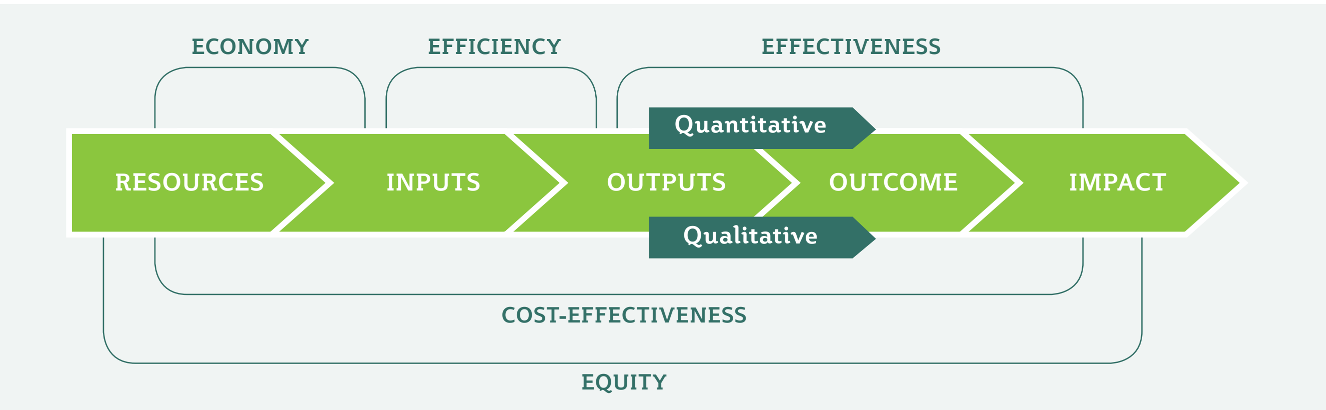
3.4. Building on 'The Four Es'

This framework for making VfM assessments builds on DFID's Approach to VfM (2011).[3] Traditionally when reporting VfM to DFID there has been a strong focus on the three Es of economy, efficiency, and effectiveness. More recently, a fourth E, equity, has gained more attention. The Four Es are useful dimensions for VfM analysis and relate closely to a programme's ToC or results chain. Economy looks at the cost and value of inputs. Efficiency looks at the aggregate cost of inputs that are transformed by sets of activities into valued outputs. Effectiveness is the achievement of outcomes and impacts.

Although it is commonly referred to as the 'Four Es', there are actually five criteria, the additional criterion being cost-effectiveness, which compares outcomes or impact to total costs.

The Four Es framework can be used at all stages in a programme life cycle. The most important measures relate to outcomes and impact (including equity). However, effectiveness and cost-effectiveness can only be determined once a programme is sufficiently mature. Intermediate measures provide diagnostic information (such as opportunities to work more economically or efficiently) and can be used during project implementation.

Figure 1: VfM conceptual framework



Source: King &OPM, 2018

[3] It is acknowledged that FSDs have multiple donors. The 4Es framework is widely used within the international development sector and is considered to provide an appropriate set of criteria to underpin all FSD VfM assessments.

While the Four Es provide a conceptual foundation (Figure 1) for systematically assessing and reporting on VfM, their use in a specific programme and setting requires further explanation of how these concepts relate to the programme's design and performance. Furthermore, the Four Es alone do not provide a transparent basis for distinguishing 'good' VfM from 'excellent' or 'poor' VfM. This VfM framework provides definitions for these terms, aligned with the programme ToC, supporting robust judgements and transparency in the assessment and reporting of VfM (King & OPM, 2018).

Traditional VfM approaches often run into difficulties when they rely on a narrow set of exclusively quantitative indicators. When designing a VfM framework, indicators must be selected carefully to ensure that what is measurable does not come to be mistaken for what is important. The approach taken in this framework reverses this by first identifying what is important, and then subsequently determining how this can best be measured and evaluated. It involves developing criteria and standards for FSD performance that are linked to the programme theory. In this VfM framework, criteria are definitions of what good economy, efficiency, effectiveness, cost-effectiveness and equity would look like in an FSD context. Standards are definitions of what the evidence would look like at a range of levels of performance, from excellent to poor (King & OPM, 2018).

These VfM criteria and standards provide a sound and transparent basis for:

Identifying what evidence is needed to support the VfM assessment

Organising the evidence so that it is easier and more efficient to analyse

Interpreting the evidence on an agreed basis

Reaching clear judgements about VfM, supported by evidence and reasoning

Telling a compelling and accurate performance story

Source: King & OPM, 2018

This VfM framework seeks to maximise use of existing data from current FSD MRM frameworks and reporting activities (including recent and current developments such as IOM and the new compendium of indicators under development) – both to minimise any extra data collection, and to ensure the VfM framework is conceptually aligned with other MRM and reporting (King & OPM, 2018).

This approach brings together:

A practical response to FSDA's request for a user-friendly approach that minimises the reporting burden for FSDs and facilitates meaningful VfM assessment at reasonable time and cost

Core elements of DFID's and the Independent Commission on Aid Impact's approaches, including the 4Es framework in particular

A framework for explicit evaluative reasoning, reflecting core evaluation theory and practice, which addresses key limitations in DFID's approach and in the use of economic methods when applied to complex adaptive programmes

The ability to combine economic indicators with other forms of evidence (quantitative and qualitative) and to triangulate these to support better judgements about VfM.

Source: King & OPM, 2018

3.5. Timing of VfM assessments

This VfM framework can be used to support regular VfM assessments and therefore to monitor and track VfM over time. The frequency of VfM assessment should take into account the nature of FSDs' intended outcomes and the expected time frames to achieve substantive changes in financial inclusion. Some short-term outcomes at market and beneficiary levels might be assessed annually – for example, levels of access to financial accounts. For longer-term impacts, assessments every 2-3 years may be more realistic. Assessments of economy and efficiency could be carried out more frequently for diagnostic purposes if desired.

If donors require VfM assessment on a reasonably frequent cycle (for example, annually), then we encourage FSDs and donors to consider a cycle in which a comprehensive VfM assessment is carried out every second or third year, with brief reviews in between only to update the trajectory.

3.6. Perspective of the VfM assessment

This framework is designed to support VfM assessment principally from a donor perspective: it focuses on resources invested by donors and the achievement of outputs and outcomes specified or agreed with donors. It does not explicitly consider what VfM would look like from the perspective of the financial services sector, governments or civil society – though to do so would be a worthwhile extension of the method.

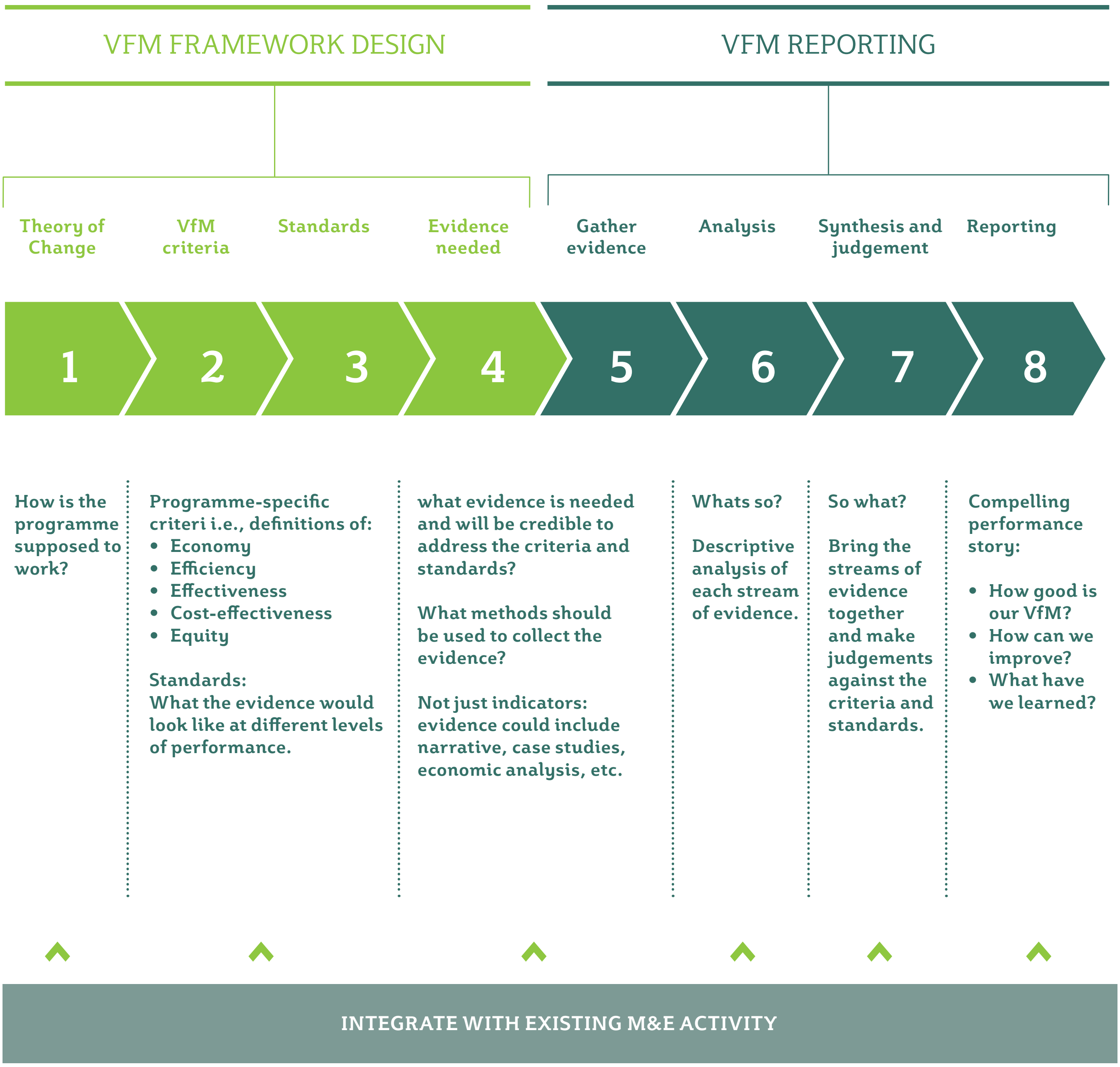
3.7. Level of analysis

To align with IOM and support good resource use across the FSD network, we recommend that VfM assessments be undertaken at whole-of-FSD level (though the approach and methods can also be used to assess VfM of particular interventions or projects within an FSD's portfolio of work). When evaluating VfM for an FSD as a whole, it will be necessary to collate evidence from key projects. Evaluative judgements will consider the performance of the programme overall, bearing in mind the nature of any variation between different projects and the relative importance of these projects to the overall performance of the FSD. Additionally, as noted in the IOM reports, consideration should be given to 'top-down' assessment of market changes and the extent to which FSDs contribute to these, bearing in mind that the synergistic contributions of the full FSD programme of work (together with external factors) may be greater than the sum of its parts.

4. Steps in designing and conducting a VfM assessment

The key steps in the evaluative reasoning process are summarised in Figure 2 and explained below. Developing the VfM framework involves establishing VfM criteria and standards, aligned with a ToC, and then identifying appropriate sources of evidence to address the criteria and standards. These steps are outlined in the first four (orange) boxes in the diagram. Subsequently, the last four (blue) boxes show the steps involved in conducting a VfM assessment.

Figure 2: Overview of evaluation-specific approach to VfM



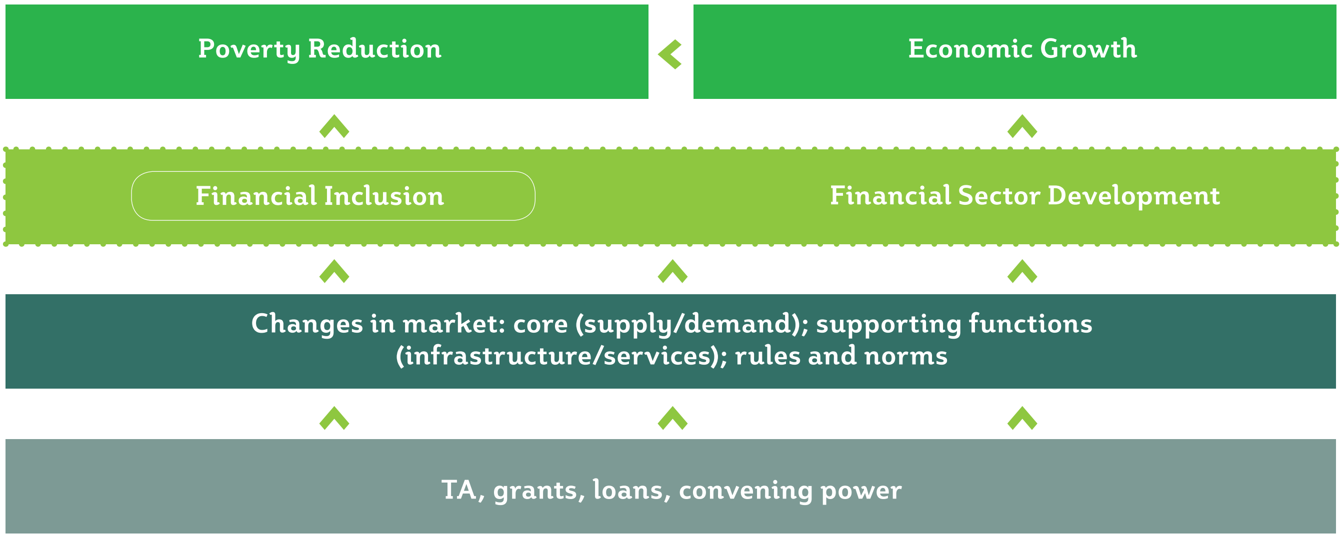
Source: King & OPM (2018)

4.1. STEP 1 • Theory of Change

A ToC explains how activities are understood to produce results (for example, increases in institutional capacity, reduced institutional barriers) that contribute to achieving intended impacts (Rogers, 2014). One of the functions of a ToC, when it comes to designing a VfM framework, is to assist in the identification of criteria, standards and indicators that are relevant to the programme's ToC and to projects' results chains. Therefore, an early step in developing a VfM framework is to align the VfM criteria with the FSD's ToC – and in so doing, to ascertain that the ToC is sufficiently rigorous and evaluable to perform its function as a core of the VfM assessment (King & OPM, 2018).

The IOM framework sets out a generic FSD ToC (Figure 3, below) that outlines, at a very broad level, a structure for clarifying how FSDs' inputs are intended to lead to changes in the market system (at the macro, meso and micro levels), and how these in turn promote financial sector development, and subsequent impacts on growth and livelihoods.

Figure 3: A generic FSD ToC



Source: IOM guide

Based on the above generic ToC, at a very general high level:

- The common desired outcomes of FSD interventions can be articulated as follows: **changed markets leading to an improved financial sector and greater financial inclusion; while**
- The common impact-level results are: **increased economic growth and reduced poverty.**

Though FSDs' outcome and impact statements are articulated very differently, they largely align with the above generic, high-level ToC.

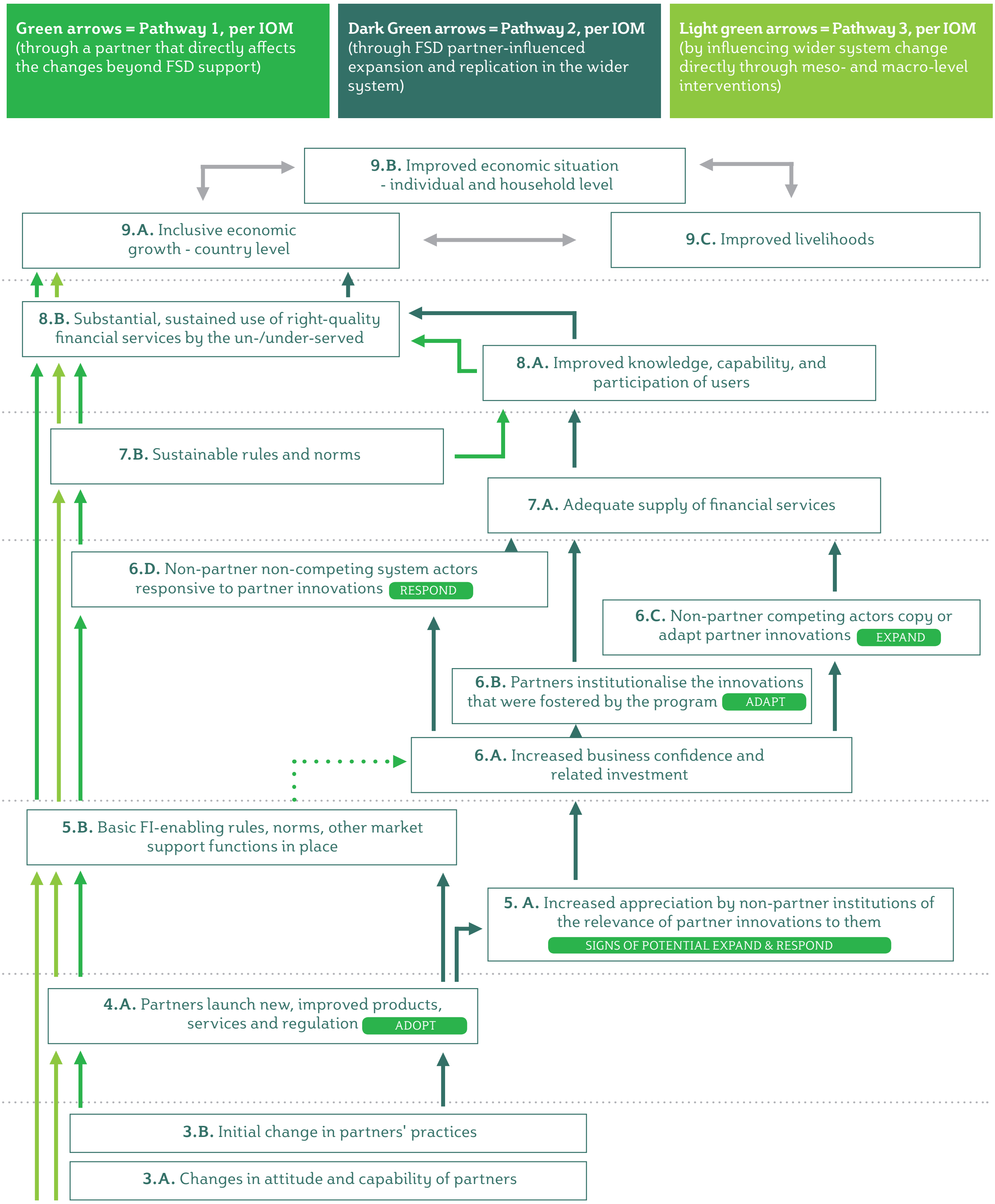
To achieve these common outcomes and impacts, FSDs select from three main pathways to reach the desired FSD outcomes and impacts:

1. Through a partner that directly effects the changes beyond initial FSD support
2. Through FSD partner-influenced expansion and replication in the wider system
3. By influencing wider system change directly through its macro- and meso-level interventions.

To align with the Compendium of FSD Indicators, this VfM Framework, uses the Unitary ToC detailed in the Compendium. It is reproduced here, with further boxes added, indicating how the different levels of the VfM framework are related to the Unitary ToC (Figure 4 below).

Figure 4: FSD Unitary ToC with VfM criteria added

TOC level	Result Statement Box # Per IoM's Generic Expanded ToC	Sub-Theme of Result Area
Impact/Development outcomes Improved economies and lives	**BOX 9** Changes in poverty levels and economic growth	**9.C.** Improved livelihoods
		9.B. Improved economic situation - individual and household level
		9.A. Inclusive economic growth - country level
Financial sector outcomes Core supply and demand reflecting a well-functioning, inclusive financial system	**BOX 8** Changes in the level and type of access and use of sustainable financial services (demand side)	**8.B.** Substantial, sustained use of right-quality financial services by the un-/under-served
		8.A. Improved knowledge, capability, and participation of users
	BOX 7 Changes in the level and type of provision of sustainable financial services (supply side)	**7.B.** Sustainable rules and norms
		7.A. Adequate supply of financial services
Market system outcomes Broader market changes - changes in underlying market dynamics and market actor behavior -Changes in market forms	**BOX 6** Changes in behaviour of market actors beyond the FSD program (FSD and non-FSD partners)	**6.D.** Non-partner non-competing system actors responsive to partner innovations RESPOND
		6.C. Non-partner competing actors copy or adapt partner innovations EXPAND
		6.B. Partners institutionalise the innovations that were fostered by the program ADAPT
		6.A. Increased business confidence and related investment
	BOX 5 Market system changed (i.e., the underlying dynamics)	**5.B.** Basic FI-enabling rules, norms, other market support functions in place
		5.A. Increased appreciation by non-partner institutions of the relevance of partner innovations to them SIGNS OF POTENTIAL EXPAND & RESPOND
	BOX 4 Market forms changed as result of FSD activities (e.g., new laws, products, to ease market constraints)	**4.A.** Partners launch new, improved products, services and regulation ADOPT
Initial outcomes Changes in FSD partners	**BOX 3** Change on the part of FSD partners	**3.B.** Initial change in partners' practices
		3.A. Changes in attitude and capability of partners
Output	**BOX 2** FSD activities (developing reports, working with partners, etc.)	
Input	**BOX 1** FSD inputs (grants, TA, loans, etc.)	



Adapted from Compendium of FSD Indicators

When defining the Four Es and cost-effectiveness for the FSD VfM framework:

Economy	Efficiency	Effectiveness	Cost-effectiveness	Equity

Economy refers to the use of resources to procure inputs (such as consultants and office space) – box 1 of the Unitary ToC.

Efficiency focuses on FSD activities and direct outputs (such as reports, working with institutions, etc.) – box 2 of the Unitary ToC.

Effectiveness covers the lower to middle section of the outcome hierarchy, starting with behaviour change on the part of FSD partners (box 3) and progressing through changes in market forms (box 4), market systems (box 5) and behaviours of market actors (box 6).

Cost-effectiveness focuses on the relationship between resources and the higher-level outcomes and impacts in boxes 7-9. These outcomes may include both tangible (readily valued in monetary terms) and intangible (essentially non-monetary) aspects. The core principle underlying the cost-effectiveness criterion is that the programme creates more value than it consumes, or that sufficient – and sufficiently valuable – outcomes are achieved to justify the investment.

Equity relates to a number of factors such as a focus on equal opportunities for, and treatment of marginalised groups such as women and girls, poorer segments of society, and those living and working in more remote areas, and people with disabilities; it spans the full ToC, with a particular focus on higher level financial inclusion outcomes, but also considering what is being done at lower levels of the ToC specifically to target financial inclusion.

MRM activity will support good VfM assessment because much of the same evidence, collected along the results chain, is used to support VfM assessment, with the addition of cost data. IOM focuses on both how and why financial sector change occurs at every step of the ToC – changes that are relevant at the effectiveness, cost-effectiveness and equity levels of the VfM framework. It also provides the basis for theory-based contribution analysis, in order to verify that observed changes in the financial market can be traced back (at least in part) to FSDs' interventions.

4.2. STEPS 2-3 • Criteria and standards

The complex, multi-faceted nature of FSDs means that their performance should not be judged solely on the basis of indicators, devoid from any qualitative information and evaluative judgement. Well-reasoned, contextually-nuanced judgements of the quality and value of results are required. Criteria and standards provide an agreed basis for interpreting the results and arriving at sound judgements (King & OPM, 2018).

Criteria and standards are developed by elaborating upon key inputs, outputs and outcomes from the ToC. Section 5 sets out the criteria and standards for FSDs.

Criteria are the selected dimensions of performance that are relevant to FSDs – that is, programme-specific definitions of economy, efficiency, effectiveness, cost-effectiveness, and equity. The criteria describe at a broad level, the aspects of performance that need to be evidenced to support an evaluative judgement about VfM (King & OPM, 2018).

In order to support sound judgements, it is also important to establish sub-criteria: the specific dimensions or aspects of economy, efficiency, etc., that will be examined to support a well-considered judgement (King & OPM, 2018).

Standards provide defined levels for each criterion (excellent, good, adequate, and poor). They articulate what the evidence would look like at different levels of performance (Davidson, 2014).

Criteria and standards are presented in tables called rubrics. The use of rubrics provides a transparent basis for making judgements about the VfM of FSDs. As a result, the VfM assessment, and the evidence and performance framework on which it is based, are all open to scrutiny, traceable, and challengeable (King & OPM, 2018).

It is important to note that criteria and standards are quite distinct from indicators in that they describe relevant aspects of performance with respect to their intended functioning and effects, but do not specify how they should be measured. While indicators are specific and measurable, criteria describe the nature of what is intended, and these descriptions are deliberately broad and less specific, reflecting their purpose of facilitating transparent, meaningful evaluative judgements (King & OPM, 2018).

4.3. STEP 4 • Determining evidence required to support judgements

In a logical and sequential process of evaluation design, it is only after clarifying criteria and standards that the appropriate sources of evidence can be identified. The preceding steps are important to help ensure the evidence is relevant to the VfM assessment, measures the right changes, and is appropriately nuanced (King & OPM, 2018).

At this stage in the evaluation design process it often becomes obvious that some of the evidence needed to support evaluative judgements may well be qualitative. Indicator-based measurement makes a valuable contribution to evaluating performance and VfM. Indicators alone, however, may be insufficient to support well-reasoned judgements. Indicators are by their very nature narrow, providing individual pieces of measurable evidence that correlate with the VfM criteria. Broader contextual evidence is also important, to provide further information about performance and support valid interpretation of indicators. This is one key area where differences between FSDs are likely to be found (King & OPM, 2018).

When determining evidence sources for FSDs, the VfM approach should be aligned with existing FSD frameworks – in particular, IOM and the Compendium of Indicators. Additionally, economic analysis could be undertaken to contribute to judgements about efficiency and cost-effectiveness – where feasible and appropriate. An example of possible economic evidence in this context was highlighted by OPM's work in assessing VfM for FSD Kenya. This demonstrated how the value of increased savings far outweighed the cost of the programme that contributed to those increases.

In our review of FSDs' MRM frameworks, we were struck more by the diversity of measures in place than by their similarities. At the most abstract level they are similar in that all FSDs are interested, for example, in measuring 'improved access' – however, there is wide variation in what specific improvements in access are being targeted, and correspondingly in how these are measured.

The Compendium of Indicators responds to this diversity by providing a menu of metrics (sourced from FSDs' own indicators, among other sources) from which FSDs can select the most applicable indicators – including metrics that can be used as part of a VfM assessment. The Compendium also offers some guidance on how to decide which indicators to use. In so doing, it is hoped that the Compendium may help to drive some convergence in results metrics – but important differences will remain, reflecting the diversity in FSDs' priorities, strategies and interventions.

Bearing in mind, therefore, that FSDs will select their own VfM indicators, the VfM framework offers guidance in considering which indicators to use for VfM assessment. At a broad level it is anticipated that core evidence will come from the following sources:

- FSD programme financial data and independent audits
- Outcome and output indicator tracking data, with indicator selection informed by the Compendium of Indicators, IOM Guidance, and/or other sources as relevant (such as workplans or logframes)
- Narrative prepared as part of the VfM assessment – drawing on secondary sources as needed (for example, FSD annual/quarterly reports, MRM reports, stakeholder feedback on FSD activities, outcome narrative as detailed in the VfM Guide).

4.3. STEPS 5-8 • Carrying out the VfM assessment

The steps above outline the approach to developing the VfM framework – the first four steps in Figure 2. The following paragraphs outline the subsequent four steps when using the VfM framework to carry out a VfM assessment.

The VfM Guide, which accompanies this document, sets out a process for gathering evidence, analysing the evidence, conducting synthesis of the multiple streams of evidence, making judgements, and preparing a VfM report. These steps should be undertaken sequentially, as follows:

Steps to follow:

1. **Collect and collate the quantitative and qualitative evidence** required to support the VfM assessment, grouping the evidence according to which part of the VfM framework it addresses (economy, efficiency, effectiveness, cost-effectiveness, and equity). The VfM Guide provides a series of templates to coordinate this process.
2. **Analyse each stream of evidence** separately to identify individual findings and themes; briefly summarise findings in relation to each of the Four Es and cost-effectiveness.
3. **Synthesise the different streams of evidence** to reach a judgement about the level of performance for each 'E' – that is, does the evidence meet the definition of excellent, good, adequate or poor performance? Are there particular strengths/weaknesses against individual sub-criteria?
4. **Synthesise the judgements** across the Four Es and cost-effectiveness to reach a judgement about VfM overall.
5. **Prepare a short VfM report**

King & OPM, 2018

A suggested reporting template is provided with the VfM Guide and can be modified as required. The analytic and reporting structure emphasises clarity and brevity. A good evaluation report:

- **Tells a compelling performance story,** focused on and structured around the aspects of performance that matter (the criteria) and presenting a clear judgement about the level of performance (the standards)
- **Gives clear answers to important questions** – by getting straight to the point, presenting transparent evidence, as well as being transparent about the basis upon which judgements are made (McKegg et al., 2017).

Accordingly, VfM reports should be structured around the overarching VfM criteria (the 4Es), addressing each 'E' systematically in turn. The first page of the report should present a summary of findings (for example, a dashboard). The report should then present each 'E' sequentially, and for each:

- The judgement (excellent, good, adequate, or poor)
- A brief summary of the evidence that supports the judgement, alongside the criteria and standards so that it is clear how the judgement was made
- Cross-references to any additional evidence (such as evidence already presented elsewhere, annual reports or logframe assessments), in order to minimise duplication (King & OPM, 2018).

4.4.1. Who should make the judgements?

Judgements can be made by an FSD's management, MRM staff, DFID senior responsible owners, other funders, independent evaluators, or some combination of these. As the judgements (and the criteria, standards and evidence upon which they are based) are open to scrutiny, the initial judgements can be validated, contextualised and challenged by funders and other stakeholders.

Our recommendation is that FSD, donor and independent perspectives are all important and will add value to the process. It is important to have an independent view on these judgements, but supported by the in-depth contextual and evidence base that can only come from FSDs, as well as the perspectives of funders. A preferred forum is therefore a joint meeting or workshop facilitated by independent evaluators.

The judgement-making process can be viewed as an opportunity for FSDs to engage with donors in reviewing the evidence and judging performance and VfM against the agreed criteria and standards. The general approach in this type of workshop is to present the evidence (the 'what's so') and a first-cut of the synthesis to participants and facilitate a process of collective sense-making. The purpose of this process is to reach a shared understanding about what the findings mean and the level of VfM to which the evidence points (the 'so what'). Throughout this process, the criteria and standards provide a focal point and a framework for systematically considering the evidence and making judgements. Realistically, it may take an FSD and its donors to go through this process several times before feeling comfortable with the way the VfM assessment system works, the results it throws up and how they help improve an FSD's performance.

4.4.2. A few notes on making evaluative judgements

The process of making judgements can feel a little unfamiliar to anybody trained in an academic research discipline, because it involves using evidence in a new way: comparing the evidence to the criteria and standards and being deliberative about what level of performance it points to. An evaluative judgement cannot be made by an algorithm: it involves weighing multiple pieces of evidence – some of which may be ambiguous or contradictory – guided by the criteria and standards, to make transparent and defensible judgements with clear rationale (King & OPM, 2018).

In some cases, different streams of evidence may point to aspects of performance at more than one level of a rubric. This is normal. The key question to ask is, where does our centre of gravity sit overall? If in doubt, choose the lower of two levels. You can always include a qualifying statement – for example, "the evidence indicates that the programme meets nearly all of the criteria for excellent efficiency, but is held back by one important issue that needs to be addressed; therefore, a judgement of good efficiency has been reached."

4.4.3. Contribution analysis

IOM guidance noted the challenges in attributing outcomes and impacts to complex market change interventions – especially for macro-level interventions such as those that aim to affect markets through improved policy and regulation where it is particularly difficult to distinguish FSD influences from other factors; where progress is non-linear; and where it may take a long time for results of reforms to be fully realised.

The IOM project recognised that experimental and quasi-experimental techniques (such as randomised controlled trials) can be expensive, require specialised expertise and answer only specific questions at intervention level (and are much less appropriate to programme level assessment). Consequently, a core principle of IOM guidance was to establish plausible attribution through the results chain and the need to adopt practical solutions to measurement changes. IOM adopted the key test of whether the approach taken by the programme "would convince a reasonable but sceptical observer" (DCED, 2016; IOM, 2015: technical note – FAQs).

For this VfM framework it is anticipated that a form of contribution analysis is likely to be adopted, consistent with that outlined in the IOM guidance.[4] In brief, the steps involved in contribution analysis are:

1. Specifying the intended activities, outputs, results and outcomes in a programme-level ToC or intervention-level results-chain
2. Collecting evidence along the ToC (for example, evidence of: delivery; short-term outcomes; medium-term outcomes) to conceptually link the outcomes observed to FSD activities and outputs
3. Considering alternative explanations for attribution (such as another programme, or a general shift in the market)
4. Presenting a conclusion about the FSD's contribution based on a logical, transparent argument (King & OPM, 2018).

When considering alternative explanations (step 3 above), the following framework of five economic considerations, adapted from the Social Return on Investment Guide (Nicholls et al., 2012) and the economic concept of additionality, offers a systematic way of assessing contribution to outcomes. This framework (Table 1) can facilitate a structured, judgement-based approach to considering the plausible contribution of FSDs which helps avoid over-claiming their impact.

[4] In particular, see IOM (2015) Technical Note: IOM for FSD macro-level interventions; and IOM (2015) Technical Note: Methods for undertaking causality analysis.

Table 1: Five considerations to support contribution analysis

Factor	How did FSD add value? What would be different without the FSD contribution?
Deadweight	What would have happened without any intervention?
Shared effects	Were there other (non-FSD) interventions/ programmes that also influenced changes?
Losses through displacement, substitution, leakage or negative externalities	Did FSD interventions divert human resources from other relevant work, reduce outputs or outcomes elsewhere, benefit people outside the intended target groups/ areas, or have negative side-effects or costs for other parties?
Gains through positive externalities or multiplier effects	Are there verifiable second-round benefits that should be taken into account, e.g., increased investment or consumption as a result of improved market systems?
Sustainability	Do you expect results to increase or drop off over time? Why?

4.4.4. Complexity and Emergent Strategy

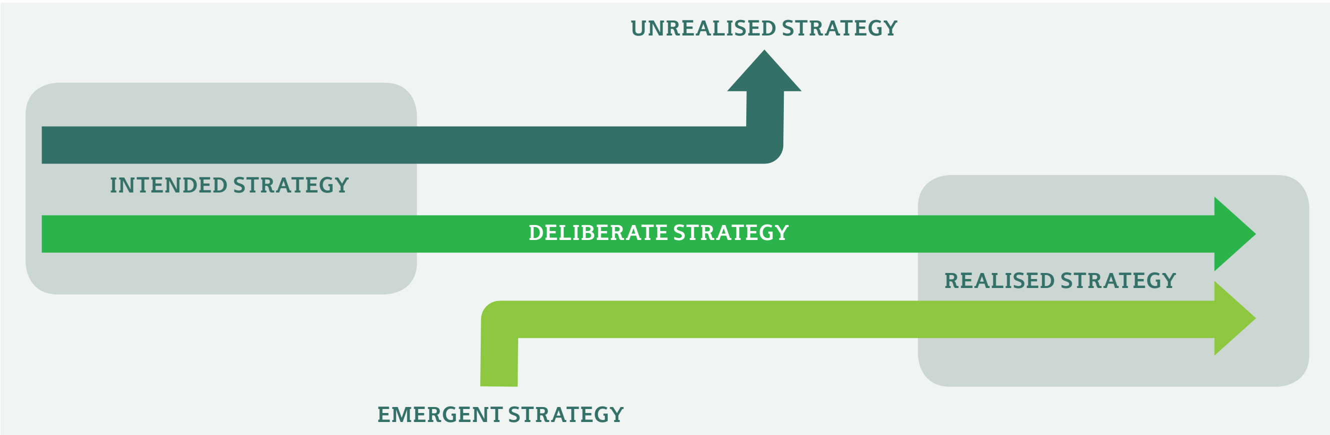
FSDs are complex programmes, working in complex political and market contexts. This influences the way we need to look at VfM. It would be inappropriate to draw simple links between activities and outcomes, without due consideration of the complexity of FSDs and the context in which they operate.

There is a body of literature on how complexity approaches differ from more linear management approaches (Olson & Eoyang, 2001). For example, in an FSD context:

- The financial sector comprises multiple actors and the behaviour of the system can be unpredictable and uncontrollable (rather than stable, predictable and controllable)
- Direction-setting, when attempting to bring about system change, requires participatory approaches, often with multiple stakeholders (rather than taking a top-down, directive approach)
- Causality tends to be non-linear, with multiple variables and inter-relationships (rather than being linear with every effect traceable to a specific cause).
- Responsiveness to the environment is an important measure of value (with simple concepts of input-output efficiency and reliability being less relevant) (King & OPM, 2018).[5]

Accordingly, FSDs must be responsive to the evolving context of the financial services sector. There will be some aspects of strategy that are planned ('intended strategy') but do not take place due to the evolving context ('unrealised strategy'). At the same time new approaches ('emergent strategy') will be adopted. Valid judgements about VfM will need to recognise this feature of FSDs, determine whether adaptive management is occurring and is effective, and account for unrealised and emergent strategy (King & OPM, 2018). This is illustrated below in Figure 5.

Figure 5: Emergent Strategy



Source: King & OPM (2018) based on Mintzberg and Waters (1985)

[5] Judy Oakden (2017) – personal communication.

4.4.5. Limitations and trade-offs

Proportionality When applying this approach to different programmes and contexts, consideration should be given to proportionality. The cost of conducting the assessment should be proportionate to the value of the information it provides. FSDA and FSD network partners requested a minimalistic, low-burden approach to VfM assessment and reporting. At the same time, there is a minimum level of effort required to ensure the VfM assessment provides evidence and conclusions that are credible (King & OPM, 2018).

The use of criteria and standards to guide evaluative judgements can be tailored to available resources for conducting VfM assessments; the reasoning process remains the same, while the content and comprehensiveness of evidence can be varied according to circumstances (King & OPM, 2018). For example, as noted earlier, this framework takes a funder perspective to VfM assessment, but it would be a worthwhile extension to include sector and beneficiary perspectives as well.

Capacity and access to data The first VfM assessment using this process is likely to involve an investment of time (for VfM design, data gathering, analysis, synthesis, judgement-making and report writing). However, it is often found that subsequent assessments can be undertaken more rapidly as they would involve reviewing and updating aspects of the previous VfM assessment.

In particular, this approach may be challenging to apply in a programme where monitoring and project management systems are developing. The use of this framework may expose gaps in existing data, which FSDs can progressively address to strengthen future VfM assessments. FSDs should be encouraged to be transparent about any such data gaps and outline their intended actions to address them. If there is insufficient evidence to inform a sound judgement against any of the VfM criteria, this should also be reported transparently.

Consistency and comparability of VfM assessments This VfM framework supports consistency of VfM assessments in terms of the reporting structure and the criteria and standards used. When developing rubrics to guide evaluative judgements, there is a trade-off between making the criteria specific enough to relate meaningfully to the FSD context, yet general enough to work across the diversity of FSD contexts. This framework is intended primarily to support VfM assessment within FSDs, rather than comparison between FSDs.

The specific detail of what is measured, and how it is measured, will necessarily vary between FSDs. Therefore, any inter-FSD comparisons should be undertaken with caution and with due attention to variations in context, to guard against making invalid comparisons. Nonetheless, the use of a more consistent approach to VfM assessment may present opportunities for FSDs to explore the feasibility and validity of collecting and progressively clarifying benchmark information on some key indicators.

Perceived 'subjectivity' The use of criteria and standards to make judgements about performance from the evidence may be perceived by some stakeholders as being 'too subjective' or 'less robust' than a purely measurement-based system. This is incorrect. Two separate issues need to be understood: evaluative reasoning, and evaluation methods:

- Evaluative reasoning is the means by which judgements are made. The purpose of rubrics is to set out an explicit and agreed set of criteria (aspects of performance) and standards (levels of performance), defined in advance of the VFM assessment. This guards against personal subjectivity in judgements, because the evidence, and the basis for interpreting it, are made transparent and challengeable. It would be more correct to describe a rubric as inter-subjective – that is, it is an agreed construct used by a group of people for an agreed purpose. A bank account, for example, is also an inter-subjective construct; it is not a physical entity and only exists through an agreed set of social rules. Rubrics and bank accounts are similarly real and verifiable (King, 2018).
- Evaluation methods are the means by which evidence is gathered. Quantitative (numeric) and qualitative (narrative) sources of evidence are both important and are often best used together in evaluation. It would be incorrect to state that quantitative data is objective and qualitative data is subjective. Both forms of evidence can be used objectively or subjectively. For example, the selection of indicators in logframes can be highly subjective, as can the interpretation of the indicator data (King, 2018).

The use of rubrics supports clear evaluative reasoning and unbiased use of mixed methods evidence. It is not in competition with indicator data – rather the VFM framework supports good use of indicators. Evidence (whether quantitative or qualitative) should only be used where it is relevant to the agreed criteria and standards and provides valid information to support sound judgements (King, 2018).

5. VfM criteria, standards and evidence sources

This section sets out criteria and standards ('rubrics') for a VfM framework for FSDs. These rubrics set out a transparent basis for evaluating VfM in a broadly consistent manner across FSDs and across time, while allowing for a realistic and practical degree of variation in the indicators and other evidence that support those assessments, reflecting the diversity and evolution of FSDs.

The complex, multi-faceted nature of FSDs means that their performance should not be judged solely on the basis of indicators, devoid from qualitative information and any evaluative judgement. Well-reasoned and contextually-nuanced judgements of the quality and value of results are required. Criteria and standards provide an agreed basis for interpreting the results and arriving at sound judgements (King & OPM, 2018).

Each time VfM is assessed, judgements will first be made against the criteria individually (that is, economy, efficiency, effectiveness, cost-effectiveness, and equity), and then overall VfM will be assessed for the five criteria collectively (King & OPM, 2018).

For each criterion, the framework provides:

- A definition
- A set of sub-criteria (dimensions of performance)
- A set of standards (levels of performance)
- A summary of the types of evidence (indicators and narrative) that may be used to support judgements. The use of mixed methods and data sources and types, and triangulation across findings, will help to extend the comprehensiveness of the assessment (breadth and depth of understanding) and enhance the credibility and validity of the assessment.

5.1. Economy

According to DFID (2011) economy is concerned with the cost and value of inputs:

Are we or our agents buying inputs of the appropriate quality at the right price? (Inputs include things such as staff, consultants, raw materials and capital that are used to produce outputs.) (DFID, 2011, p.4)

This overarching definition is the highest-level description of the concept to be evaluated. When a performance rating (for example, excellent, good, adequate, or poor) is made for economy, it is this overarching statement to which the rating will apply. In order to support sound judgements, however, it is also important to establish sub-criteria: the specific dimensions or aspects of efficiency that will be examined to support a well-considered judgement.

The following definition of economy will be used in FSD VfM assessment:

Economy criterion: the [name of FSD programme] team manages programme resources economically, buying inputs of the appropriate quality at the right price.

Sub-criteria

The FSD economy sub-criteria are:

- Verifiably following good practices with regard to managing key economy drivers such as consultants, procurement, administrative overheads, fiduciary risk management, and economies of scale
- Results of good cost management, such as partner contributions secured (monetary, pro bono and/or resources in-kind) and/or value secured through effective contract negotiation/management
- Performing well relative to agreed benchmarks for significant inputs (these may vary by FSD but could include, for example, overheads, consultants and/

or flights). As noted below, the choice of indicators and benchmarks needs careful consideration and definition. If meaningful indicators and benchmarks cannot be identified, this criterion should be omitted from the VfM assessment.

Critically, lower-level efficiency, and in particular economy, are neither necessary nor sufficient conditions for effectiveness or cost-effectiveness. Economy calculations at lower levels of the results chain may be easier to measure than effectiveness and can be useful for programme management. However, they need to be treated with care as they can easily introduce a bias toward cost-cutting rather than value-maximisation. For example, using lower-cost staff may result in economy savings at the input level, but potentially might lead to efficiency losses if, for example, those staff provide lower quality outputs in the allotted time (King & OPM, 2018).

FSDs should seek to maximise their outcomes and impacts and determine an optimal level of input resources to achieve this. Potentially, this includes identifying opportunities to invest a little more in order to gain a disproportionate gain in VfM. Programme managers should maintain a line of sight on achieving efficiency at the highest possible levels of the results chain as this is a key factor in judgements about whether a programme represents VfM.[6] Statements on VfM which rely on indicators at lower levels, as may be the case in the early stages of programme implementation when outputs and outcomes have not yet been delivered, need to be duly qualified (King & OPM, 2018).

FSD performance standards for economy are presented in Rubric 1 (below). The standards provide defined levels of performance based on the sub-criteria. They articulate what the evidence would look like at different levels of performance (Davidson, 2014).

Rubrics make explicit the basis upon which evaluative judgements will be made. For example, the following standards identify programme-specific criteria that are essential to a 'pass' (that is, the 'adequate' level in the rubric below), as well as an unambiguous statement that the absence of any of these conditions would represent a 'fail' in terms of VfM (that is, the 'poor' level). By having a clear boundary between what is 'good enough' and 'not good enough' we can avoid any perception that it is too easy to 'pass' a VfM assessment by fudging. The judgement, and the criteria, standards and evidence upon which it is based, are all open to scrutiny and are challengeable (King & OPM, 2018).

As can be seen from Rubric 1 below, criteria are quite different from indicators in that they describe relevant aspects of performance with respect to their intended functioning and effects, but do not specify how they should be measured. While indicators are specific and measurable, criteria describe the nature of what is intended, and these descriptions are deliberately broad and less specific, reflecting their purpose of facilitating transparent, meaningful evaluative judgements. (King & OPM, 2018).

Rubric 1: Performance standards for Economy

Performance	Criteria
Excellent	Maximising value from consultants or other significant inputs, for example, employing local consultants where appropriate to enhance the quality of the programme through local knowledge and connections and to avoid unnecessary cost of international consultants; having international consultants mentor local staff thereby enabling gradual withdrawal of higher-cost support.[7] And meets all criteria under 'good' performance.
Good	Unit costs for significant inputs meet agreed benchmarks.[8] FSD team can demonstrate results of good resource management, such as partner contributions (monetary, pro-bono and resources in-kind); value secured through contract negotiation/management. And meets all criteria under 'adequate' performance.

[6] The Independent Commission for Aid Impact (ICAI, 2011) reached a similar conclusion: "In our view: effectiveness involves achieving a sustained impact for intended beneficiaries, and value for money is the best use of resources to deliver the desired impact".

[7] Note: This might end up costing somewhat more in the short term because of the need to pay international consultants to focus some of their time on developing local counterparts. Over time, however, this should yield greater economies, provided knowledge transfer is effective and local consultants end up performing as efficiently as their international counterparts.

Performance	Criteria
Adequate	Unit costs for significant inputs do not consistently or materially exceed agreed benchmarks. FSD team verifiably follows good practices to manage key economy drivers* (consultants, procurement, administrative overheads, fiduciary risk management, and economies of scale).
Poor	Any of the conditions for 'adequate' not met.

Note that the time horizon for assessment of economy is the period since the last VfM assessment. Economy performance can be updated and tracked over time.

* Footnote to the standards for economy: The following five key economy drivers and associated good practices will be assessed:

Consultant selection, recruitment and fee setting:
- Processes in place to drive quality service delivery and VfM through consultant procurement processes, pipeline management, and management of service delivery contracts
- A robust benchmarking methodology is employed, encompassing historical fee rates and including analysis of any mitigating factors (e.g., currency fluctuations, inflation and local cost of living)
- Local consultants are used where local skills are available
- Daily subsistence allowances reflect the actual cost of suitable hotels and meals
- Efforts are taken to minimise the cost of flights, but without imposing unreasonable travel times or lay-overs.

Procurement and benchmarking:
- Robust procurement policies and processes are in place and learning from experiences of other FSDs.

Administration and overheads management:
- Efforts have been made to keep administrative and overhead costs to reasonable levels
- Economies of scale are being sought to reduce overhead costs (e.g., shared office space where feasible and appropriate).

Fiduciary risk management:
- The programme has effective management of its financial and other risks, including appropriate authorisation limits and clear approval processes
- Responsibilities within the team are clear, with a clear separation of duties
- Controls are evaluated on a regular basis to ensure fitness-for-purpose.

Economies of scale:
- Where feasible and appropriate, the FSD team leverages economies of scale with other programmes, for example by sharing tools and know-how across the FSD network.

Building on the economy standards above, the following evidence of economy (indicators and narrative) are likely to be needed:

- Average costs for significant inputs (for example, programme management costs as % of total operating costs, salary costs as % of total operating costs, average daily cost of consultants [national/international], average cost per flight [international/national/regional], average daily cost of accommodation and per diems) compared to benchmarks sourced from contract/proposal or as otherwise agreed with an FSD's governing body, together with brief narrative context/explanation
- Narrative highlighting a few (for example, 3-4) leading examples of results of good cost management, such as partner contributions and/or savings secured
- Narrative verifying how the FSD team follows good practices to manage the economy drivers and maximise value from key inputs such as consultants
- Narrative (if necessary) to explain how equity-related considerations (such as choice of target groups) might affect costs, and explaining how different groups may be more/less costly to reach.

[8] It is suggested that all FSDs report on the same set of indicators in order to accumulate data for trend analysis across the FSD network (refer to Template 2 in the VFM guide for details). However, only those indicators that have a clear benchmark should contribute to judgements. The choice of indicators and benchmarks should be relevant to the individual FSD, needs careful consideration and definition, acknowledgement by governing bodies that this may need reviewing over time, and that the actual performance of an FSD is likely to depend on its maturity and context.

5.2. Efficiency

DFID's definition of efficiency is focused on the relationship between inputs and outputs (that is, technical efficiency):

How well do we or our agents convert inputs into outputs? (DFID, 2011, p.4)

In keeping with the generic FSD theory of change provided in the IOM document, this definition makes a clear distinction between outputs (for example, the FSD products or deliverables from activities such as policy/ regulatory advice, technical assistance, capacity building, research, or awareness raising, which are the focus of the efficiency criterion) and outcomes and impacts (which are examined under effectiveness and cost-effectiveness respectively).

It is worth noting that in DFID logframes, some of the indicators that may be labelled 'output indicators' are actually lower-level outcomes. For the purposes of VfM assessment, and in keeping with IOM guidance and general good M&E practice, an output indicator is one that focuses on interventions and products directly delivered by FSDs and fully within their control, whereas the distinguishing feature of a lower-level outcome is that it involves some action or behaviour on the part of a market actor or other stakeholder, after the delivery of an output, and is within the influence, but not the direct control, of FSDs. If, after moving relevant logframe outputs to intermediate outcome level, you are unsure what indicators to use for efficiency, remember that the key is to address the efficiency sub-criteria and standards (below) which can be done on the basis of workplans rather than logframe outputs.

This definition of efficiency also reflects an expectation that FSDs will produce a specified set of deliverables within a fixed budget and that there is no expectation that they deliver below budget – for example, any 'savings' would be reinvested in maximising the performance of the programme.

DFID's definition of efficiency implies a focus on 'technical efficiency' – maximising outputs for a given level of input. In the FSD context, a broader interpretation is recommended, accommodating not only technical efficiency but also 'allocative efficiency' (the right mix of interventions to maximise outcomes and impact) and 'adaptive management' (being responsive to evolving political economy and learning about 'what works') (King & OPM, 2018).

The following efficiency criterion will be used in FSD VfM assessment:

Efficiency criterion: the [name of FSD programme] produces the intended quality and quantity of outputs, within the available resources.

Sub-criteria

The FSD efficiency sub-criteria are:

- Following good practice to manage key efficiency cost drivers (project management; consultant management; and the selection, management and facilitation of partnerships)
- Delivery of outputs according to workplans (of the required quality, on time and within budget, allowing for emergent strategy – for example, changes to deliverables agreed in advance with FSD governing bodies or donors)
- A balanced portfolio in which the outputs delivered are linked to all intended outcomes (demonstrating a credible prospect of being able to achieve all intended outcomes on the basis of outputs delivered to date); the right interventions are selected to deliver a high return in relation to the FSD's objectives.

Performance standards for efficiency are set out in Rubric 2.

Rubric 2: Performance standards for Efficiency

Performance	Criteria
Excellent	Milestones for the year met or exceeded with regard to outputs delivered and/or quality and/or timeliness, within allocated budget (allowing for emergent strategy). The implemented interventions demonstrate potential to deliver a high return in relation to the FSD's objectives. And meets all criteria under 'good' performance.
Good	Milestones for the year generally met with regard to outputs delivered and/or quality and/or timeliness, within allocated budget ('generally met' means around three-quarters or more of the projects are on track, allowing for emergent strategy – e.g., changes to deliverables agreed in advance with FSD governing bodies or donors). The mix of interventions and outputs delivered is linked to all intended outcome areas through the ToC or results chain (demonstrating a credible prospect of being able to achieve all intended outcomes, on the basis of delivery to date). And meets all criteria under 'adequate' performance.
Adequate	Although not meeting all milestones, the overall work programme is showing acceptable progress, bearing in mind the delivery climate. In particular, slippages do not represent a significant risk to overall programme delivery. FSD team verifiably follows good practices to manage the key efficiency drivers (project management; consultant management; and the selection, management and facilitation of partnerships).
Poor	Any of the criteria for 'adequate' not met.

Note that the time horizon for assessment of efficiency is the period since the last VfM assessment. Efficiency performance can be updated and tracked over time.

* Footnote to efficiency standards: The following efficiency drivers and associated good practices will be assessed:

Project management:
- All projects have annual and quarterly work plans and budgets
- Work plans and budgets are monitored on a regular basis, with action taken to address significant positive or negative variance in spend and delivery.

Consultant management:
- Well-crafted terms of reference which allow consultants to perform as well as possible, while being effectively supported by an FSD, partners, or both
- Core team members are fully aware of their roles and responsibilities
- Core team members have key performance indicators
- Consultants are given appropriate logistical and strategic support for effectively executing their duties.

Partner selection, management and facilitation:
- Project proposals clearly outline sustainability and exit plans
- There is an effective process for identifying and selecting partners, and an effective partner diagnostic process is employed to identify the constraints and incentives facing each partner
- Each partner has a clear FSD counterpart who communicates regularly and effectively with the partner and has a good level of trust with the partner
- The MRM system provides regular feedback on how effectively partnerships are working (or not working).

The following evidence of efficiency will be used:

- Brief narrative evidence of actual versus planned output delivery, supported by a tabular summary or checklist of deliverables, highlighting deliverables exceeded/met/not met, and emergent strategy. This can be kept succinct by referencing the outcome narratives (see VfM Guide)
- Evidence of interventions being delivered within budget (for example, variance report showing budget and actual spend on each intervention)
- Evidence of interventions' potential to deliver a high return in relation to the FSD's objectives (see example provided in section 5.2.1 below)
- Evidence that the mix of interventions, and outputs delivered, are linked to all of the intended outcome areas (for example, the FSD has a credible prospect of being able to achieve all of its intended outcomes on the basis of outputs delivered to date)
- Narrative describing how the FSD follows good practices to manage the key efficiency drivers.

Note that although efficiency indicators of cost-per-output could be calculated, these are unlikely to provide meaningful data to support judgements, in the absence of appropriate benchmarks. Such measures are more likely to have some relevance in programmes directly delivering aid (for example, cost per child vaccinated), than in programmes that deliver outputs such as knowledge products, capacity building and policy reform.

5.2.1. Assessing potential of interventions to deliver a high return

The following tool (Rubric 3) provides an example of a systematic approach that could be used to assess interventions' potential to deliver a high return in relation to FSDs' objectives. It cannot be expected that interventions would necessarily meet all criteria for 'very high' in order to be considered worthwhile; on the other hand, it would represent poor VfM if interventions were often scoring 'low' on several dimensions.

Rubric 3: Assessing potential of interventions

Priority	Relevance	Significance of market issue	Likelihood of success	Impact if successful
Very high	Project is very well aligned with one or more programme objectives and fully meets all FSD investment criteria.	Issue/problem is a major and critical barrier to financial sector development and financial inclusion and/or is critically important to the success of the FSD's overall strategy: without successful intervention, other critical parts of the strategy will not be able to proceed.	The likelihood of this project having its intended impact is considered to be very high relative to alternative use of the project resources.	If successful, the project stands to have a profound impact on addressing the issue/problem relative to alternative use of the project resources.
High	Project is reasonably well aligned with one or more programme objectives and generally meets FSD investment criteria, allowing for a few minor issues.	Issue/problem is a substantial barrier to financial sector development and financial inclusion and/or is important to the success of the FSD's overall strategy: without successful intervention, it would be more difficult for other critical parts of the strategy to be successful.	The likelihood of this project having its intended impact is considered to be moderately high relative to alternative use of the project resources.	If successful, the project stands to have a fairly significant impact on addressing the issue/ problem relative to alternative use of the project resources.

Priority	Relevance	Significance of market issue	Likelihood of success	Impact if successful
Low	Project is tangentially but defensibly aligned with programme objectives and/ or meets FSD investment criteria to a minimally acceptable degree.	Issue/problem is a reasonably important barrier to financial sector development and financial inclusion and no other parts of the FSD strategy are critically dependent on the success of this intervention.	Success or partial success, though uncertain, is achievable enough to warrant consideration.	If successful, the project will have a modest but worthwhile impact on addressing the issue/problem.
Unsuitable	Project is poorly aligned or not aligned with programme objectives.	Issue/problem is relatively minor in the wider context of other barriers to financial sector development and financial inclusion.	Success is highly unlikely.	Even if successful, the project would only make a small difference to the issue/ problem.

It is worth noting that not all proposed interventions will fit into a given row in the matrix above. For instance, some may have high relevance, but a low probability of success (or complete success) due to external factors outside an FSD's control. However, an FSD and its decision-makers may still deem it worthwhile to proceed with that intervention given its importance in contributing to the elimination of a key market barrier. FSDs are inherently risk-taking entities and this should be recognised when assessing VfM. What matters is how well the risks were assessed and then managed (see section 5.3 on Effectiveness).

The tool set out in Rubric 3 above has several potential uses for FSDs:

- To support VfM assessment at whole-of-FSD level, to address the efficiency criteria and standards set out in Rubric 2
- To support **prospective** assessment of potential investments – for example, it could be incorporated into intervention proposal templates to support project selection by FSD investment committees
- To support **retrospective** assessment of investments – for example, to support FSDs in assessing projects to inform sustainability considerations and exit plans from individual investments.

5.3. Effectiveness

In DFID's approach to VfM, effectiveness is the achievement of outcomes:

How well are the outputs from an intervention achieving the desired outcome on poverty reduction? (Note that in contrast to outputs, we or our agents do not exercise direct control over outcomes.) (DFID, 2011, p.4)

Assessment of performance at effectiveness level requires looking beyond outputs, to identify evidence of behaviour change and market change to which FSD work has contributed, such as policy/regulatory advice, technical assistance, capacity building, research,[9] or awareness raising. Note the use of the term 'contributes' in the effectiveness criterion, which recognises the challenges in attributing outcomes and impacts to complex market change interventions. The criterion is aligned with an expectation that outcome measurement will be supported by contribution analysis.

In alignment with IOM guidance and the Compendium of Indicators, a greater focus is placed on whether systemic change has occurred rather than on end-effects on beneficiaries. This is also in line with the DCED Standard (2016) that emphasises system- or market-wide impacts.

The IOM guidance noted that the initial behaviour change of market actors can be important to track, as final outcomes may take a long time before they can be observed. In market development programmes, indicators that track the quality and effectiveness of processes for enabling environment changes are also important in order to assess their long-term sustainability and resilience. This includes the capabilities of decision-makers in regulator and policy-making organisations, how they respond to legitimate concerns from market actors and, once a new law or regulation is in place, how well it is implemented by regulators (IOM, 2015).

The following effectiveness criterion for FSDs is consistent with the IOM theory of change:

Effectiveness criterion: the [name of FSD programme] contributes to positive changes in the market, which may include: core (supply/demand); supporting functions (infrastructure/ services); and/or rules and norms.

Hierarchy of outcomes: alignment with IOM and Compendium of Indicators

The Unitary ToC sets out the following hierarchy of outcomes (refer to Figure 4 above):

- Improvements in poverty reduction and economic growth (financial services reduce vulnerability/ increase incomes/ economic activity) (box 9 of the Unitary ToC as shown in Figure 4)
- Changes in the level and type of access and use of sustainable financial services (demand side) (box 8)
- Changes in the level and type of provision of sustainable financial services (supply side) (box 7)
- Changes in behaviours of market actors (box 6)
- Changes in the market system (that is, the underlying dynamics) (box 5)
- Changes in market forms as a result of FSD activities (such as new laws, products, research evidence) (box 4)
- Behaviour change on the part of FSD partners (box 3).
- This hierarchy of outcomes corresponds with the effectiveness (boxes 3-6) and cost-effectiveness (boxes 7-9) of the VfM framework.

According to IOM guidance, the most important outcomes for FSDs to track, and those that represented the greatest 'evidence gap' when the IOM guidance was developed, are around the middle of this hierarchy (boxes 5-8). It is these levels that are the primary focus of the Compendium of Indicators. This VfM framework and the associated VfM guide provide the basis for making judgements and a structure for reporting, while the Compendium of Indicators offers a key point of reference for selecting appropriate indicators at the effectiveness and cost-effectiveness levels of the VfM framework.

[9] This includes the role of research evidence in bolstering effectiveness. Research provides evidence that helps change thinking and behaviours, and can provide indicators for financial sector development and for decision-makers to adjust policies, laws and regulations.

Sub-criteria

The following sub-criteria of effectiveness will therefore be used:

- The nature and extent of outcomes at levels 3-6 of the Unitary ToC (Figure 4)
- Following good practices to manage key effectiveness drivers (political economy analysis, identifying and managing risk, synergies and collaboration, governance and quality assurance, monitoring and results management).

When assessing the nature of outcomes, the framework focuses on whether the outcomes are initial/small market changes versus deeper, more transformational and sustainable market shifts. The following categorisation is aligned to IOM guidance (refer to Table 14 in the IOM document) and the examples provided here, though not exhaustive, are intended to provide sufficient specificity and flexibility to apply to the range of FSD interventions at macro, meso and micro levels:

- Partner changes supported by an initial project – for example, regulators adopting or working toward new laws or rules; implementing current laws or rules more effectively to promote financial inclusion; partners developing or trialling new or improved products, services, or business models, or targeting new market segments, within a FSD-supported project. Such changes are aligned with boxes 3 to 4 in the Unitary ToC for FSDs. If you use the Adopt-Adapt-Expand-Respond (AAER) framework, these changes are also aligned with the Adopt level.
- Partner-influenced expansion or replication – for example, regulators continuing to enforce or adapt new laws or rules to promote financial inclusion; partners continuing, scaling up or adapting new or improved products/services/business models after FSD support has concluded. Such changes are aligned with boxes 4 to 5 in the Unitary ToC for FSDs. If you use the AAER framework, these changes are also aligned with the Adapt level.
- Wider system changes – for example, markets respecting and following new laws or rules; consumer protection working more effectively; markets changing to accommodate expansion, such as ease of entry for new players; industry bodies acting to facilitate market changes; market actors who are not FSD partners copying or adapting innovations, replicating new products or services engendered by FSDs in other countries, developing new market offerings; emergence of new service providers with new market offerings. Such changes are aligned with boxes 5 to 6 in the Unitary ToC for FSDs. If you use the AAER framework, these changes are also aligned with the Expand-Respond levels. Contribution analysis may be needed to link these changes to FSD intervention.

The extent of outcomes refers to the general pattern of movement seen in the indicators and narrative, when considered collectively. This requires a judgement to determine whether the outcomes seen are:

- **Strong** – indicators and qualitative evidence present a consistent picture of substantial and sustainable improvements, such as consistently meeting targets or expectations
- **Consolidating** – indicators and qualitative evidence present a reasonably consistent picture of improvements, for example, generally close to meeting targets or expectations
- **Emerging** – some positive signs of improvements, such as progress toward targets or expectations.

Performance standards for effectiveness are defined as follows (Rubric 4). Only one column needs to be addressed: this relates to the highest level of the ToC at which you are targeting outcomes at the time of the VfM assessment. For example, if you are targeting outcomes at level 6 of the Unitary ToC by Year 3, then the Year 3 VfM assessment must include the broader market changes column.

Additionally, you have the option of including changes at lower levels of the ToC, which would have the advantages of presenting a fuller picture of performance as well as assisting in contribution analysis.

Rubric 4: Performance standards for Effectiveness

Performance (refer to detailed definitions above)	**Partner changes supported by an initial project** (ToC levels 3-4)	**Partner-influenced expansion or replication** (ToC levels 4-5)	**Wider system changes** (ToC levels 5-6)
Excellent	[Not used]	**Strong** – indicators and qualitative evidence present a consistent picture of substantial and sustainable improvements, e.g., consistently meeting targets or expectations.	**Consolidating** – indicators and qualitative evidence present a reasonably consistent picture of improvements, e.g., generally close to meeting targets or expectations.
Good	**Strong** – indicators and qualitative evidence present a consistent picture of substantial and sustainable improvements, e.g., consistently meeting targets or expectations.	**Consolidating** – indicators and qualitative evidence present a reasonably consistent picture of improvements, e.g., generally close to meeting targets or expectations.	**Emerging** – some positive signs of improvements, e.g., progress toward targets or expectations.
Adequate	**Consolidating** – indicators and qualitative evidence present a reasonably consistent picture of improvements, e.g., generally close to meeting targets or expectations.	**Emerging** – some positive signs of improvements, e.g., progress toward targets or expectations.	[Not used]
	and FSD team verifiably follows good practices to manage the key effectiveness drivers (political economy analysis[10] identifying and managing risk, synergies and collaboration, governance and quality assurance, monitoring and results management).		
Poor	Any of the criteria for 'adequate' not met.		

Note that the time horizon for the assessment of effectiveness is cumulative up to and including the year of the VfM assessment.

Typically, in a young programme, the VfM assessment starts by only looking at economy and efficiency. Later on, as outcomes start to be achieved, the VfM assessment starts to examine effectiveness. It may take several years for new programmes to start showing outcomes at the excellent level of the effectiveness rubric. In the interim, VfM assessments may say things like, "this is the first year we have looked at effectiveness, and although it is too soon to show results at the excellent level, it is encouraging that in the third year of the intervention we are already seeing outcomes at the good effectiveness level".

Note that different projects may be at different levels of maturity and may be performing at different levels. For the purposes of assessing performance at effectiveness level, only look at those projects that have been operating long enough for outcomes to be expected. As discussed in section 4.4.2, performance should be judged based on where the centre of gravity sits overall. If in doubt, choose the lower of two levels.

[10] Political economy analysis (PEA) "aims to situate development interventions within an understanding of the prevailing political and economic processes in society – specifically, the incentives, relationships, and distribution and contestation of power between different groups and individuals. Such an analysis can support more politically feasible and therefore more effective development strategies by setting realistic expectations of what can be achieved, over what timescale, and the risks involved". See: https://www.gov.uk/dfid-research-outputs/political-economy-analysis-topic-guide

* Footnote to effectiveness standards: the following effectiveness drivers and associated good practices will be assessed:

Developing a good understanding of the political economy of programme and projects:
- Programme has a clear ToC, which is evidence-based, plausible, and logical
- Each project has a results chain aligned with the programme ToC
- The stated outputs and outcomes of the programme are regularly reviewed and updated
- The programme has a good understanding of the local systems in which it is intervening
- This understanding is updated on a regular basis, to remain relevant and reflect changes in the operating environment.

Identifying and managing risk:
- There are processes in place to identify, assess and manage programme risks – and the risk management process is updated on a regular basis
- Risk management strategies and processes are implemented effectively.

Synergies and collaboration:
- Opportunities for internal and external collaboration are being consistently identified in projects and partnerships.

Governance and quality assurance:
- Governance and quality assurance arrangements are in place, aimed at ensuring that programme activities deliver good results.

Monitoring and results management:
- The outcomes and impact of interventions is being consistently and effectively measured and monitored, including working toward implementing systems aligned with IOM principles.

The effectiveness standards aim to be sufficiently specific to facilitate clear evaluative judgements about the level of performance, while allowing sufficient flexibility to reflect the diversity of FSD interventions and enable FSDs to select appropriate performance indicators for their contexts. Accordingly, effectiveness indicators are not specified. FSDs will select appropriate indicators that relate to their specific interventions and intended outcomes.

In general terms, however, the following evidence of effectiveness will be used:

- Outcome indicator tracking data, with indicator selection informed by the Compendium of Indicators, IOM Guidance, and/or other sources as relevant
- Narrative prepared as part of the VfM assessment – drawing on secondary sources as needed (for example, MRM reports, stakeholder feedback on FSD activities, outcome narrative as detailed in the VfM Guide).

Note that cost-per-outcome measures, though perhaps conceptually appealing, would be difficult to calculate (because costs cannot be cleanly apportioned between outcomes) and meaningless to support judgements (because they lack relevant benchmarks). Therefore, we are not recommending that such measures be included. Costs can be examined at lower (economy) and higher (cost-effectiveness) levels of the VfM assessment.

5.4. Cost-effectiveness

According to DFID (2011) cost-effectiveness considers the relationship between impact and total costs incurred:

How much impact on poverty reduction does an intervention achieve relative to the inputs that we or our agents invest in it? (DFID, 2011, p.4)

The key principle underlying the cost-effectiveness criterion is that the programme should create more value than it consumes, or that sufficient outcomes are achieved to justify the investment (King & OPM, 2018).[11] In the FSD context, real cost-effectiveness, in economic terms, would be seen when the value of economic expansion (or the portion attributable to the FSD) exceeds the cost of intervention. This is both temporally and methodologically outside the reach of this VfM assessment. Instead, proxies will be used, based on the conceptual framework presented in Figure 4 above.

The following cost-effectiveness criterion, for FSDs, is consistent with the IOM theory of change:

Cost-effectiveness criterion: the [name of FSD programme] creates more value than it consumes, through improved financial sector development and financial inclusion.

Sub-criteria

Specifically, the following sub-criteria will be used as proxies of cost-effectiveness:

- The nature and extent of outcomes at levels 7-9 of the Unitary ToC provided in the IOM document (and reproduced in Figure 4 of this VfM framework) including:
- Scale/value of new products/services offered – supply side (ToC box 7)
- Scale/value of new products/services utilised – demand side (ToC box 8)
- Financial services reduce vulnerability/ increase incomes/ economic activity (ToC box 9)
- Credible contribution analysis linking these outcomes back to FSD intervention.

Note that cost-effectiveness involves more than reaching targeted numbers of people through initial projects with partners. It is about achieving substantial and sustainable changes in the supply and access/usage of sustainable financial services.

Where feasible, this analysis should compare the relevant value of market access/use with the relevant FSD investment (for example, to produce a ratio of value created to value consumed). However, it is likely that even modest changes in access would rapidly exceed the cost of FSD intervention. Therefore, in our view a credible contribution analysis is more important than calculation of cost-benefit proxies.

It is important to note that at the higher levels of the ToC, time to impact gets longer, and the contribution story becomes more difficult to untangle. The VfM framework needs to ensure FSDs are not penalised for impacts that they cannot reasonably be expected to measure and attribute. In particular, it will not always be feasible to measure changes in poverty reduction and economic growth: a) over a long enough timeframe that will provide an estimate of the impact of an FSD's work; and b) in ways that can really show the substantive contributions FSDs have made.

Accordingly, we recommend that for VfM purposes, FSDs assess their contributions only as far as financial inclusion is concerned. This should include assessments of not just how people are using financial services, but also why they do – that is, what difference has access to financial services been making to people's lives/ livelihoods and to the sustainability and growth of their businesses? Nonetheless, the performance standards do accommodate the option of FSDs demonstrating impacts on poverty reduction, economic activity, or economic growth where such evidence is able to be produced.

To assess the extent of outcomes the same definitions will be used as those at the effectiveness level, namely:

- Strong – indicators and qualitative evidence present a consistent picture of substantial and sustainable improvements, for example, consistently meeting targets or expectations

[11] The term 'cost-effectiveness' can be confusing because it is also used to refer to a specific form of economic analysis (cost-effectiveness analysis), which measures the ratio between a single outcome indicator, measured in natural or physical units (e.g., lives saved) and monetary programme costs. In the current context, however, the broader interpretation described above is more useful. 'Value created' potentially includes both tangible (monetary) and intangible value (e.g., changes in the types of new products/services offered). (King & OPM, 2018)

- Consolidating – indicators and qualitative evidence present a reasonably consistent picture of improvements, for example, generally close to meeting targets or expectations
- Emerging – some positive signs of improvements, such as progress toward targets or expectations.

Performance standards for cost-effectiveness are defined as follows (Rubric 5). Only one column needs to be addressed: this relates to the highest level of the ToC at which you are targeting outcomes at the time of the VfM assessment. For example, if you are targeting outcomes at level 8 of the Unitary ToC by Year 4, then the Year 4 VfM assessment must include the broader market changes column.

Additionally, you have the option of including changes at lower levels of the ToC, which would have the advantages of presenting a fuller picture of performance as well as assisting in contribution analysis.

Rubric 5: Performance standards for Cost-Effectiveness

Performance (refer to detailed definitions above)	**Changes in the level and type of provision of sustainable financial services – supply side** (ToC level 7)	**Changes in the level and type of access to, and usage of, sustainable financial services – demand side** (ToC level 8)	**Financial services reduce vulnerability/ increase incomes/ economic activity** (ToC level 9)
Excellent	[Not used]	**Strong –** indicators and qualitative evidence present a consistent picture of substantial and sustainable improvements, e.g., consistently meeting targets or expectations.	**Consolidating –** indicators and qualitative evidence present a reasonably consistent picture of improvements, e.g., generally close to meeting targets or expectations.
Good	**Strong** – indicators and qualitative evidence present a consistent picture of substantial and sustainable improvements, e.g., consistently meeting targets or expectations.	**Consolidating –** indicators and qualitative evidence present a reasonably consistent picture of improvements, e.g., generally close to meeting targets or expectations.	**Emerging –** some positive signs of improvements, e.g., progress toward targets or expectations.
Adequate	**Consolidating –** indicators and qualitative evidence present a reasonably consistent picture of improvements, e.g., generally close to meeting targets or expectations.	**Emerging –** some positive signs of improvements, e.g., progress toward targets or expectations.	[Not used]
Poor	Any of the criteria for 'adequate' not met.		

Note that the time horizon for the assessment of cost-effectiveness is cumulative up to and including the year of the VfM assessment

The cost-effectiveness standards aim to be sufficiently specific to facilitate clear evaluative judgements about the level of performance, while allowing sufficient flexibility to reflect the diversity of FSD interventions and enable FSDs to select appropriate indicators for their contexts. Accordingly, cost-effectiveness indicators are not specified. FSDs will select appropriate indicators that relate to their specific interventions and intended outcomes.

In general terms, however, the following evidence of cost-effectiveness will be used:

- Outcome and impact indicator tracking data, with indicator selection informed by the Compendium of Indicators, IOM Guidance, and/or other sources as relevant
- Narrative prepared as part of the VfM assessment – drawing on secondary sources as needed (for example, MRM reports; Outcome narrative as detailed in the VfM Guide)
- Narrative (if necessary) to explain how equity-related considerations (such as choice of target groups) might affect the cost of achieving the outcomes and impact, and explaining how different groups may be more/less costly to reach.

5.5. Equity

DFID (2011) does not define equity directly, but does acknowledge the importance of distributive fairness as a dimension of VfM:

When we make judgements on the effectiveness of an intervention, we need to consider issues of equity. This includes making sure our development results are targeted at the poorest and include sufficient targeting of women and girls. (DFID, 2011, p.3)

Equity considerations are embedded throughout the VfM framework and are likely to be particularly visible in the effectiveness and cost-effectiveness criteria. Nonetheless, it is important to include an explicit criterion for equity so that judgements of VfM give sufficient prominence to the targeting of resources and results to under-served groups; for example, to poor people, women and girls, people with disabilities, people living in more remote rural areas, and other marginalised groups.

The following definition of equity applies to FSDs:

Equity criterion: the [name of FSD programme] reaches its intended target groups and contributes to financial inclusion and poverty reduction

Sub-criteria

The following sub-criteria will be used:

- Output equity (FSD strategy, interventions and outputs delivered, explicitly identify target groups for financial inclusion – for example, poor people, women and girls, people with disabilities, people living in rural areas, and/or other people traditionally at a disadvantage in financial services markets)
- Outcome equity (FSD partners and/or changes in market forms are reaching the intended target groups)
- Impact equity (FSD impacts demonstrate measurable gains in market access and/or use that benefit the identified target groups – for example, improves their livelihoods).

Performance standards for equity are defined as follows (Rubric 6).

Rubric 6: Performance standards for Equity

Performance	Criteria
Excellent	**Impact equity** – corresponds to the 'cost-effectiveness' level (levels 7-9 of the Unitary ToC): FSD impacts demonstrate measurable gains in market access and/or use that benefit the identified target groups.
Good	**Outcome equity** – corresponds to the 'effectiveness' level (levels 3-6 of the Unitary ToC): FSD partners and/or changes in market forms are reaching the intended target groups.
Adequate	**Output equity** – corresponds to the 'efflciency' level (level 2 of the Unitary ToC): FSD strategy, interventions and outputs delivered, explicitly identify target groups for financial inclusion.
Poor	Any of the conditions for 'adequate' not met.

Note that the time period for the assessment of equity is cumulative up to and including the year of the VfM assessment.

Evidence to support assessment of performance in terms of equity will come from the same sources as listed above for efficiency, effectiveness, and cost-effectiveness.

5.6. Overall judgement about VfM

As well as a VfM assessment against each criterion, an overall assessment is needed of programme VfM against the criteria. This assessment will take into account DFID's definition of VfM as "maximising the impact of each pound spent to improve poor people's lives" (DFID, 2011, p.2). The general approach is illustrated in Table 2 below.

Table 2: Making an overall judgement about VfM from the 4Es

VfM criteria	Judgements	Summary
Economy	[e.g., 'Good']	[Brief summary of evidence against the applicable standards – e.g., 'FSD performance against the agreed criteria shows that the team manages project resources economically. Unit costs for consultants and flights are generally at or below agreed benchmarks. Evidence is provided of the results of good cost management, including partner contributions and savings from effective contract negotiation']
Efficiency		
Effectiveness		
Cost-effectiveness		
Equity		
Overall judgement of VfM		

Critically, the overall judgement of VfM is not required to be a straight average of the scores for each component; rather, greater weight should be given to those criteria that are deemed more relevant at the time the VfM assessment is carried out. For example, toward the end of a programme's strategic period, when full evidence of effectiveness and cost-effectiveness is available, these two criteria would be given greater weight than indicators focusing on inputs (such as economy) and outputs (efficiency), which conversely receive more weight in the early stages of implementation (King & OPM, 2018).

5.7. How can VfM be improved?

The process of making judgements about VfM against the criteria and standards provides a systematic way to identify areas where FSDs are performing well and, potentially, areas where improvements can be made to strengthen VfM. To illustrate: an FSD might meet all but one of the criteria for 'excellent' efficiency; if so, the lagging criterion might pull the judgement down to 'good' or 'adequate' and would be identified as an area for improvement. These opportunities should be summarised in the VfM report as follows (Table 3).

Table 3: Opportunities to improve VfM

VfM criteria	Opportunities to improve VfM
Economy	[e.g., 'Trying to find domestic rather than international consultants capable of providing the experience and quality of output so that we can meet economy benchmarks can cause delays that ultimately diminish effectiveness and VfM. Reviewing the balance between local and international consultants would enable the project x (or x & y) to be completed in a timely manner and at the required quality standards.']
Efficiency	
Effectiveness	
Cost-effectiveness	
Equity	

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