Cost-Effectiveness in USAID Programming

An Additional Help Document for ADS Chapter 201

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Table of Contents

1. PURPOSE

This Additional Help document provides more detail on "cost-effectiveness"—a concept that is introduced explicitly and frequently in ADS 201—and provides additional guidance to Operating Units (OUs) on how to implement the requirement to designate one Cost-Effectiveness Evidence Point of Contact (POC). This document also explains how the new independent Office of the Chief Economist (OCE), collaborating closely with Cost-Effectiveness Evidence POCs, can support OUs to enhance cost-effectiveness in Agency decision-making, particularly in activity design and implementation.

2. HOW COST-EFFECTIVENESS EVIDENCE CAN STRENGTHEN USAID PROGRAMS

Every dollar USAID spends on one intervention comes at the expense of not spending more on another. Yet some interventions inevitably achieve more impact, per dollar spent, than others. Cost-effectiveness is all about recognizing such tradeoffs, and then choosing to fund the interventions that are most likely to maximize USAID's impact.

More specifically, cost-effectiveness is a measure of how much a key development outcome changes for a particular population as a result of an intervention (measured as the change in the outcome compared to how it would have changed without that intervention), per dollar cost of the intervention. While contextual factors can influence an intervention's exact impacts and costs, global evidence shows that certain interventions are *routinely* more cost-effective than alternatives across a variety of contexts. USAID OUs can use such cost-effectiveness evidence to inform the selection and design of interventions, ensuring that the most possible progress is achieved towards priority development outcomes within fixed budgets. OCE encourages the use of cost-effectiveness evidence in activity design because it helps make tradeoffs in the choice and design of interventions clearer.

It is important to recognize that using existing evidence to assess an intervention's potential cost-effectiveness is distinct from collecting data as part of an impact evaluation to estimate the actual cost-effectiveness of a funded program. For sectors and outcomes for which significant cost-effectiveness evidence already exists, OCE encourages OUs to focus on **using existing evidence** to inform the selection and design of interventions for new activities, taking into account relevant features of their context that can influence costs and impacts and require some adaptation. By contrast, for sectors and outcomes where there is very *little* cost-effectiveness evidence, the value of **producing new evidence** on an intervention's cost-effectiveness will be high. Generating new evidence is useful both for evaluating that activity but also for contributing to the broader global knowledge base that enables *all* development actors to improve their programming, thereby contributing to "progress beyond programs."

OCE's advice on cost-effectiveness evidence can be stated simply as: **"use it or produce it."**

2.1 What is "cost-effectiveness"?

Per ADS 201.6 Definitions, "cost-effectiveness" is defined as a measure of impact per dollar spent on an intervention, for a particular population; in other words, how much a key development outcome changes for a particular population as a result of an intervention (measured as the change in the outcome compared to how it would have changed without that intervention), per dollar cost of the intervention. There is no single threshold for an intervention to be considered "cost-effective": judging cost-effectiveness requires a comparison among alternative interventions, to identify the one that tends to have the greatest possible impact-per-dollar on a specific outcome for a specific population. There are two distinct ways of considering an intervention's cost-effectiveness: (1) Forward-looking assessments of an intervention's likely cost-effectiveness, based on past evaluations (including internal and external) of that intervention; and (2) Estimates of an intervention's actual cost-effectiveness in a given context, which must be derived from an impact evaluation of that intervention with cost analysis. Each is explained in greater detail below.

2.1.1 Forward-looking assessments of an intervention's likely cost-effectiveness, based on past evaluations (internal and external) of that intervention

A forward-looking assessment of cost-effectiveness is done prior to or as part activity design. This type of assessment uses existing cost-effectiveness evidence from both internal (USAID) and external impact evaluations, combined with local contextual information, to assess the likely relative cost-effectiveness of the alternative interventions being considered in that context. This helps decision-makers identify and clarify tradeoffs: including any given intervention in an activity design with a fixed budget comes at the expense of reducing resources for other interventions. While multiple interventions may be effective at improving a development outcome, several decades of cost-effectiveness evidence shows that some interventions achieve tens or even hundreds times more impact per dollar than others. An assessment of possible interventions based on cost-effectiveness evidence helps activity designers to identify the design that will advance their goals the most, given their limited budget.

It is important to stress that encouraging greater use of forward-looking assessments of cost-effectiveness is an exercise in *using existing evidence*; it is <u>not</u> an exercise of conducting fresh data collection on ongoing activities.

2.1.2 Estimates of an intervention's actual cost-effectiveness in a given context, which should be derived from an impact evaluation paired with cost analysis

An evaluation of the actual cost-effectiveness of an intervention implemented as part of a USAID-funded activity should be embedded within an impact evaluation that incorporates counterfactual analysis in order to establish attribution (i.e., what would have happened in the absence of the intervention; what change in the development

outcome of interest did the intervention cause).[1] Randomized evaluations, also known as randomized controlled trials (or RCTs), are a common approach for estimating intervention impact, and when combined with cost information allow for the generation of strong cost-effectiveness evidence.

In some cases, impact evaluation with cost analysis can be built into early phases of multi-year activities so that cost-effectiveness results from that exact context are available to inform plans for scaling or government handover. In other cases, even when the cost-effectiveness estimates from an impact evaluation will only be available at the end of activity implementation, such results still contribute to the body of cost-effectiveness evidence which can be used in planning for future USAID activities and contribute to the broader development community's understanding of cost-effectiveness. These latter contributions to the global cost-effectiveness evidence base that can improve all development actors' spending decisions represent important ways in which USAID can advance "progress beyond programs."

2.2 Why focus on cost-effectiveness?

2.2.1 What does cost-effectiveness tell us?

The ultimate goal of emphasizing "cost-effectiveness" is to ensure that scarce budgets are used as effectively as possible to achieve development outcomes. Using cost-effectiveness evidence helps decision-makers move the needle on specific development outcomes as much as possible given their budget constraint. For example: cost-effectiveness evidence helps answer questions, such as:

- With a given budget, which intervention will do the most to prevent diarrheal disease among children in refugee camps?
- With a given budget, which intervention will reduce gender-based violence the most?
- With a given budget, which intervention will increase farmer profits the most?

However, cost-effectiveness evidence does not address questions about how a budget should be allocated across outcomes, to answer questions, such as: How much money should I allocate for prevention of childhood diseases versus better maternal care versus primary school education?

Use of cost-effectiveness evidence accepts budget constraints as fixed in the short term and does not speak to what the appropriate size of budget should be for advancing a specific development objective. Encouraging a greater focus on cost-effectiveness does not, however, mean that existing budget constraints should be accepted as a "given" in the longer term. USAID can and does make the case to key stakeholders, such as

[1] Note a related existing requirement in ADS 201.3.6.4(A), that "OUs must ensure that all impact evaluations must include a cost analysis of the intervention or interventions being studied (see **Discussion Note: Cost Data Collection and Analysis** and **ADS 201sao, Cost Analysis** for additional information). This allows for the outcome and cost data to be combined to estimate cost effectiveness."

Congress, about the need for more funding in underfunded areas. Greater use of cost-effectiveness evidence in spending existing funding could contribute to USAID's advocacy for *more* funding, by demonstrating and documenting savvy evidence-informed stewardship of existing budgets.

2.2.2 Why focus on cost-effectiveness rather than cost-benefit analysis?

"Economic evaluations" analyze and compare the inputs and outputs/outcomes of alternative interventions. Cost-effectiveness is one type of economic evaluation, which focuses on the ratio of inputs to attributable change in outcomes.[2]

Table 1. Types of Economic Evaluation

	A log frame includes:	Incorporating costs, we get:	We call this type of economic evaluation:
1	**Input** # of teacher trainers hired	**Cost per Input** Cost of teacher trainers	**Cost-Economy**
2	**Output** # of teacher-days of training given	**Cost per Output** Cost per teacher-day of training	**Cost-Efficiency**
3	**Outcome** Improvements in student reading caused by the teacher training	**Cost per Attributable Change in Outcome** Cost per improvement in student reading	**Cost-Effectiveness**
4	**Dollar Value of Outcomes** How much is reading ability worth in $?	**Cost per Dollar Value of Attributable Change in Outcome** Dollar value of literacy divided by cost = CB %	**Cost-Benefit**

Cost-effectiveness is a particularly useful form of economic evaluation for USAID programming because insights about interventions' comparative cost-effectiveness provide the most actionable, impact-increasing insights, while requiring the fewest value judgments about the monetary value of difficult-to-monetize development objectives. While both cost-economy analysis and cost-efficiency analysis can help identify strategies to maximize the ***reach*** of USAID programs, the ultimate goal is to maximize ***impact***—the change that an intervention will ***cause***. (For more on estimating impact, see section 2.3.1.) Increasing the reach per dollar spent of USAID programs *is not an end unto itself*, but it can be useful insofar as a lower cost to deliver a highly impactful output ultimately leads to higher cost-effectiveness.

Cost-benefit analysis, by contrast, allows an analyst to capture impacts across multiple outcomes in a single metric by assigning a monetary value for different outcomes and adding up the impacts in dollar terms. Cost-benefit analysis is typically used to compare whether the total cost of a program is greater or less than the total monetized value of the impacts it achieved. The ratio of benefits to costs can be interesting as an

[2] Different types of economic evaluation are discussed at greater length in the USAID Center for Education's "Cost Analysis Guidance for USAID-Funded Education Activities", particularly Exhibit 5.

evaluation question, but has two primary drawbacks: First, a cost-benefit analysis requires monetizing all outcomes. This is easy in some cases (e.g., when the outcome is already measured in dollars, such as household income) but wrought with challenges and philosophical debates for many other important cases, such as gender-based violence, human trafficking, child marriage, environment, and even education and health.

Second, cost-benefit analysis takes the focus away from what is most critical for activity design: how to choose the intervention that maximizes impact on the primary objective given the budget at hand. Converting to cost-benefit could lead to distracting analysis necessary for the monetization of outcomes, whereas keeping the discussion and focus on the outcome heightens attention for the activity design process on exactly what USAID can influence. For these reasons, the Office of the Chief Economist focuses its guidance and support to USAID Operating Units on the use of cost-effectiveness evidence to inform spending decisions, rather than evidence from other types of economic evaluation, such as cost-benefit analysis.

2.2.3 Recognizing Tradeoffs: Identifying "default" interventions in activity design

Even if an intervention is effective at improving development outcomes, the choice to prioritize that intervention necessarily comes at the expense of not funding other interventions that could target that same outcome. Assessing the cost-effectiveness of alternative interventions to potentially include in an activity design will encourage OUs to consider the implicit tradeoff; in other words, whether more development impact could have been achieved if alternative interventions were prioritized.

Over time, repeated use of cost-effectiveness evidence may begin to shift the "default interventions" towards those that are reliably shown to deliver maximum impact per dollar in that context. This is not meant to suggest that OUs would automatically select only a single intervention in activity design, nor that the "default intervention" for a particular outcome would necessarily be the same across contexts. The point is that, in a complex and time-constrained process like activity design, the "default" starting point for design teams should be interventions that have been shown in the cost-effectiveness evidence to reliably deliver maximum impact per dollar in relevant contexts.

There may be many reasons OUs may choose to deviate in the design process from the most cost-effective "default" intervention for a given outcome, for example, if that intervention is not feasible to deliver in that context, or if the partner government has strong perspectives on that intervention.

However, even when an activity design team determines that the most cost-effective intervention is not context-appropriate, the design team can still use the logic of trying to maximize impact within constraints. The design team can still consider which intervention *from among those that are feasible in that context* is likely to deliver the greatest impact per dollar. Or, in cases where a new intervention without existing

evidence is being considered, the activity design team can ask: “Is this likely to deliver greater impact per dollar, in my context, than the highly cost-effective default?”

2.2.4 “Context” and use of cost-effectiveness evidence

When looking at the cost-effectiveness of development interventions, “context” refers to *any* factor that can influence how a particular intervention or delivery model works in practice. A similar context does not mean, narrowly, “the same country”—in fact, in some cases, highly contextually relevant evidence can come from very different regions and countries. Rather, context refers to variation in (1) geography, environment, and infrastructure, (2) population needs and characteristics, (3) economic or political status and institutions, and (4) differences across time, within the same geography. Context—understood in this broader way than geography alone—matters because these contextual factors could affect both an intervention’s costs and its impacts as it is implemented in different contexts.

Global evidence shows that, while the specifics of context and implementation quality can matter a great deal, certain interventions are still routinely more cost-effective than alternatives across a variety of contexts. For an intervention to be considered highly cost-effective, it would have undergone multiple randomized evaluations across different contexts and have consistently proven to be more cost-effective than alternative approaches. (For more on OCE’s approach to assessing cost-effectiveness, see section 4.1.) A validated theory of change ought to also illuminate under what contextual conditions an intervention will have larger or smaller impacts. Evidence from multiple studies—which allows us to triangulate cost-effectiveness with certain contextual or intervention design features to build a validated theory of change—allows us to hone in on specific contextual characteristics or design decisions necessary for achieving cost-effectiveness.[3] This then generates more confident predictions of the relative cost-effectiveness of that intervention in a particular context.

For this reason, the use of cost-effectiveness evidence does not and should not preclude the use of other types of evidence and data in activity design. Appropriate use of cost-effectiveness evidence requires triangulation with other sources of data, especially data about contextual conditions which might influence the costs or impacts of that intervention in that particular context (e.g. population density, wage rates for key staff).

2.3 How is cost-effectiveness measured and judged?

2.3.1 The importance of counterfactuals for understanding cost-effectiveness

As section 2.2 emphasizes, the unique value of cost-effectiveness evidence is in telling us which interventions typically create the most impact per dollar spent towards a

[3] For more on when and how to draw generalized conclusions from context-specific evaluation results, “The Generalizability Puzzle” provides a valuable framework.

particular development objective for a particular population. Analyzing an intervention's cost-effectiveness is an attempt to capture how much a key development outcome changes for a particular population as a result of an intervention (measured as the change in the outcome compared to how it would have changed without that intervention), per dollar cost of the intervention.

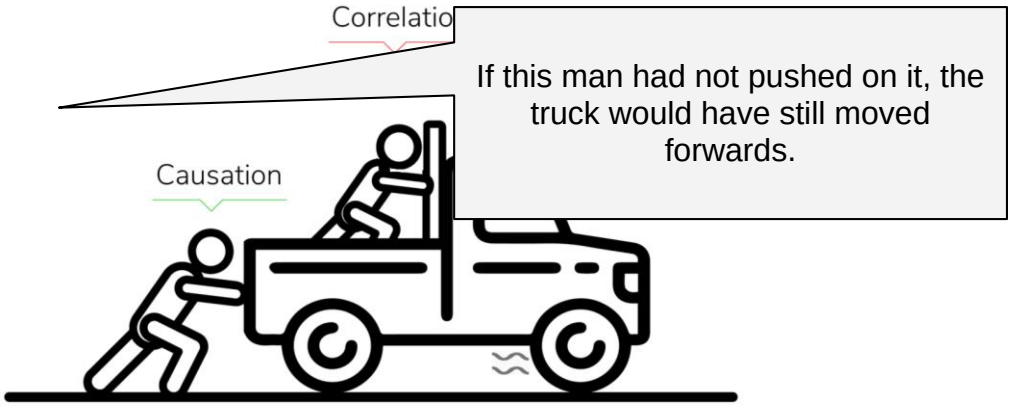
The "impact" of an intervention is not simply the change in outcomes over time, as commonly measured in "pre-/post-" or "before/after" evaluation designs, which measure outcomes before and after a program is implemented. Many other factors could have contributed to an observed change in outcomes. To fully understand the change in outcomes that can be ***causally attributed*** to an intervention requires a ***rigorous counterfactual***—an estimate of what ***would have happened*** to people who receive the intervention, if they had not received it. Of course, the counterfactual outcomes (i.e., what would have happened to the people who received the intervention, if they had not received it) cannot be directly observed—people either receive an intervention or they do not. But a counterfactual can be *estimated*, and how well a counterfactual is estimated determines how good our understanding of a program's impact can be.

Example: Intervention Outcomes and Counterfactuals
Consider a program which provided sanitation promotion messaging to people who lived in urban slums, in an attempt to reduce diarrheal disease among children under 5 years old. Between the launch of that sanitation messaging and the close-out of the program, staff might observe a 20 percent reduction in the incidence of diarrheal disease among children in that slum.

But that does not mean that the sanitation promotion *caused* that reduction in disease! It could be that, at the same time as this program happened, the government launched a program to build more latrines in the area. It could even be the case that the reduction in diarrhea incidence was caused by a drought, which meant there was less standing water from which children could get infected.

A poor-quality counterfactual not only undermines rigorous estimates of a program's impact on key outcomes, it can lead to wholly inaccurate conclusions about what works and should be funded. Consider education programs that were in progress when the Covid-19 crisis hit; student attendance and learning outcomes deteriorated significantly from March 2020 onwards. If a pre/post evaluation were conducted over that time period, it might have concluded that education programs actually harmed student outcomes, even if some of those programs actually had a "protective" effect and reduced the amount by which learning outcomes fell!

Figure 1. Estimating a counterfactual is critical for understanding impact



When feasible, randomized evaluations (also known as randomized controlled trials or RCTs) are the preferred method for estimating the causal impact of development programs because they provide a particularly strong method for estimating the counterfactual. They accomplish this by randomly allocating one of two or more interventions—one of which may be a "comparison group" receiving little or no new services—to eligible participants. This random assignment can be done for communities, schools, households, or individuals. Most randomized evaluations are designed so that there is no reduction in the number of people who will receive a program's services; to accomplish this, a larger set of eligible participants are identified and randomly assigned to intervention arms. In many cases, random allocation is used not simply for evaluation purposes, but rather as a way to allocate a scarce resource or service in a fair manner. Such random allocation of program services provides an excellent opportunity to estimate the counterfactual of what would have happened had the program not been implemented, via the change over time for those receiving the comparison intervention (or, a "control" group if the comparison intervention is merely the absence of an intervention).[4] The key point is that randomized evaluations allow one to compare outcomes after the intervention and confidently attribute differences in outcomes to the causal impact of the intervention.

OCE bases its assessments of likely cost-effectiveness on the thousands of randomized evaluations that have been conducted about international development programs. Where sufficient impact evidence already exists, OUs can make meaningful statements about the likely cost-effectiveness of their activities based on a combination of that evidence and quality monitoring data (see section 2.3.2). However, there are many outcome areas where sufficient impact evidence about USAID programs does not yet exist, and conducting new impact evaluations and cost-effectiveness analyses will be particularly valuable in these areas.

[4] Naturally, conducting randomized evaluations in social science requires creativity and contextual adaptation, and does not typically employ many of the strict measures of control that laboratory-style randomized controlled trials require for medicine. For more details on the practicalities of conducting randomized evaluations, see "Running Randomized Evaluations" by Glennerster & Takavarasha.

2.3.2 Demonstrating cost-effectiveness: Evaluate outcomes or monitor outputs?

As section 2.2.1 notes, there are two distinct ways of considering an intervention's cost-effectiveness: (1) through a forward-looking assessment that is based on existing internal and external evaluations of that intervention, or (2) with a retrospective estimate of an intervention's actual cost-effectiveness, derived from an impact evaluation. The fact that it is only possible to directly measure the cost-effectiveness of an intervention through an impact evaluation is *not* meant to suggest that USAID should be doing impact evaluations and cost-effectiveness analyses of every program. Generating new cost-effectiveness evidence through evaluation should be prioritized when that evidence fills a critical gap in current understanding of whether, when, and/or how that intervention is cost-effective. For instance, it is worth prioritizing an impact evaluation if an activity includes substantial funding for an intervention for which no, or very little, cost-effectiveness evidence is currently available.

However, when an intervention is already known from existing impact evaluations in many contexts to be highly cost-effective, assessing the performance of a particular program is usually a matter of **monitoring outputs** rather than **evaluating change in outcomes**. This distinction has a close parallel with how medical treatments, such as antibiotics to treat tuberculosis (TB), are studied and prescribed. Once a drug has been shown to be effective at treating TB, doctors who prescribe that antibiotic do not enroll their patients in further randomized trials to verify that it is working as intended. However, doctors *do* typically keep track of other patient data that indicate whether the treatment protocol is being adhered to (akin to tracking "outputs" for development): they will ask their patient if they are taking their antibiotic regularly, according to the treatment schedule. They also may track outcomes—e.g., taking saliva samples and re-testing their patient for the presence of TB bacteria—not to gauge whether the medicine is effective on the whole, but to gauge whether continuing treatment is needed for that individual patient.

For interventions that have been proven cost-effective across multiple contexts, the emphasis should therefore be on ***monitoring outputs for which causal impact is already well-established*** (e.g., akin to monitoring the number of antibiotics administered, rather than trying to estimate the prevalence of TB and claim a causal impact without a counterfactual). Beyond the fact that the link between outputs and outcomes may already have been proven, *it is simply not possible to estimate the causal impact of an intervention without an impact evaluation that has a credible counterfactual* (see section 2.3.1). However, this does not mean that OUs cannot say anything meaningful about the impact of their activities. The point is that, instead of trying to estimate causal impacts without the necessary tools, OUs should focus on ***monitoring outputs*** that are ***linked through a strong theory of change and causal evidence*** to ***changes in outcomes***. On this basis, USAID OUs can make evidence-based statements about what the ***estimated*** change in outcomes is likely to be, based on the output data.

2.3.3 What about approaches for which cost-effectiveness cannot be measured?

There are some types of USAID's work that do not lend themselves to use of cost-effectiveness evidence to guide decision-making. Because cost-effectiveness can only be measured for interventions that can be evaluated with a rigorous counterfactual, cost-effectiveness evidence is limited or non-existent on interventions that do not lend themselves to counterfactual analysis, such as country-level trade policy reform, policy advocacy, large-scale infrastructure investments, or supporting a government in modernizing its health information system. These interventions might be high-impact and important for USAID to support; we simply will not be able to use cost-effectiveness evidence to guide whether, how, and how much to invest in them. For any intervention that *does* lend itself to being evaluated with a rigorous counterfactual, which includes many of the interventions embedded in USAID programs, use of cost-effectiveness evidence is feasible and should be an important part of activity design.

A word of caution about "systems strengthening" is important to note here. USAID rightly invests in systems strengthening. It is not the case, however, that anything called "systems strengthening" does not lend itself to use of cost-effectiveness evidence. Within systems strengthening, there may be some components that *do not* lend themselves to cost-effectiveness evidence and some that *do*. For example, there is ample cost-effectiveness evidence that looks at the costs and impacts of specific components of health system strengthening, e.g. on incentive payments for government healthcare workers and behavioral nudges to improve healthcare provider performance compliance with protocols. It is important to unpack "systems strengthening" to identify the components of that proposed work to which activity designers ***should*** bring cost-effectiveness evidence to bear, rather than treating a large, multi-faceted "systems strengthening" activity as out of bounds for use of cost-effectiveness evidence.

3. COST-EFFECTIVENESS EVIDENCE POINTS OF CONTACT

Per ADS 201.3.1.9, each Mission, Regional Bureau, and Pillar Bureau must designate one Cost-Effectiveness Evidence Point of Contact (POC) to coordinate and collaborate with the OCE to strengthen the use and generation of cost-effectiveness evidence throughout the Program Cycle. Per ADS 201.2, OCE supports the Agency in improving the effectiveness of its programming and broader global engagement by bringing strong economic theory and evidence to bear on USAID's work. This includes supporting the network of Cost-Effectiveness Evidence POCs in promoting the use and generation of cost-effectiveness evidence. This section provides guidance to OUs in operationalizing the Cost-Effectiveness Evidence POC requirement.

3.1 Number of Cost-Effectiveness Evidence POCs

Missions, Regional Bureaus, and Pillar Bureaus must designate one Cost-Effectiveness Evidence POC, but may designate more than one, as they deem appropriate and feasible. For example, Missions that manage many activity design processes at once, particularly across multiple sectors, may find having different POCs useful to specialize in sourcing cost-effectiveness evidence on certain sectors

of work, and collaborating with those Mission technical offices in the Mission. Similarly, Pillar Bureaus that cover a large number of sectors or sub-sectors may find it helpful to have more than one POC so that the POCs can specialize in specific sectors or sub-sectors.

3.2 Functions of Cost-Effectiveness Evidence POCs

To encourage the use and generation of cost-effectiveness evidence across USAID, Cost-Effectiveness POCs have a set of general functions, irrespective of whether they are at Missions, Regional Bureaus, or Pillar Bureaus. Additionally, there are a set of functions specific to whether the POC is in a Mission, a Regional Bureau, or a Pillar Bureau, given the different roles of those distinct types of Operating Units. This section first describes the general functions for all POCs (section 3.2.1), then describes the functions specific to POCs in different types of OUs (section 3.2.2).

3.2.1 General Functions Applicable to All Cost-Effectiveness Evidence POCs

The primary functions of a Cost-Effectiveness Evidence POC are about sourcing and interpreting cost-effectiveness evidence, and coordination with colleagues across their OU and OCE to improve the availability and take-up of cost-effectiveness evidence. The function of the Cost-Effectiveness Evidence POC is *not* about conducting fresh cost-effectiveness analysis of USAID-funded programs—which is an evaluation function—although the Cost-Effectiveness Evidence POC will be in a position to surface opportunities to generate cost-effectiveness evidence that fills critical gaps.

Across all types of OUs, there is a core set of functions that Cost-Effectiveness Evidence POCs undertake. POCs:

- **Support coordination between their OU and OCE.** Where other staff in their OU have questions or support requests for OCE, the POC can initiate this conversation and may facilitate that ongoing support. To accomplish this, the POC should have a basic knowledge of OCE's structure, resources, and priorities. Similarly, POCs may help OCE to coordinate effectively with other staff and teams in their OU, where OCE may want to source input from the OU.
- **Help ensure that their OU is aware of and taking advantage of OCE resources and tools.** To develop their own awareness of tools and resources, POCs are encouraged to attend OCE-led sessions to introduce new technical guidance.
- **Provide input and feedback to OCE, on behalf of their OU.** The role of a POC is not only intended to push material outwards to OUs, but also an avenue by which the OU can provide inputs, make requests, and give feedback to enable OCE to improve its strategy and activities. This input could include specific feedback on new guidance produced by OCE, as well as more general input on OCE's approach.
- **Participate in the Cost-Effectiveness Evidence Community of Practice,** which OCE organizes. Through this Community of Practice, POCs can both receive training and resources that will support them in their designated

functions, and also share common questions or concerns with POCs from across USAID.

3.2.2 Specific Functions Based on POC's Operating Unit Type

In addition to the general functions described above, POCs have functions that are specific to the type of Operating Unit they represent: Missions, Regional Bureaus, and Pillar Bureaus. OCE anticipates that POCs in Missions will be most heavily involved in activity design and implementation (as described under "Mission POCs" below), whereas POCs in Regional and Pillar Bureaus will play somewhat different functions. However, as Regional Bureaus and Pillar Bureaus deem appropriate, POCs in Regional Bureaus and Pillar Bureaus may also advise on the design and implementation of Regional Bureau and Pillar Bureau activities in ways similar to those outlined below for Mission POCs.

Mission POCs

The work of a Mission POC is focused on the Activity Design phase of the Program Cycle because, as noted above, cost-effectiveness is most useful for decisions about which interventions make the most progress towards specific development objectives. In addition to the general functions of all POCs, ADS 201.3.4.1 states that the POC, in partnership with the OCE, can advise Activity Design teams on how existing evidence of cost-effectiveness applies to activity design, and how generation of new cost-effectiveness can be integrated into activity design.

Activity Design: Intervention Choice and Design

ADS 201.3.4.4 states that OUs should review external and internal cost-effectiveness evidence relevant to the outcomes of the proposed design, to inform decisions throughout the design process, including selection and design of interventions. To enable this, the Mission POC may work with members of the Activity Design Team to understand the purpose, available budget, and other key details about the activity (e.g., What specific outcomes is the activity targeting? What age groups is the activity focused on?) that were determined in the Activity Planning phase. Where there are opportunities to inform the choice and design of interventions in the Activity, the Mission POC should contact OCE (oce@usaid.gov) for relevant evidence-based recommendations. (See section 4.1 for support available from OCE)

If a Mission's Monitoring and Evaluation (M&E) POC is familiar with relevant cost-effectiveness evidence and advises Activity Design Teams on the use of such evidence, then the Cost-Effectiveness Evidence POC may wish to coordinate with the M&E POC at this phase. However, given that M&E POCs are not required to advise Activity Design Teams, and may or may not be familiar with relevant cost-effectiveness evidence, then coordination at this stage between the Cost-Effectiveness Evidence POC and M&E POC may not be essential.

Activity Design: Monitoring and Evaluation

ADS 201.3.4.4 states that OUs should review external and internal cost-effectiveness evidence relevant to the outcomes of the proposed design, to inform decisions including whether new cost-effectiveness evidence generation should be incorporated into the activity design to address key evidence gaps. To enable this, the Mission Cost-Effectiveness Evidence POC should identify any possible opportunities to generate new cost-effectiveness evidence, in cases where M&E from that Activity would address a key gap in current evidence. As discussed in section 2.3, direct measurement of cost-effectiveness will not be possible for the majority of USAID Activities—it is only possible when there is an impact evaluation providing an estimate of the causal impact of that intervention. Depending on the existing body of cost-effectiveness evidence, and evidence gaps, the Mission POC may identify opportunities where an impact evaluation could potentially be integrated into a new Activity Design. The POC could then reach out to OCE (oce@usaid.gov) for guidance on the most pressing evidence gaps in that sector, and any further support on planning for an impact evaluation in their Activity Design. (See section 4.2 for relevant support available from OCE.)

If an opportunity to generate cost-effectiveness evidence is identified, then the Cost-Effectiveness Evidence POC should engage with the Mission M&E POC, to ensure that planning for an impact evaluation is appropriately coordinated and sequenced with wider M&E planning. The Cost-Effectiveness Evidence POC and M&E POC can jointly receive support from OCE (oce@usaid.gov) on technical language, engagement of relevant experts, etc. (See section 4.3 for support available from OCE.)

Regional Bureau POCs

Cost-Effectiveness Evidence POCs in Regional Bureaus can assist in coordinating opportunities for, and sharing resources with, POCs at Missions in their Region and supporting engagement between OCE and Missions in their Region. This may include, for example:

- Communicating with Mission POCs in the Region to identify larger Mission activities at the early stage of the design process that may benefit from engagement with OCE;
- Convening Mission POCs in the Region to develop common cost-effectiveness evidence learning questions or share cost-effectiveness evidence relevant to issues of particular importance in the Region; and,
- Consolidating and sharing feedback from Missions in the Region to OCE on what types of support and resources Missions would find most useful on cost-effectiveness evidence.

Pillar Bureau POCs

Cost-Effectiveness Evidence POCs in Pillar Bureaus can coordinate technical input into cost-effectiveness evidence reviews and support dissemination of guidance to technical offices in Missions. This may include, for example:

- Serving as a technical resource to OCE as it conducts cost-effectiveness evidence reviews for relevant sectors and outcomes. This might involve, for

example, providing input on commonly-funded interventions or suggesting relevant studies. See section 4.1 for more details;
- Supporting the dissemination of cost-effectiveness recommendations to relevant staff in their Bureau, to inform technical guidelines or direct Mission support that their Bureau provides; and,
- Consolidating and sharing feedback from their Pillar Bureau, or technical offices that Bureau supports in Missions, to improve the relevance that OCE's support and products have for their area of work.

3.3 Suggested Qualifications for POCs

Operating Units may designate any staff member, in any office, as the Cost-Effectiveness Evidence POC.

OCE encourages Missions that have a Mission Economist to assign this POC function to them because of the training that many Agency economists have and OCE's responsibility for Backstop 11 Economics coordination and cadre development.

Missions that do not have a Mission Economist, and Regional Bureaus and Pillar Bureaus, can consider assigning this POC role to their M&E POC or to other technical officers who may have relevant skill sets to serve in this role.

A strong candidate for the Cost-Effectiveness Evidence POC function will have:

- Familiarity with cost-effectiveness analysis and impact evaluation concepts, particularly the application of cost-effectiveness and impact evidence in activity decision-making;
- Basic knowledge of the interventions and approaches used in sectors they may be asked to support;
- Experience serving as a "knowledge broker," explaining data or research results to diverse sets of stakeholders and identifying relevant insights to apply; and
- (for Mission POCs) Experience with the Activity Design process in that Mission, including experience serving on a Design Team.

OCE recognizes that staff possessing these qualifications may not be immediately available, or may not have sufficient bandwidth, to take on this role. Over time, OCE will provide support and training to POCs, particularly to improve their familiarity with cost-effectiveness evidence and impact evaluation concepts. As OUs become familiar with the contributions a POC can make, they may choose to hire directly for these qualifications.

OCE is available to advise OUs as they consider who to designate as their Cost-Effectiveness Evidence POC (oce@usaid.gov).

3.4 Level of Effort Expected of POCs

Operating Units may determine what level of effort is appropriate and feasible to devote to this role, based on the Operating Unit's staffing context. OCE encourages OUs to

make available at least 50 percent of a staff person's time for this role, if feasible. Over time, OUs may determine that creating a new position for this function would enable the OU to ensure that there is a staff member with both sufficient time and the right qualifications for the role. This may be especially important for OUs with large numbers of concurrent activity design processes. For OUs that would like to make this a full-time position, OCE will be developing a sample position description that OUs could use as a starting point.

4. THE OFFICE OF THE CHIEF ECONOMIST

The independent Office of the Chief Economist (OCE) promotes (1) the use of cost-effectiveness evidence in Agency decision-making, and (2) the generation of cost-effectiveness evidence that the Agency is uniquely placed to catalyze. To accomplish this, OCE works alongside collaborators from across the Agency—including Cost-Effectiveness Evidence POCs designated pursuant to the ADS 201.3.1.9 requirement—to both generate new cost-effectiveness evidence and synthesize existing cost-effectiveness evidence from completed impact evaluations to use in activity design. This section defines the functions of OCE to ensure cost-effectiveness of USAID programming within the Program Cycle.

4.1 Gathering & Synthesizing Cost-Effectiveness Evidence

OCE supports POCs by curating and analyzing—in collaboration with experts across the Agency—cost-effectiveness evidence, and translating that evidence into actionable recommendations that can be applied during Activity Design.

Improved Activity Cost-Effectiveness (ImpAct) Reviews

To accomplish this, OCE conducts "Improved Activity Cost-Effectiveness" (or the abbreviated "ImpAct") Reviews of different interventions that target the same development goal.[5] Ultimately, this is a forward-looking exercise (see section 2.1.1): ImpAct Reviews use evidence on impacts generated from impact evaluations with a strong counterfactual and evidence on intervention costs from around the world to predict which development intervention is likely to have the largest impact per dollar for a particular development goal, in a specific context.

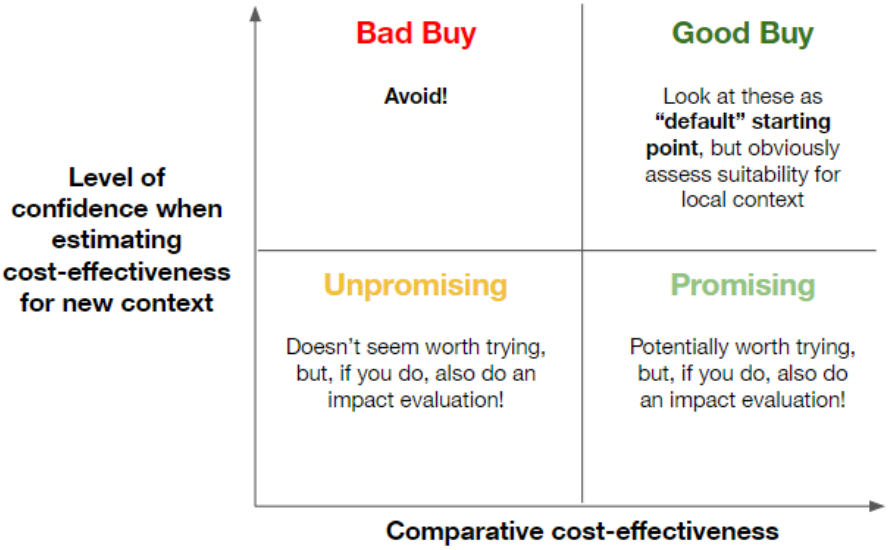
These Improved Activity Cost-Effectiveness (ImpAct) Reviews result in a set of recommendations for which interventions are likely to be particularly cost-effective, and under what conditions. ImpAct Recommendations are based on two dimensions:

1. **Comparative cost-effectiveness:** An intervention is considered "Cost-Effective" if the ratio of impact that intervention has on a key outcome (e.g., reduction in diarrheal incidence) per dollar spent, is larger than the impact-per-dollar ratio for alternative approaches to addressing that outcome.

[5] See forthcoming overview document on OCE's "Improved Activity Cost-Effectiveness" Approach.

2. **Level of confidence when estimating cost-effectiveness for a new context:** Some interventions have undergone multiple randomized evaluations across various contexts and have consistently proven to be more cost-effective than alternative approaches. In that case, we can more confidently predict the impact in a new context.

Using these two dimensions—comparative cost-effectiveness of an intervention, and level of confidence when estimating cost-effectiveness for a new context—OCE and technical counterparts place interventions into four categories:



OCE staff produces these ImpAct recommendations as a means of providing quick, actionable guidance on which interventions are generally considered more cost-effective at achieving a particular outcome. They can be shared by Cost-Effectiveness Evidence POCs in Missions as an input to Activity Design, and are supported by additional documentation, clarifying under what conditions the reviewed interventions are more or less cost-effective and details of good program design.

On-Call Synthesis of Cost-Effectiveness Evidence

Where an ImpAct Review has not yet been conducted on a topic for which an OU is seeking cost-effectiveness evidence, OCE may be available to provide ad hoc support to source and synthesize relevant cost-effectiveness evidence for Activity Design. Where they identify a need for cost-effectiveness evidence in Activity Design, Cost-Effectiveness Evidence POCs can reach out to OCE (oce@usaid.gov) to see if support is currently available.

4.2 Identifying Critical Gaps in Cost-Effectiveness Evidence Requested by OUs

In providing support to POCs during Activity Design, and in doing reviews of cost-effectiveness evidence, OCE maintains a mapping of gaps where cost-effectiveness

evidence would be valuable for USAID decision-making but is not currently available. In fact, another use of the ImpAct Review categories is to help identify places where generating new cost-effectiveness evidence through impact evaluations with cost analysis would be particularly valuable:

ImpAct Category	Implication for Further Evidence Generation
Good buy	Impact evaluation MIGHT be helpful, but is not necessary Sufficient evidence on this intervention already exists, and further impact evalua intervention is unlikely to be a good use of USAID funds, unless (1) the propose a significant variation from the evidence-based intervention design, or (2) the ev a specific gap in the evidence base.
Promising	Impact evaluation is ALWAYS helpful These interventions are well-suited for a randomized evaluation in order to help base for that intervention. With more evidence, it could move to "Good Buy" or "
Unpromising	Impact evaluation is a STRONG SHOULD If an OU has a specific theory for why the intervention may now work despite be the OU should conduct a randomized evaluation to generate new evidence.
Bad buy	Impact evaluation is NOT NECESSARY as intervention should be av Sufficient evidence on this intervention already exists, and further evaluation of unlikely to be a good use of USAID funds.

OCE does not simply assess gaps in the global cost-effectiveness evidence (which may be numerous); OCE also identifies where generating ***new*** cost-effectiveness evidence would be ***most*** useful based on informational needs within the Agency. Given the number of cost-effectiveness evidence gaps in many sectors of development, the expectation is *not* that OCE will recommend and provide support to an impact evaluation in every single case where it might address an open question. Rather, given limited resources and the technical challenges of impact evaluations, OCE will seek to prioritize its engagement toward the most pressing cost-effectiveness evidence gaps, and encourage new cost-effectiveness evidence generation most strongly in those cases. OCE will accomplish this through coordination with and support to Cost-Effectiveness Evidence POCs (see section 3.2.1), and also by noting questions that

seem to emerge frequently during OCE engagement with OUs on Activity Design (see section 3.2.2). In this way, OCE will also help maximize the cost-effectiveness of USAID's spending on evaluation, by focusing resources on research questions that have relatively more impact on our understanding of how to effectively achieve the development outcomes of interest to Agency stakeholders.

4.3 Supporting Generation of Cost-Effectiveness Evidence to Fill Key Gaps

Where an opportunity to address a priority gap in cost-effectiveness evidence is identified, OCE can provide on-call technical support to ensure that evaluation activities address key questions with sufficient rigor. Working in coordination with the Cost-Effectiveness Evidence POC and M&E POC at a Mission, OCE staff may provide the following types of support:

- Scoping high-value opportunities for new research within an Activity, based on gaps in the existing global cost-effectiveness evidence base and the informational needs of USAID;
- Providing template language about expectations for impact evaluation and cost-effectiveness analysis that OUs can choose to incorporate into activity design and procurement materials;
- Providing feedback on Activity Monitoring, Evaluation, & Learning Plans (AMELPs) submitted by IPs, to support the OU in assessing whether the evaluation plans follow technical best practice and effectively address priority research questions; and,
- Sourcing input from academic experts on research gaps or evaluation design.

4.4 Contact OCE for support

OUs are encouraged to contact OCE for assistance or guidance related to the Cost-Effectiveness Evidence POC position, as well as broader collaboration on the use and generation of cost-effectiveness evidence in OU programs. OCE can assist OUs in identifying qualified staff for the POC function, advise on positions OUs are considering creating for the POC role, and answer any other questions OUs have about the POC role. More broadly, OCE, in collaboration with Cost-Effectiveness Evidence POCs, can support OUs directly on using and generating cost-effectiveness evidence. Find more information about OCE on our intranet page (https://my.usaid.gov/OCE) and email OCE at **oce@usaid.gov**.

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