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A Framework to Improve the Cost-Effectiveness of Norad Grants

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Authors: Hope Cutchins, Dean Karlan, Amelia Knudson, Kyle Murphy, and Sneha Stephen

Acknowledgements: Håvard Mokleiv Nygård, Emilie Oftedal, Carola Casti, Anton Popic, Anna Strom Basiston, Øivind Fjeld-Solberg, Guro Nesbakken, Michelle Kaffenberger, Noam Angrist, Markus Goldstein, Shine Yang, Juan Hernández-Agramonte, Elisabeth Brinch Sand, Hege Grov

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1. Executive Summary

Maximizing the Effects of Norwegian Development Aid

Every development dollar matters. Norway and the Norwegian Agency for Cooperation and Development can optimize their foreign assistance by strategically applying cost-effectiveness principles across their grant portfolios. Every dollar Norad spends on one program comes at the expense of not spending more on another. Yet some programs inevitably achieve greater impact per krone spent than others. Cost-effectiveness and cost-effectiveness thinking aid Norad in making decisions that ultimately deliver greater effects per krone on key development outcomes.

This document introduces key cost-effectiveness concepts to support a common understanding among Norad staff and outlines practical methodologies for estimating expected impact relative to costs. These include approaches for drawing on existing impact evaluation evidence, as well as modeling expected effects in contexts where direct evaluation is not feasible, or interventions are implemented in new settings.

> We organize a framework for applying these approaches across Norad's grant agreements, calls for proposals, partner negotiations, and funding decisions. Where robust global evidence already exists, Norad staff are encouraged to use it in collaboration with their partners to inform program selection and design, adapting for contextual factors that may influence costs and impacts. Where such evidence is limited, supporting partners to generate new evidence can strengthen decision-making for specific programs while contributing to the broader knowledge base—summarized simply as: **use existing evidence where it is available, and generate new evidence where it is not.**

The guidance is organized first by the level of complexity of the grant agreement. Many of Norad's grant agreements include a few distinct components that Grant Managers can assess for cost-effectiveness and identify areas for improvement, depending on the type of program or project.

Part One: Maximizing Effects per Krone by Project Level

The framework proposes four modes of engaging with cost-effectiveness evidence based on the project level, ranging from the most proximate to outcomes to systems supporting global evidence systems. The first level, “Direct Implementation,” centers on using existing research evidence to select the most highly cost-effective programs for a given outcome. The second level is once-removed, focused on “Institutional Systems Strengthening”, and proposes strategies for building evidence capacity within institutions, and using impact evaluation evidence as part of a model for estimating cost-effectiveness. The third level, “Regional, National, and International Policy Change,” includes programs that have little or no counterfactual evidence and thus rely more on modeling cost-effectiveness and using transparent, educated assumptions and qualitative judgments. The fourth level, “Global Evidence Systems,” discusses support for global public knowledge goods to catalyze cost-effectiveness thinking by actors throughout the development ecosystem.

Grant Managers who wish to increase the cost-effectiveness of their grant agreements and have sufficient detail and information to apply cost-effectiveness evidence or model cost-effectiveness should use the strategies presented in the first part of the framework. Grant agreements with partners that support many activities at all levels of the framework benefit from a different approach to improving cost-effectiveness, presented by the type of partner, with consideration for Norad’s level of influence in shaping decision-making.

Part Two: Cost-effectiveness of Partners

When Norad provides NGO partners with significant, unrestricted funding, it gains meaningful leverage to improve how those organizations allocate resources across programs. In these cases—where funding is not tied to a single intervention—Norad can focus on strengthening partners’ overall evidence use by assessing how decisions are currently made, encouraging alignment with globally recognized “Good Buys” where strong evidence exists, and supporting evidence reviews or Comparative Cost-Effectiveness Analyses where gaps remain. Partners can contribute to the cost-effectiveness evidence base by collecting accurate cost data, conducting ex post CEAs of their programs, participating in research consortia, and ensuring monitoring systems track both implementation fidelity and key cost drivers.

Where partners are implementing innovative programs or working in sectors with limited existing evidence, Norad can require or incentivize evidence-generation activities such as impact evaluations, multi-site studies, or commissioned syntheses aligned with partners’ learning priorities.

Supporting embedded technical assistance or evaluation teams within larger NGOs can also build sustainable internal capacity to use cost-effectiveness analysis in decision-making. Norad can take a similar approach to grants with Trust Funds and multilateral partners, taking into account the scope they have to influence the partner's cost-effectiveness. The framework proposes a set of criteria and key questions for Grant Managers to ask when reviewing their partners' cost-effectiveness to guide their approach.

Finally, the framework highlights key trade-offs and limitations Grant Managers may encounter when prioritizing cost-effectiveness, along with operational recommendations for embedding these strategies into Norad's grant processes.

> We hope this framework serves as a practical resource for strengthening the use of evidence and cost-effectiveness considerations in Norad's grantmaking.



DEAN KARLAN

Professor of Economics and Finance, Frederic Esser Nemmers Chair
Co-Director, Global Poverty Research Lab

2. Introduction

Norad is committed to maximizing the impact of its foreign assistance. Cost-effectiveness principles and strategies are key tools for ensuring that scarce resources achieve the most impact on development outcomes, allowing the same funding to drive deeper impacts by either reaching more people or creating more impact per person.

To improve the cost-effectiveness of its grant management, Norad collaborated with Dean Karlan and the Global Poverty Research Lab at Northwestern University to develop a framework for applying cost-effectiveness thinking to Norad's grant portfolio. This review was conducted in collaboration with a team at Norad, comprising participants from across four Departments and seven sections. It included workshops and co-creation meetings to ideate and test ideas, frame strategies around Norad's grants and portfolios, and identify the key tradeoffs that grant managers face when making funding decisions.

This document presents a unified framework for deploying cost-effectiveness principles throughout Norad's grant portfolios.

- First, we define and present Norad-specific cost-effectiveness principles and introduce methodologies for assessing cost-effectiveness.
- Next, we organize Norad's grants into four project levels and three partner types based on the type of evidence engaged.
- Strategies for leveraging cost-effectiveness thinking are differentiated by program or partner type, depending on which factors most influence decision-making.

These strategies for incorporating cost-effectiveness principles are further grouped into four domains:

Evidence Use	Evidence Use focuses on how Norad and partners can apply existing impact and costing evidence to improve ongoing and future grants.
Evidence Generation	Evidence Generation identifies opportunities to contribute to global public goods and to fill knowledge gaps where existing evidence is insufficient. A successful Evidence Generation strategy supports Evidence Use by producing knowledge that Norad can use to design its future grants.
Evidence Capacity Building	Evidence Capacity Building refers to strengthening organizations' ability to use and generate evidence internally.
Performance Monitoring	Performance Monitoring strategies outline how to cost-effectively manage grant implementation, ensure accountability, and align with Norad's broader results management systems.

We conclude with recommendations for next steps to help institutionalize evidence-based decision-making. These processes can be tested and refined before scaling and are designed to further the framework's strategies to improve Norad's effectiveness.

> Altogether, the strategies and reforms have one driving aim: to support Norad's effort to maximize the impact of its foreign assistance resources.

By driving for more cost-effectiveness, Norad successfully supports its own national interest as well as progress on development outcomes globally.

3. What is Cost-Effectiveness?

Cost-effectiveness measures 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 the intervention), per krone cost of the intervention. In short, cost-effectiveness is about "effects per krone."

Both elements of this definition—effect and cost—are critical. If focused only on effects without considering costs, Norad would effectively ignore scale—the number of people who can benefit from its programs. On the other hand, if focused only on low-cost delivery without considering effects, Norad would risk making little or no difference in the lives of program participants or excluding vulnerable populations that are difficult to reach.

Cost-effectiveness is inherently comparative: many interventions are good, but not all are equally good relative to each other. There is no single threshold for an intervention to be considered "cost-effective." Judging cost-effectiveness is best used as a tool for comparison among alternative interventions, to identify the one that has the greatest possible effect per krone on a specific outcome for a specific population.

Evidence of effects is ideally drawn from randomized impact evaluations, which measure changes that are attributable specifically to the intervention by using randomization to create the most credible comparison group. The massive growth in impact evaluations of development and humanitarian programs over the past two decades enables Norad to make more confident evidence-informed decisions.

Unfortunately, many impact evaluations do not measure intervention costs, but they may still provide useful information for making recommendations about comparative cost-effectiveness. For example, when an intervention repeatedly shows no effect, we can draw straightforward conclusions about its cost-effectiveness relative to alternatives. Even a few cost estimates can contribute to reasonable inferences about which interventions tend to have greater effects per krone than others.

Some systems-strengthening programs, such as public-sector capacity-building, are not well-suited to impact evaluations and therefore lack a direct evidence base on their cost-effectiveness. Even so, Norad can improve decision-making through cost-effectiveness thinking: a structured approach to comparing the likely costs and effects of alternative programs. This approach allows grant managers to make reasoned judgments about expected effects per krone, even when rigorous evidence of effects is unavailable. Moreover, many systems-change programs include components—such as household, community, or firm-level interventions—that can still be informed by cost-effectiveness evidence. Section 4, Cost-Effectiveness Methodologies, and Project Level 2 of the framework explore this concept in greater detail.

Applying cost-effectiveness thinking also requires clarity about how it differs from related concepts that are often used interchangeably. Distinguishing cost-effectiveness from cost-efficiency, cost-economy, and cost-benefit analysis promotes consistent use of terminology across Norad's grants and partners. Cost-efficiency and cost-economy describe aspects of resource use that influence cost-effectiveness, while cost-benefit analysis is a related but distinct type of assessment.

In practice, these concepts are defined as follows:

Cost-Economy	Cost per input (e.g., the price paid for a vaccine dose)
Cost-Efficiency	Cost per output (e.g., the cost per person vaccinated, including both the cost of the dose and the cost of delivering the dose)
Cost-Benefit Analysis	An assessment that monetizes all costs and benefits to calculate a ratio, requiring explicit assumptions to convert all benefits to a monetary value. This allows for prioritization across sectors—for example, comparing the benefit–cost ratio of vaccinating a population versus constructing a new school.

These terms describe different dimensions of value for money and should not be used interchangeably when the goal is to maximize effects per krone. Cost-effectiveness builds on cost-efficiency but focuses on demonstrated outcomes rather than inputs or outputs alone. Even a highly cost-efficient program can have low or zero cost-effectiveness if it does not produce effects. For example, a vaccine program could have a very low cost per person vaccinated, but if the vaccine does not work, then the cost-effectiveness of the program is zero.

In practice, even after clarifying these terms, cost-effectiveness is sometimes still misunderstood, which can create hesitation about its use or lead to its misapplication.

To address this, it is important to clarify what cost-effectiveness is <u>not</u>:

A way to prioritize one sector or outcome over another	Cost-effectiveness thinking does not rank outcomes across sectors; rather, it asks which approaches are most cost-effective *within* a given outcome area (see “Cost-Benefit Analysis” above for an approach designed to compare projects across sectors).
A tool for cutting budgets	Cost-effectiveness is not about minimizing costs, but about ensuring that available resources generate the greatest possible impact.

To operationalize these principles in grant management, Norad requires clear methodologies that can be applied across decision contexts. Section 4 outlines these methodologies and how they support the use of cost-effectiveness thinking in practice.

4. Cost-Effectiveness Methodologies

Using cost-effectiveness thinking across Norad's grant portfolio requires different methodologies depending on the partner, the type of intervention, and the specific questions to be answered.

There is now a large and growing body of evidence on what programs and policies are likely to be effective and, in some cases, cost-effective.[1] However, making sense of this body of research requires some level of evidence synthesis to translate impact estimates from individual projects into actionable insights for grant management decisions. We highlight (and discuss more below) three related terms that pertain to cost-effectiveness evidence:

- **Impact evaluations** are studies that attempt to measure the causal effect of a project, program, or policy on an *outcome of interest*, by comparing results for program participants against a credible counterfactual (what would have happened without the program). There are many different ways of conducting an impact evaluation depending on how the counterfactual is constructed. Some evaluations use an experimental approach like randomized controlled trials, where participants are randomly assigned to receive the program or not; others use quasi-experimental approaches such as difference-in-differences (comparing changes over time between participating and non-participating groups), regression discontinuity designs (comparing individuals just above and below an eligibility cutoff), matching methods (statistically pairing participants with similar non-participants), etc.
- **Cost-Effectiveness Analysis (CEA)** should ideally be conducted alongside an impact evaluation. While an impact evaluation tells us whether a program has a causal effect on an outcome of interest, a cost-effectiveness analysis adds information about how much it costs to achieve that effect. At a specific site or program, it estimates the effect on a particular outcome per krone spent.

[1] Sabet, Shayda Mae, and Annette N. Brown. 2018. "Is Impact Evaluation Still on the Rise? The New Trends in 2010–2015." *Journal of Development Effectiveness* 10 (3): 291–304. doi:10.1080/19439342.2018.1483414

- **Comparative CEA** brings together findings from multiple CEAs and impact evaluations so that different interventions can be assessed side by side. Aggregating evidence across studies allows policymakers to compare how much of an effect different approaches generate relative to their cost. Ultimately, Comparative CEA is designed to inform decisions about where to allocate limited resources. It helps policy planners, implementers, and donors identify which interventions or which design features of interventions tend to deliver bigger effects per krone spent.

The methodologies described below provide a structured way for partners to draw on this evidence to inform program design, and for Norad and its partners to compare alternatives and assess expected effects per krone in different contexts.

Comparative Cost-Effectiveness Analysis

There are multiple ways to conduct a Comparative CEA, depending on the question being asked and the level of rigor required. In some cases, a Comparative CEA brings together results from individual impact evaluations that measure similar outcomes and compares their reported effects and costs across interventions. This approach may involve structured aggregation of impact evaluations, for example, summarizing findings across programs in a “Smart Buys”-type report.[2]

In other cases, a Comparative CEA systematically combines effect size estimates from multiple studies to produce a pooled estimate of cost-effectiveness. This more quantitative approach, such as a meta-analysis, uses statistical methods to generate an overall estimate of effects per krone spent across contexts.

These approaches require different levels of time, resources, and technical expertise, and they serve different purposes. A quantitative Comparative CEA can help identify how contextual factors, program design features, or participant characteristics influence the effect of a program, including whether certain groups benefit more than others. A more qualitative synthesis can deepen understanding of the contextual conditions, implementation choices, and design elements that appear critical to achieving results. Grant managers should consider which Comparative CEA approach is most appropriate for different strategic and policy questions.

Drawing on the global evidence base, Comparative CEAs group interventions according to typical effects per unit of spending (e.g., additional years of schooling per NOK 1000) and the strength of the underlying evidence.[3]

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[2] See Appendix E “Further Reading” for examples of this type of report.

[3] Since Comparative CEAs typically rely on impact evaluations as the primary input, programs which are harder to measure may be underrepresented. The Modeling and Cost-Effectiveness section presents a methodology for using cost-effectiveness

Grouping can help guide policy-makers on whether an intervention is likely to work in their context and whether additional funding should be allocated to more impact evaluations in order to improve the precision and depth of the evidence of effects.

One way to group interventions in a Comparative CEA (used by, but not exclusive to, the former Office of the Chief Economist at USAID, and similar to DFID/FCDO's "Best Buys") is as follows:



Good Buys have strong evidence of effects and relative cost-effectiveness. Since the underlying intervention is well researched, a new impact evaluation may not be necessary. It can be sufficient to have good monitoring data to measure whether the intervention is being implemented appropriately and efficiently.



Promising Buys have some encouraging but unsettled evidence of effects and relative cost-effectiveness. An intervention may show promise, but questions persist about its applicability in a particular context, or there is still work to be done to identify which program components drive effects. In these cases, investing in more impact evaluation could yield outsized benefits, helping establish best practices and principles for generalizability.



Unpromising Buys generally show limited effects or weak cost-effectiveness, with potential exceptions. Implementers proposing these interventions should clearly articulate what differs in their context and why the intervention is expected to perform better. In such cases, an impact evaluation should be included.



Bad Buys have strong evidence of null or negative effects across contexts and should generally be avoided. These interventions sometimes persist despite a lack of effect because they are politically attractive or altruistically, yet erroneously, appealing. Misdirected resources are not only wasted but also result in missed opportunities to deploy better policies. Avoiding Bad Buys can be just as important as promoting Good Buys.

However, what is cost-effective in one context may not have the same effects elsewhere, or may be much more expensive. In all cases, careful consideration of generalizability[4] is necessary when considering implementing an intervention in a new context or at a new scale, including evidence on the underlying issue, mechanisms of action, the policy environment, and implementer capacity and quality.

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thinking to estimate the cost-effectiveness of programs with less evidence to facilitate comparisons.

[4] See Appendix E "Further Reading" for additional resources related to generalizing cost-effective results from one context to another.

For example, Pratham's Teaching at the Right Level (TaRL) program has been categorized as a "Good Buy" because it is more cost-effective at raising math and reading levels relative to other interventions targeting the same outcomes. The intervention includes assessing students' baseline levels, then placing them into extra instruction outside of school hours tailored to their learning levels. In many contexts, it is common for students of widely varying levels to be in the same grade level, and the TaRL program addresses this by providing a structure to target instruction by learning level. However, if grade and achievement levels are already well-aligned, we would not expect the program to have any effect on the outcomes. This illustrates why cost-effectiveness evidence must be interpreted in light of local conditions.

Modeling Cost-Effectiveness

Comparative CEA, as described above, provides valuable guidance on the relative cost-effectiveness of different interventions to aid general decision-making. However, grant managers may want to assess the estimated cost-effectiveness of a specific program or intervention, in which case they can use a model. Modeling cost-effectiveness is most helpful in these different scenarios:

- Cost-effectiveness evidence is limited because the intervention is not suitable for an impact evaluation.
- An intervention is suitable for an impact evaluation, but it has not been extensively evaluated yet.
- Cost-effectiveness evidence is available, but the intervention is being implemented in a new context.

Modeling cost-effectiveness goes beyond simply comparing interventions based on their observed inputs and expected outcomes. Instead, it involves building an explicit framework that reflects how a program is expected to generate results, incorporating assumptions about contextual factors, program design features, and the theory of change that links activities to outcomes. When evidence is strong and risks are well understood, models produce cost-effectiveness estimates with greater confidence (a more "concrete" model); when evidence is limited or risks are uncertain, the estimates span a wider range (a more "fuzzy" model). This type of modeling supports scenario-based projections and makes clear where confidence in the evidence is strong and where uncertainty remains.

Cost-effectiveness estimates should be presented alongside a clear statement of confidence, reflecting how strong the underlying assumptions are—for example, by showing best- and worst-case scenarios to illustrate the range of likely estimates. The objective is not to produce a precise figure, but to generate structured evidence to support grant managers and funding agencies with dialogue, prioritization, and resource-allocation decisions. Such modeling also allows decision-makers to assess how results observed elsewhere might translate to their own context.

Models can be used both **prospectively**, to clarify trade-offs among alternative approaches for decision-making, or **retrospectively** to estimate the cost-effectiveness of a completed program or policy. Each of these has a slightly different formula, detailed below.

Prospective Modeling

A prospective model is most useful when grant managers need to choose among options for what to fund for a given problem (a Comparative CEA could also be useful to policymakers needing to choose among policies, or implementers needing to choose among program designs). A standard working formula for a prospective model is:

> Prospective Cost-effectiveness Estimate = Expected Effect / Total Program Costs

This is the standard, per-krone cost-effectiveness of the program — a property of the program itself, independent of which funder is supporting it. Where Norad is a co-funder, the per-krone CE ratio is the same whether assessed from the program's perspective or from Norad's: applying Norad's funding share consistently to both numerator and denominator leaves the ratio unchanged. There are specific cases — discussed in the new sub-section below — where Norad's contribution does affect the CE ratio. These are the exception rather than the default and are most relevant at the portfolio level rather than for individual program selection.

The variables of the model are defined below:

Expected Effect: The expected change in an outcome of interest caused by an intervention or policy. The intervention's theory of change, combined with the best available evidence, should be helpful for coming up with a reasonable "expected effect." An Expected Effect should include two key things:

1. **Counterfactual analysis** (a comparison of results against what would likely have happened anyway): The expected effect must incorporate counterfactual analysis. Since the word "effect" implies a causal impact, it must be that the "expected effect" is the change in outcome for the relevant households, communities, markets, etc., compared to how that outcome would have changed in the absence of the program or policy (or in the absence of Norad's support, in this case). If the model is using the effect from an impact evaluation, then that is what should be used for "expected effect" (after also incorporating the probability of success, see below). If, on the other hand, the model is merely predicting what the effect will be, then one must also account for what the outcome would likely be absent the intervention (i.e., the counterfactual) and take the difference as the "expected effect".

Two examples:

Prior evaluations conducted with counterfactuals (e.g., RCTs) estimated that the intervention led to students' learning outcomes increasing by 0.20 standard deviations (roughly equivalent to two additional months of learning) more than they would have otherwise. Here, the 0.20 is the “effect size,” and it is already incorporating the counterfactual.

A theory of change and other accompanying evidence lead one to estimate that after an intervention, 80% of students will be above a certain threshold in an exam on literacy or numeracy. Then one needs to estimate what percentage of students would have passed that exam in the absence of the intervention. Perhaps this estimate is obtained from historical data from schools or from other studies that do not evaluate this intervention. Suppose the best estimate one has is 70%, then the “expected effect” is 10 percentage points.

2. The intervention’s probability of success: The expected effect also depends on the probability that the intervention will achieve its intended change in outcome. The probability of success captures some of the risk of implementing known interventions or risks with new or innovative approaches. Grant managers completing this exercise should think realistically about the probability of success, and consider the risk and mitigation factors from grantees in their proposals and the validity of those claims.

IN SUMMARY

Expected effect using impact evaluation evidence = Impact Evaluation Effect × probability of success

Expected effect without impact evaluation evidence = (Outcome change - Counterfactual outcome change) × probability of success

Total Program Costs: the total resources required to implement the program. The denominator should reflect the resources required to deliver the intervention to its target population, regardless of which funder is supporting it. Defining costs from the program’s perspective ensures consistency with the numerator, which captures total effects on the target population.

The costs to include depend on the analytical perspective. At minimum, total program costs include direct delivery costs (staff, materials, supplies) as well as administrative and program management overhead.

IN SUMMARY, CONTINUED

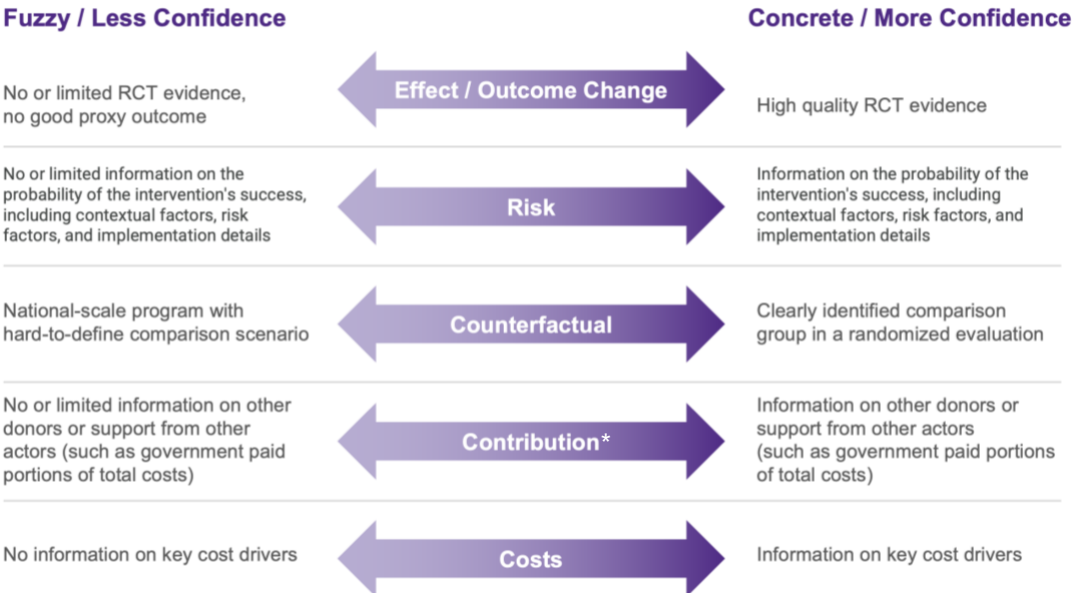
Under a full social-cost perspective, costs also include time costs borne by program participants — for example, the opportunity cost of beneficiaries' time spent attending sessions or complying with program requirements (see J-PAL's costing guidance for further detail).

In practice, the depth of cost analysis should match the decision context. For a grant manager comparing proposals, qualitative reasoning about whether one program imposes significantly greater participant time costs than another is usually sufficient — precision around participant time costs is less critical than internal consistency in how alternatives are assessed. For comparative CE analyses intended to inform broader policy decisions (such as Smart Buys-style syntheses), participant time costs should be treated more rigorously.

Factors that influence the confidence of each model parameter

Depending on the evidence and information available, we can be more or less confident in the parameters going into the model and the model's ultimate estimates of cost-effectiveness. Depending on the evidence and information available, we can be more or less confident in our model's predictions. **Figure 1** illustrates factors that can affect the degree of confidence we have in the model for each parameter.

Figure 1.



* Under the revised framework, Contribution does not enter the per-krone CE ratio in standard cases. The confidence spectrum applies to leverage-case modeling — see the sub-section "When does Norad's Contribution affect the CE ratio?" in Section 4.

Retrospective Modeling

A retrospective model is best used when grant managers want to estimate the cost-effectiveness of a completed program and better understand its theory of change. In a retrospective model, we remove the probability of success from the equation because the intervention or program being assessed has already been implemented.

Retrospective Cost-effectiveness Estimate = Actual Effect / Total Program Costs

The change in the retrospective formula is that the “Expected Effect” becomes the “Actual Effect”. This indicates that the program's outcome is known and that it is no longer necessary to factor in the probability of its success.

Actual Effect: The change in an outcome of interest caused by the program or intervention.

- Actual effect with impact evaluation = Impact Evaluation effect
- Actual effect without impact evaluation = Outcome change - counterfactual outcome change

Total Program Costs are defined as for a prospective model. For more details on modeling cost-effectiveness, see the methodology described above. The stylized example below illustrates how cost-effectiveness modeling can be applied in practice.

EXAMPLE TO ILLUSTRATE MODELING IN PRACTICE

Continuing the example of Pratham’s Teaching at the Right Level, we can practice using modeling to estimate the cost-effectiveness of a TaRL intervention in a new context using a prospective model. In this case, we can draw on impact evaluation evidence on the effectiveness of TaRL in other contexts to anchor our assumptions. For the effect size, we use estimates from Angrist et al. (2020), which find learning gains on the order of roughly 0.2–0.3 standard deviations in foundational math and reading outcomes. This model uses the treatment effect from an RCT, so it does not need to discount the share of the outcome that would have occurred anyway (the counterfactual).

Next, the model must discount the risk of whether or not the intervention is likely to be successfully implemented in the new context. We assume that the relevant contextual factors are similar to what was evaluated (e.g., children have different learning levels within grade, testing is feasible, etc), and we have a high degree of confidence in the proposed implementing partner. Considering this along with the strength of the evidence on TaRL, the risk is small, so we anticipate 90% probability of success. Let’s also assume total program costs include teacher training, learning materials, supervision, monitoring, and program management.

EXAMPLE, CONTINUED

Assume the total program costs are NOK 10 million to reach 20,000 students, or NOK 500 per student.

Counterfactual: Because we are drawing the effect size directly from a randomized evaluation, the counterfactual is already incorporated in the 0.25 SD estimate — the RCT compares treated students to students who did not receive the program.

Cost considerations: The NOK 500-per-student figure captures direct delivery costs and program overhead. TaRL involves extra instruction outside regular school hours, which carries a time cost to students. For the purposes of comparing this proposal against other education programs at the grant manager level, we treat this qualitatively rather than monetizing it. A more rigorous comparative analysis (e.g., for a Smart Buys-style assessment) would account for participant time costs more explicitly.

Calculation: Expected effect = 0.25 × 90% = 0.225 SD per student

> Prospective CE = 0.225 SD / 500 NOK = **0.00045 SD per NOK**, or 0.45 SD per 1,000 NOK

This provides a basis for comparison with other education interventions targeting foundational learning. Norad funds 50% of this program, but the per-krone CE is the same whether assessed from the program's perspective or from Norad's — Contribution cancels out when applied consistently. For portfolio reporting purposes, Norad's share of total program effects is 50% × (0.225 SD × 20,000 students) = 2,250 student-SDs. For the reasons outlined in the setup of this exercise, this prospective model has a high degree of confidence.

However, it could be the case that the implementing partner is aiming to implement TaRL in a setting where it has not been tested or through a different delivery channel. In this case, a grant manager may want to additionally model the estimated cost-effectiveness with a different assessment of risk — say only a 70% likelihood of successful implementation. Under this probability of success, the estimated cost-effectiveness is (0.25 × 70%) / 500 NOK = 0.00035 SD per NOK, or 0.35 SD per 1,000 NOK.

Norad staff can do the same for the other parameters in the model and present a best and worst case scenario for the estimated cost-effectiveness of the grant (essentially a sensitivity analysis). Presenting a range helps communicate uncertainty or confidence in the estimates. Norad staff can update their assumptions with new information as needed.

EXAMPLE, CONTINUED

The strategies in the following sections provide additional examples of cost-effectiveness modeling, including situations where evidence and information are more limited and thus models need to rely more on judgments and educated assumptions.

When does Norad's Contribution affect the CE ratio?

In most cases, Norad's share of program funding does not change the per-krone cost-effectiveness of a program. The CE ratio is a property of the program — its effects relative to its total costs — and does not depend on how those costs are split among funders. When Contribution is applied consistently to both numerator and denominator, it cancels out: the per-krone ratio at the program level equals the per-krone ratio from Norad's perspective.

Contribution remains useful for a different purpose: estimating Norad's share of total program effects for portfolio reporting, results frameworks, or claiming credit. This is calculated separately from the CE ratio:

Norad's share of effects = Total Program Effects × Contribution share

Two exceptions are worth highlighting, where Norad's contribution does change the cost-effectiveness ratio. Both are best understood as the **marginal cost-effectiveness of Norad's funding** — asking what the world looks like with Norad's funding versus without it — rather than the program's overall cost-effectiveness:

1. **Crowding in additional funding.** When Norad's contribution catalyzes funding from other donors or governments that would not have materialized otherwise, Norad's investment generates effects beyond what its proportional share of program costs would suggest. The relevant ratio from Norad's perspective uses total program effects in the numerator and Norad's own costs in the denominator.
2. **"But-for" cases.** Where the program would not exist or would operate at much smaller scale without Norad's support, Norad is effectively the marginal funder for the entire program. The CE ratio uses total program effects over Norad's costs, and Norad's effective Contribution share approaches 100%.

A note on why Contribution is kept as a distinct parameter rather than absorbed into Expected Effect: folding leverage into the effect parameter would conflate two things we want to keep separate — the program's underlying cost-effectiveness (which can be compared across programs on its own terms) and Norad's catalytic role (which is a property of Norad's funding decision, not the program). Keeping them as separate parameters allows a grant manager to assess each clearly.

These exceptions are most relevant when Norad is making **portfolio-level decisions** — assessing the marginal effect of its overall mix of grants. For **program-level selection** — comparing two programs that Norad could fund — Contribution typically cancels out and the program-perspective CE is the relevant metric. Grant managers may be making both decisions at once, but it's helpful to keep them analytically distinct: program CE answers "is this program a good use of money?"; marginal Norad CE answers "what does Norad's funding decision yield?"

Social Return on Investment

A related approach that has gained traction in the impact-focused donor community is **Social Return on Investment (SROI)**[5]. SROI is usually expressed as a percentage return on investment or as a ratio. For example, "for every $1 spent, our investment generated $3 of social and environmental value". SROI can also be used prospectively and retrospectively, with retrospective SROI using actual data from investments.

Monetizing benefits also has the advantage of allowing for comparison of different outcomes within the same analysis as well as adding up multiple outcomes as long as the theory of change indicates the intervention has independent paths to each outcome (i.e., one is not merely a downstream by-product of the other outcome; a program that causes incomes to increase does not add up the income increase and the increased consumption or health or education investments that are a by-product of having higher income). For example, if a single grant aimed to improve both employment outcomes and environmental outcomes but through distinct activities, an SROI would monetize both the educational and employment effects and add them together.

SROI uses a similar conceptual framework as Cost-Benefit Analysis, including monetizing the estimated benefits and comparing those to costs, and as best as we can tell, the only difference is that certain industries and decision-makers tend to call the analysis SROI, whereas others call it CBA. An SROI does imply that the benefits to "society" are incorporated, whereas a CBA does not specify the scope of the benefits measured (but we would assert that a good CBA tracks the benefits to society, if it can, in the same way that an SROI aspires to do). Investors tend to use the term SROI, whereas economists tend to use the term CBA.

The cost-effectiveness methodologies and their respective use cases are summarized in **Table 1**.

[5] Nicholls, Jeremy, Eilis Lawlor, Eva Neitzert, and Tim Goodspeed. 2012. A Guide to Social Return on Investment. The SROI Network. Guide to SROI

Table 1.

Type of Analysis	Questions Answered	When to Use it	Inputs/Formulas
CEA of a single impact evaluation	What is the estimated cost-effectiveness of a program or intervention?	When the estimated cost-effectiveness of a particular program is needed and you have impact evaluation evidence and cost data. Ideally should be part of all impact evaluations.	CE = [Measured Effect]/[Costs]
Comparative CEA	In general, which program does the evidence say is likely the most cost-effective at improving the outcome(s) I care about?	To inform decision-making on which programs or policies are estimated to be cost-effective for a specific context, and you have sufficient impact evaluation evidence to assess.	Inputs include impact evaluation evidence from studies that measure the outcome(s) or intervention(s) of interest.
Prospective CE model	Among the potential options, which program is estimated to be the most cost-effective at improving the outcome(s) I care about, based on these assumptions and the available data?	When you want to project the cost-effectiveness of a program in the future for a particular context or scenario to inform future decision-making.	CE estimate (no RCT) = [(Outcome change − Counterfactual outcome change) × Probability of Success] / Total Program Costs CE estimate (w/ RCT) = [Estimated Effect × Probability of Success] / Total Program Costs

Type of Analysis	Questions Answered	When to Use it	Inputs/Formulas
Retrospective CE model	How much effect per krone do I estimate this program achieved with the given resources, based on these assumptions and the available data?	When you want to estimate cost-effectiveness for a specific opportunity that has already occurred to demonstrate or track effects.	CE estimate = Actual Effect / Total Program Costs
Social Return on Investment	What is the monetary value of the social return on my grant investment(s)?	When an intervention generates multiple, diverse outcomes (often across sectors) and you want to monetize those benefits into a single metric to compare and communicate overall value for money	SROI = (Monetized Benefits) / Total costs

The methodologies described above provide the analytical tools for assessing and estimating cost-effectiveness. How these tools are applied, however, varies depending on the type of intervention, the level at which it operates, and the role Norad plays in influencing outcomes. The next section (5) outlines a framework of Norad's grants into four Project Levels and three partner types, ranging in complexity of engagement with cost-effectiveness.

5. Applying Cost-Effectiveness Thinking Across Project Levels and Partners

In this section, we present a framework for Norad to apply cost-effectiveness thinking across its entire grant portfolio.

The framework is principally organized by the level of complexity (or multifacetedness) of a grant agreement and then further organized by the type of cost-effectiveness evidence leveraged or the type of partner. A highly complex grant agreement may involve many programs that aim to accomplish a diverse range of objectives, such as a Trust Fund that advocates for international regulations, funds NGOs in partner countries, and engages with country governments to improve their service delivery. A less complex grant agreement might support a specific education or health program in one or more countries. In other words, each component requires a distinct application of evidence.

The first set of strategies in the framework looks more closely at the *content* of a grant agreement and the proposed intervention. The framework organizes projects into four levels based on how they can use cost-effectiveness evidence and "thinking," ranging from the most concrete and measurable (i.e., proximate to outcomes and unit of effects such as via direct implementation of a program) to the most abstract and hardest to measure (e.g., broad policy change initiatives and global evidence systems). For each, we put forward how cost-effectiveness evidence can be used to guide planning and resource allocations. For more challenging applications, we discuss how cost-effectiveness modeling can and should still be a disciplining force, most useful to compare across options in order to maximize expected effects. A grant may include components across multiple project levels, and assessing its cost-effectiveness may require applying multiple types of evidence. Section 7 provides detailed strategies for each of the levels.

The second set of strategies assesses cost-effectiveness based on the type of partner. Many of Norad's grant agreements include unrestricted support that organizations may use for several purposes, including components outside of Norad's direct influence.

Furthermore, many organizations work at multiple project levels of the framework, with many components, making the question of how cost-effective each agreement might be more complex. As such, Section 8 recommends strategies tailored to each partner type that suggest how Norad can work with partners to increase cost-effectiveness from within.

Framework Part One: Project Levels

1. Direct Implementation

The first level includes projects that directly deliver development programs to end users. Although Norad typically does not fund individual projects in the countries where it operates, many of its partners implement projects directly. These projects—often implemented by NGOs or local governments—may involve service delivery that directly affects individuals, households, schools, firms, or communities.

Given the large number of impact evaluations of such development programs, applying cost-effectiveness evidence at this level typically involves drawing on an existing comparative CEA or commissioning new ones.

2. Institution Level Systems Strengthening

The second level includes projects that aim to strengthen institutions and systems. Systems strengthening is a central approach for Norad and its partners, aimed at ensuring the sustainability of effects beyond a single investment. Norad's education portfolio defines systems strengthening as "*the process of enhancing the education system's ability to effectively transform inputs into quality service delivery, ensuring learning for all*," though the concept applies across portfolios. While these interventions are implemented at the institutional level, the ultimate units of effect often remain at the level of individuals, households, or communities.

Strengthening partners' use and generation of cost-effectiveness evidence may itself be the primary systems change objective. This may involve technical assistance to better incorporate evidence into decision-making processes, connections with knowledge partners to generate new rigorous evidence of effects, or investment in data collection and management systems to ensure data is used to inform operational and program decisions.

Cost-effectiveness thinking can also be used at this level to assess trade-offs among alternative systems-strengthening efforts, similar to its application at the Direct Implementation level. This includes using comparative CEAs, as well as cost-effectiveness modeling in cases where impact evaluation evidence is more limited or under uncertain conditions.

3. Regional, National, and International Policy Change

The third project level focuses on initiatives aimed at shifting regional, national, or in some cases international policies, laws, or regulations. Engagement with cost-effectiveness evidence at this level is less direct, as we focus here on types of policy reforms and advocacy efforts that are not amenable to impact evaluation.

Applying cost-effectiveness thinking in this context, therefore, relies on cost-effectiveness modeling. The unit of intervention shifts from service delivery and institutions to policy change, with effects mediated through large-scale systems rather than direct program activities.

Note that while separate for this framework, Norad typically considers both Institutional Systems Strengthening and National Policy Change to be part of an overall Systems Strengthening Approach.

4. Global Evidence Systems

Global Evidence Systems include initiatives that aim to support and improve the underlying institutions, policies, and capacities that deliver public evidence goods, so that services work better, more sustainably, and at scale, across countries. Some examples include:

- Strengthening global climate data, modeling, or monitoring systems (e.g., emissions tracking, climate risk data platforms)
- Funding global learning and evidence platforms
- Funding and publishing evidence synthesis

Investments at this level that support the generation of global public knowledge goods also support cost-effectiveness strategies at the first three levels.

Some grant agreements will have projects or components that map to more than one level of the framework. In some cases, Grant Managers may want to break the grants into individual components and assess the cost-effectiveness of each component. In other cases, the grant agreement may encompass too many components to engage with practically, in which case Grant Managers may look for strategies based on the partner type.

Framework Part Two: Partners

The second part of the framework includes strategies for improving the cost-effectiveness of partners, focusing on three types of organizations: NGOs where Norad provides significant budget support, Trust Funds, and Multilaterals. There are other types of partners that Norad supports, but many of those grant agreements usually fall somewhere within the first part of the framework. For example, bilateral agreements or private sector initiatives usually have a specific aim contained within a few main program components.

Table 2.

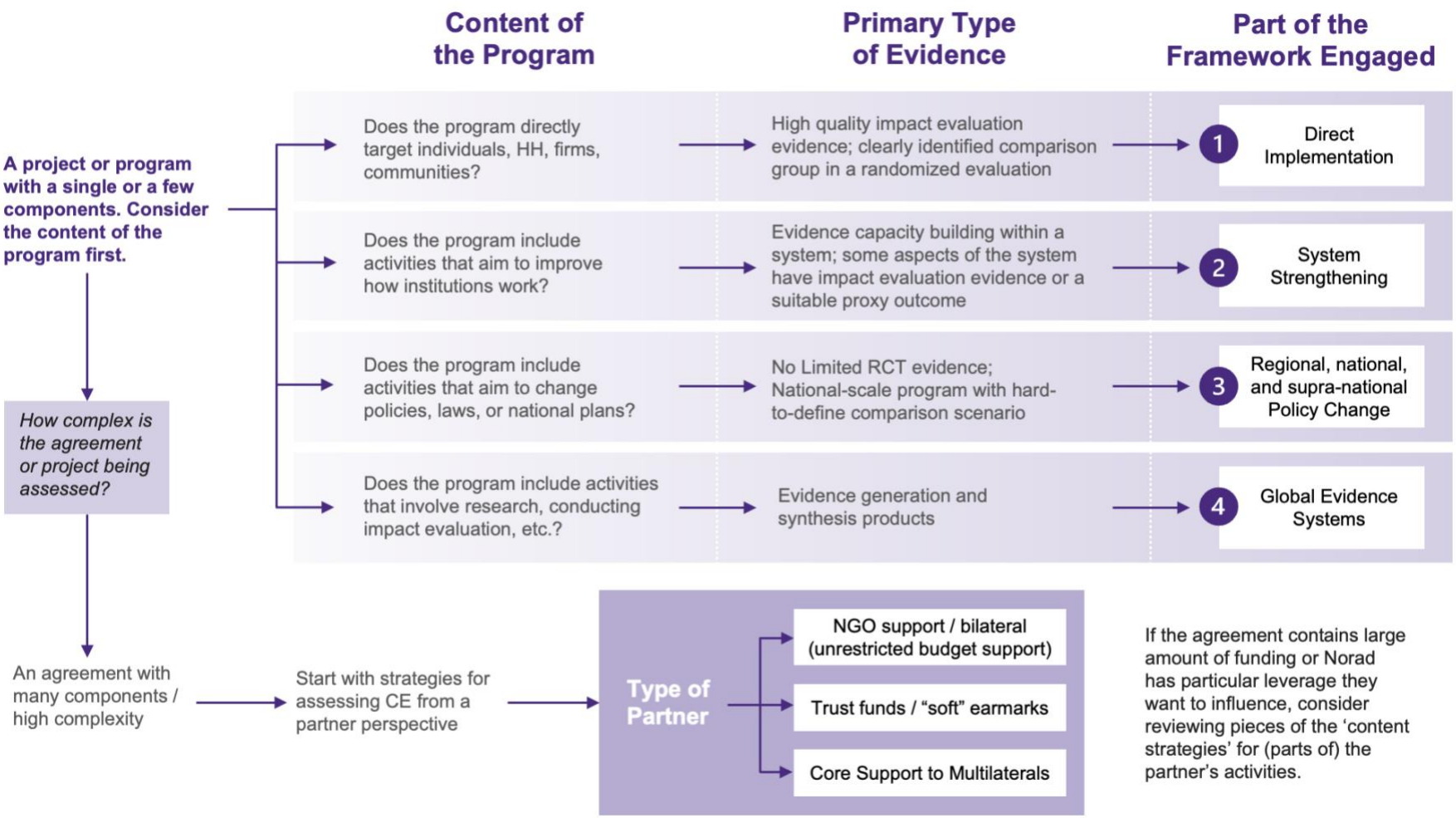
Description	Example
Project Level	
1. Direct Implementation Standalone projects and programs consisting of several separate projects	Funding an intervention through an NGO, such as the graduation approach, in one or more countries. In cases with agreements with multiple projects, strategies include support to optimize handling and understanding tradeoffs of multiple projects within one program.
2. Institutional Systems Strengthening Support for systems strengthening	Programs that aim to strengthen institutions and systems, including capacity-building efforts such as the Knowledge Bank, an Embedded Evidence and Innovation Lab in a government or NGO.
3. Regional, National, and International Policy Change Project and core support for policy/advocacy efforts	NGOs/multilaterals working to influence policy in one or more countries.
4. Global Evidence Systems Evidence products/global public goods	Funding to a global research initiative (e.g., Development Innovation Ventures, or sector-specific multi-country multi-site research to solve specific problems), funding to evidence synthesis (e.g., "Good Buys"), and knowledge products.

Table 2, continued.

Description	Example
Partner Level	
NGO Core support to NGOs, particularly those with large budget support from Norad	Core (Project) support to the Norwegian Refugee Council.
Trust Fund "Soft-earmarked" support to trust funds, multilaterals, or other	Core support for a World Bank trust fund, such as GPE or ESMAP.
Multilateral Core support to multilaterals and other non-earmarked support	World Bank core or operational funding.

The next section (6) discusses four strategy domains for incorporating cost-effectiveness thinking into Norad's grant management. Section 7 presents specific strategies for each domain across the four Project Levels discussed here, providing concrete recommendations tailored to different grant types and decision contexts. Section 8 does the same for each of the three Partner Types. For a quick visual reference of the framework, see the Decision Tree on the next page (**Figure 2**).

Figure 2. Decision Guide for Using the Framework



6. What Does it Mean to "Incorporate Cost-Effectiveness into Grants?

We identify four non-mutually exclusive strategy domains for incorporating cost-effectiveness thinking into Norad's grants.

Each strategy requires adaptation to the context, the partner, the funding channel, etc. Where relevant, these strategies distinguish between Norad's role and the role of its partners. The next section (7) will walk through the four "Project Levels" detailed in Section 5, and discuss how and whether to apply each of the four cost-effectiveness strategies for each. Section 8 will do the same for each of the three Partner Types.

Evidence Use

Evidence Use focuses on how both Norad and its partners apply existing evidence to improve the cost-effectiveness of funding and programming decisions. From Norad's perspective, this involves systematically using insights from rigorous research and cost-effectiveness analyses to inform what types of interventions, partners, and approaches to prioritize and fund.

From the partner's perspective, Evidence Use refers to how implementing organizations incorporate existing evidence into the design and delivery of their programs. This includes selecting interventions with a strong evidence base, adapting proven models to the local context, and making informed tradeoffs between different program components to maximize impact. By grounding programmatic choices in the best available evidence, partners can increase the likelihood that their activities deliver meaningful and cost-effective outcomes.

Evidence Generation

Evidence Generation refers to how Norad and its partners invest in building new knowledge to inform more cost-effective programming, particularly in areas where existing evidence is limited or insufficient for decision-making.

This can take several forms:

Individual Study	New evaluations of a single program or intervention to estimate its effects and understand drivers of impact.
Aggregation	Producing or commissioning evidence synthesis (including both formal meta-analysis and qualitative synthesis) to understand actionable insights from relevant *existing* research and its accompanying data.
Portfolio	Producing collections of new individual studies organized and coordinated around specific themes, such as a particular sector, target outcome, or country context. These may aim to produce stronger knowledge either through coordination (e.g., a multi-site evaluation of cash transfers, the Graduation model, or efforts to build resilience for refugees) or support innovation and iterative evaluations through standardization and quality control of individual evaluation decisions (e.g., akin to DIV at USAID or J-PAL research initiatives).

Simply put, we take a “use it or produce it” approach to evidence: any given grant should either use available evidence to fund effective programming, generate new evidence of an approach’s cost-effectiveness, or both.

Evidence Capacity Building with Embedded Labs

Establishing embedded evidence labs within government ministries, multilaterals, or NGOs can facilitate their use and generation of evidence to improve the cost-effectiveness of their activities.

Performance Monitoring

While Performance Monitoring is highly important and deserving of its own full strategy, we include recommendations for tracking the cost-effectiveness of grants and targeting investments in impact measurement using best practices, including recommendations for monitoring data where relevant.

Together, these four domains form an outline for how Norad can incorporate cost-effectiveness thinking across all of its grants. How they are applied, however, varies depending on the level at which an intervention operates, the type of partner involved, and Norad’s degree of influence over program design and implementation.

ALIGNMENT WITH GLOBAL AID EFFECTIVENESS PRINCIPLES

Norway and Norad are committed to upholding their support of Global Aid Effectiveness Principles. The strategies proposed in this framework are not only consistent with, but actively support, the aid effectiveness principles articulated in the OECD’s Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008), including country ownership, alignment, and donor accountability. By encouraging Norad and its partners to articulate expected effects, clarify assumptions, and transparently assess trade-offs, the framework strengthens accountability and improves the transparency of funding decisions. Its emphasis on performance monitoring and integration with existing knowledge plans supports the commitments to results and mutual accountability highlighted in the Paris and Accra agreements, including the commitment to improve the effectiveness of aid resources.

The framework also promotes alignment with national systems through strategies such as Embedded Evidence Labs, which are hosted within government ministries and are usually staffed jointly by researchers and public officials. By building partner country governments’ capacity to use and generate evidence for their own policies and programs, these approaches strengthen national ownership and long-term institutional capability rather than creating parallel systems.

At the same time, we acknowledge that tensions may arise. Governments may prioritize interventions that are politically or strategically important but not the most cost-effective according to available evidence. In such cases, this framework is not intended to override country ownership, but to support transparent dialogue about trade-offs between alternative approaches in terms of effects per krone, sustainability, alignment with national priorities, and long-term systems strengthening.

7. Part One: Cost-Effectiveness Strategies for Project Levels 1–4

We identify four non-mutually exclusive strategy domains for incorporating cost-effectiveness thinking into Norad's grants.

Project Level 1 – Direct Implementation

At the direct implementation level, cost-effectiveness thinking focuses on selecting and adapting service-delivery interventions that directly affect individuals, households, schools, firms, or communities. Partners and implementers should draw on existing impact evaluation evidence to identify interventions that are likely to deliver the greatest effects per krone for a given outcome, while adapting those interventions to local context and implementation constraints.

Norad defines a project as a time-bound intervention with a specific objective and budget, implemented outside a partner's core operations. While Norad funds relatively few standalone projects directly, many of its partners implement multiple projects at this level. Applying cost-effectiveness thinking to these grants can substantially improve impact and provide a foundation for cost-effectiveness engagement in the other levels of the framework.

Using cost-effectiveness evidence in Direct Implementation centers on identifying the target outcome(s) and weighing options for how to achieve them. For example, Norad, an NGO, a government ministry, or another implementer might identify that classroom learning in the public school system is a significant challenge in the area where they work, and need to weigh alternative interventions to best increase foundational numeracy and literacy among in-school children. There may be multiple options with compelling theories of change and strong problem analyses.

While multiple programs may have positive effects, they cannot all be equally effective relative to each other, and cost-effectiveness evidence can help an analyst or grant manager compare them. In our example, the NGO or ministry can conduct a Comparative CEA to evaluate available evidence on the cost-effectiveness of programs to increase foundational literacy and numeracy. The outcome measure in this case could be standardized learning gains in math and reading. The report would outline highly cost-effective "Good Buys" that demonstrate large effects with high confidence, as well as "Promising Buys" with demonstrated cost-effectiveness but lower confidence (fewer studies or higher variation in effect size and/or cost).

Selecting and implementing the right effective intervention requires contextualization. In the case of foundational literacy and numeracy, school feeding may be prioritized in settings with high food insecurity, while structured pedagogy may be more appropriate where teacher quality is a key constraint. Norad can reinforce cost-effectiveness by including relevant evidence as guidance in Calls for Proposals (CFPs) and grant agreements, asking applicants about expected reach and budget allocations, and including specific requirements on monitoring and evaluations in agreements to ensure implementation aligns with the estimated cost-effectiveness of the selected intervention.

Evidence Use

Norad's Role

For project-level grants, Norad can embed cost-effectiveness evidence into grantmaking by systematically using existing impact evaluations and evidence syntheses to establish evidence-based Good Buy "defaults" for priority outcomes or sectors, where such "Good Buys" are available. These defaults can be used to assess grant applications, compare proposed interventions, and communicate expected effects per krone to partners.

To operationalize these expectations, Norad can embed cost-effectiveness evidence directly into the grant management cycle by including concise evidence summaries of relevant interventions alongside the CFP and incorporating cost-effectiveness considerations into proposal evaluation criteria and results management processes. Clearly articulating cost-effectiveness requirements during grantmaking encourages partners to consider both impact and cost trade-offs, reducing the risk of prioritizing low-cost activities with limited effects or high-impact activities that are not scalable.

Where no relevant Good Buy defaults exist for a given outcome or sector, Norad may conduct or commission evidence reviews aligned with its thematic priorities. CFPs should signal preferred evidence-backed approaches while remaining open to innovative interventions with strong theories of change and credible evaluation plans. For programs comprising multiple projects, case officers should also consider opportunity costs—for example, whether funding several lower-impact projects yields greater value than concentrating resources on the most cost-effective intervention(s).

Best Practices for Project Grants

01

Clearly define the target outcome(s) in the CFP or grant agreement.

02

For projects addressing multiple outcomes, disaggregate the cost-effectiveness question by outcome or intervention.

03

Compare proposed interventions against evidence-based Good Buy defaults.

04

Use the grantmaking process and CFPs to communicate evidence-based defaults and expected targets for effects per krone.

05

Use cost-effectiveness evidence to identify conditions under which interventions are more or less effective or costly.

06

Engage local actors as both decision-makers and critical sources of contextual information.

07

Use the grantmaking process to identify any additional analytical or implementation work needed to ensure contextually appropriate delivery.

Appendix B provides a detailed memo outlining recommendations for integrating cost-effectiveness into Norad's CFP process. The example below demonstrates how a donor can apply these principles in practice, drawn from the U.S. Agency for International Development (USAID), prior to 2025.

Jump to Appendix B

CASE STUDY

Resilience and Food Security Activities (RFSAs) at USAID

The former Office of the Chief Economist (OCE) at USAID supported the Bureau for Humanitarian Assistance (BHA) on Calls for Proposals[6] for Resilience and Food Security Activities (RFSAs) totaling $300M to integrate "Graduation Model" evidence into activity design. OCE embedded an Evidence Advisor on the Activity Design Team to participate throughout the drafting of the CFP and the evaluation of the resulting applications for funding, resulting in some key changes to the solicitation:

Including evidence on cost-effective interventions as guidance

OCE's Evidence Advisor drafted specific language defining the graduation approach for inclusion in the CFP, including program details backed by research evidence:

> "This RFSA will implement a contextually-adapted version of the graduation approach, which BHA expects will reach a minimum of 85,000 to 100,000 households, and ideally more. This approach includes a strategically sequenced combination of consumption support, coaching, livelihood skill building, asset transfer, and savings that have been proven to improve the lives and increase the resilience of extremely poor households in many contexts…"

This was a shift from previous RFSA solicitations, which specified outcomes to be improved, but rather than suggesting a particular intervention, focused on outlining the barriers to the outcome(s) of interest. As a result of this focus on barriers rather than specific solutions, activities often involved numerous overlapping interventions. At a minimum, this lack of focus increases operational complexity and overhead costs; worse, it reduces the amount of resources allocated to the most effective components of the activity, reducing overall effects. While defining a single specific intervention may not be appropriate for Norad's grants, including evidence on cost-effective approaches alongside a CFP or grant agreement as guidance can similarly help improve cost-effectiveness.

[6] These were Notices of Funding Opportunity (NOFOs) or updates to Annual Program Statements (APSs) at USAID, but roughly equivalent to Norad's Calls for Proposals.

CASE STUDY, CONTINUED

Resilience and Food Security Activities (RFSAs) at USAID

Improving Focus

Previous CFPs encouraged adding interventions to address, e.g., Disaster Risk Reduction. The OCE-advised CFP provided illustrative examples of how elements of disaster risk management could be incorporated into the delivery of the five components of the graduation approach and expressly discouraged adding additional community-level interventions that would divert funding away from the proven cost-effective graduation approach.

Streamlining Costs

Including evidence on a cost-effective approach in the CFP and improving focus also helped streamline costs by cutting down on the time needed to refine program design after the grant was awarded (and before implementation). The OCE-advised CFP deviated from the typical refinement period of "approximately 12 months," specifying that BHA would "work with the recipient(s) to identify specific Contextualization Period timelines, not to exceed six months."

Evaluating applications' adherence to cost-effectiveness evidence

The OCE-advised CFP included revised evaluation criteria designed to prioritize applications' use of cost-effectiveness evidence, inclusion of core graduation program elements, and appropriate contextualization of the model. The review of applications emphasized fidelity to the proven cost-effective model and technical quality of the proposed design.

Based on the effects of similar programs previously solicited by USAID and estimates from meta-analyses of unconditional cash transfer and graduation programs, *OCE estimated that the programs they advised on would generate about $8M of additional household consumption*, compared to the expected effects on household consumption without OCE's involvement (effects of programs implemented under previous RFSA CFPs).

Partners' Role

For sectors and outcomes with plentiful cost-effectiveness evidence, partners should select interventions that have a proven track record of cost-effectiveness, i.e., "Good Buys," and adapt the interventions appropriately for the context they are working in. Partners may also select "Promising Buys," in which case they should consider an evaluation to add to the global evidence base and improve confidence in the intervention's cost-effectiveness. Norad should collaborate with partners to ensure they understand the evidence base and identify priorities for new evidence generation and synthesis to inform future intervention selection.

Proposals should cite specific, rigorous evidence of the proposed intervention's cost-effectiveness (not just cost-efficiency; see definitions of both terms in Section 2), and outline plans for contextualization of the approach. If Norad has included an evidence appendix with Good Buys, this may be as simple as referencing that. Proposals historically often cite extensive descriptive and diagnostic evidence in support of the problem statement, but lack clear evidence of effects and costs that they or others have achieved in the past with the proposed activities. Partners proposing multi-faceted programs should provide justification for that choice, including consideration of the tradeoffs between funding multiple interventions or a single proven cost-effective intervention, or evidence that an additional intervention improves cost-effectiveness.[7] Partners should also consider how their own operational and cost data feed into their programming decisions, and adopt policies to improve evidence use practices internally. The example below illustrates how Norad could work to improve the CE of grantees' and partners' proposals through the CFP using an actual grant proposal.

[7] For example, in a randomized evaluation of immunization camps in Rajasthan, India, providing a small incentive (a bag of lentils) actually improved cost-effectiveness – communities with camps plus small incentives had six times higher full immunization rates than communities without camps, compared to a three times increase in communities with camps but no incentives. (J-PAL Policy Briefcase. 2011. "Incentives for Immunization." Cambridge, MA: Abdul Latif Jameel Poverty Action Lab.)

CASE STUDY

Grant for a Program Consisting of Several Separate Projects

This example considers a Civil Society grant proposal amounting to nearly 400M NOK and comprising interventions to influence multiple outcomes in seven countries in Africa and Asia. The program is intended to reach just over 200,000 people, largely students in schools, but also adolescents in TVET programs, teachers, smallholder farmers, members of PTAs or SMCs, and CSO members.

Here, we will identify some aspects of the application that a grant manager could focus on when assessing the proposal's cost-effectiveness. This stylized example is neither an exhaustive analysis of the proposal nor does it include an adjudication of the overall cost-effectiveness of such a proposal.

For a proposal like this, covering a number of outcomes in several contexts, cost-effectiveness is best assessed by breaking the proposal into components. A grant manager might review the theory of change and evidence briefs provided by the partner to check the quality of evidence of effects cited, comparing it against any existing evidence reviews on the outcomes identified. For the outcomes in this particular proposal, a grant manager might consult the GEEAP Report on Cost-Effective Approaches to Improve Global Learning (GEEAP Report), the Civil Society Evidence Review commissioned by Norad, and JPAL's policy brief on Vocational and Skills Training, among others. They could then review the activities proposed for each country to look for alignment with evidence of cost-effectiveness.

The evidence briefs included in the proposal on inclusive education, teacher professional development (TPD), and school health and nutrition programs cite multiple systematic reviews and meta-analyses.

The evidence brief on TVET references one meta-analysis, which finds that while entrepreneurship promotion and skills training appear to have positive results on average, the evidence base is light and highly variable. It calls for careful design of youth employment interventions and generation of more rigorous evidence, which is noted in the evidence brief. However, it also cites marginal spending on TVET compared to the general education sector as the reason for its limited success, and proposes advocacy for greater government spending on TVET as a solution; it is unclear what evidence supports this approach.

CASE STUDY, CONTINUED

Grant for a Program Consisting of Several Separate Projects

Four opportunities to assess and strengthen cost-effectiveness:

1. **Focusing on approaches with evidence of cost-effectiveness:** Norad might encourage increased focus on activities in the proposal that are strongly supported by existing evidence, and scaling back aspects that are less likely to deliver impact. For activities with less evidence of cost-effectiveness, Norad might propose conducting an impact evaluation to generate evidence.

   Several of the interventions mentioned in the plans for improved access to inclusive education, including providing school-based health treatments, teaching socio-emotional and life skills, and involving communities in school management, are categorized as "promising but limited evidence" in the GEEAP report. While these approaches are likely appropriate, they would benefit from additional evidence generation, so Norad might consider encouraging an impact evaluation.

2. **Scaling back Bad Buys:** If any proposed activities have been identified as Bad Buys, Norad should advocate for either directing that funding to one of the proposed cost-effective activities or revising the approach.

   The GEEAP Report identifies teacher in-service training as an area where governments consistently invest, but where there is little evidence on effective implementation. The partner notes in its evidence brief that continuous TPD at the school level held within learning communities is more efficient and effective than traditional in-person seminars and independent study. The proposed TPD activities in the application mention mentoring and learning communities, but it is not completely clear how well the design aligns with the recommended approach. Ensuring that program design and implementation steer clear of the less-effective approach will help maximize the cost-effectiveness of this grant.

CASE STUDY, CONTINUED

Grant for a Program Consisting of Several Separate Projects

3. **Generating evidence to fill key knowledge gaps:** For proposed activities with relatively little existing cost-effectiveness evidence, funding an impact evaluation would increase the cost-effectiveness of Norad's grant by contributing to knowledge public goods that will also benefit the partner's future activity planning and Norad's future grantmaking.

   The application notes that the partner has developed a strategic partnership with the Development Learning Lab with the joint intention of conducting a randomized controlled trial to measure the effects of Community Action Planning (CAP) on teacher retention, school attendance, stress factors, trust, and cooperation within communities. The impact evaluation will include cost-effectiveness analysis, and is of an existing program without rigorous evidence of effects, so this is likely a strategic evidence generation opportunity. There may be other opportunities in this grant for evidence generation, such as increasing understanding of effective TPD.

4. **Ensuring appropriate contextualization:** Even the most cost-effective of interventions is not appropriate in every context. Contextual factors may reduce an intervention's effects or increase its cost, so when working across several countries, Norad should assess the partner's proposal for adapting interventions accordingly, or implementing different interventions altogether in particular contexts.

   In this proposal, the partner outlines relevant contextual factors in each country in detail and uses appropriate descriptive and diagnostic evidence. When reviewing the proposal, a grant manager would want to confirm that program details are tailored accordingly and align with the available evidence on cost-effectiveness in a particular context.

Evidence Generation

When there is relatively less cost-effectiveness evidence, Norad should work with partners to conduct appropriate evaluations to generate knowledge, i.e., a public good that informs future funding and implementation decisions by Norad and others.

A guiding principle

If, in the design of interventions and policies, Norad and its partners do not feel the existing evidence of cost-effectiveness for the different alternatives is enough to make a well-informed decision, then this is the exact situation in which one should include Evidence Generation in the planned set of activities to fund.

Evidence Generation Best Practices

01

Invest in cost-effectiveness evidence generation proportional to its contribution to an important open question

Examples:

- New evidence synthesis for outcomes or sectors without clear Good Buys
- Impact evaluations of innovative interventions
- Impact evaluations of interventions implemented in new contexts
- Costing for interventions with scarce cost data

02

Invest in impact evaluations that can be done well

Examples:

- The intervention can be randomized
- A counterfactual can be established
- There is a sufficient sample size

If a partner proposes an innovative intervention, or one for which there is limited evidence of cost-effectiveness or low confidence of its cost-effectiveness across contexts, including a rigorous impact evaluation with cost analysis in the agreement, it would add to the evidence base on the intervention. Impact evaluations should be randomized when viable, thus improving the counterfactual strategy, to best capture the change in an outcome with the intervention compared with what would have happened without it.

If it is not possible to randomize the intervention or establish a counterfactual, it may not be cost-effective to conduct an impact evaluation (and it will be important to explicitly consider the pros and cons of supporting such an intervention rather than an intervention with a more established track record of cost-effectiveness). Some of Norad's project grants support NGOs to implement similar projects in multiple countries, which in some cases may lend themselves well to multi-site impact evaluations, generating evidence about the cost-effectiveness of an intervention across several contexts (for more on multi-site impact evaluations, see Project Level 4). While there is a growing body of impact evaluation evidence on many development interventions, cost data is often relatively scarce, so high-quality costing data may be particularly valuable to provide insight into cost-effectiveness, even for interventions with relatively more evidence of effects.

> Norad may also consider building NGOs' internal capacity for evidence use and generation by providing training or funding Evidence Advisors to consult or embed with project teams. This type of capacity building is discussed in more detail in Project Level 2: Institutional Systems Strengthening.

Jump to Project Level 2

If there are no clear Good Buys for a particular sector or outcome, Norad and its partners may invest in new evidence synthesis (a Comparative CEA) to identify interventions that have good or promising evidence of cost-effectiveness before issuing a CFP or designing a grant. Norad and its partners could engage with a knowledge partner to commission this type of review, or for technical assistance in designing and implementing an impact evaluation or building evidence capacity (See Appendix D for more on knowledge partnerships).

Performance Monitoring

Performance monitoring measures do not mean conducting impact evaluations for every project. As mentioned, conducting impact evaluations of interventions with established evidence of cost-effectiveness is often not necessary, cost-effective, or ethical. However, even when implementing Good Buys, performance monitoring is necessary to ensure that implementers adhere to the evidence-based intervention design and costs align with expectations. Where the relationship between outputs and outcomes is well established, and outputs are easily measured (accounting for output quality), cost-effectiveness can be estimated by tracking outputs and costs.

Cost-effectiveness can also inform decisions about performance monitoring strategies. Monitoring data play a critical role in learning and accountability, yet resources are often wasted on costly data collection that does not contribute to learning or program improvements.

Three questions[8] can be applied to all monitoring data collection, to ensure a strategy is sensible. If an organization cannot answer yes to at least one of these questions, it probably should not be collecting the data.

- Can and will the (cost-effectively collected) data help manage the day-to-day operations or design decisions for your program?
- Are the data useful for accountability, or to verify that the organization is doing what it said it would do?
- If the data are being used to assess effects, do you have a credible counterfactual analytical strategy?

[8] The three questions and five types of data described here are adapted from chapter 5 of *The Goldilocks Challenge* by Mary Kay Gugerty and Dean Karlan

Five types of monitoring data are critical for learning and accountability. Financial and activity tracking data are usually collected by most organizations, and help demonstrate accountability by tracking program implementation and cost. Targeting, engagement, and feedback data are less commonly collected (or may be collected by partners but not necessarily reported to Norad), but are critical for improving programs and translating them to new contexts.

Financial Data	Costs and revenues associated with implementing a program.
Activity Tracking Data	Oversight on program implementation, including key activities and outputs identified by a theory of change.
Targeting Data	Information on the people participating in a program, used to understand if the target populations are reached, and help identify changes that can be undertaken if they are not.
Engagement Data	Measuring the number of participants and the intensity of their participation.
Feedback Data	Information about the strengths and weaknesses of a program from participants'.

This approach to monitoring data applies to performance monitoring strategies across the levels of this framework.

While Project Level 1 focuses on direct programs and interventions, many development outcomes depend on the strength of the institutions responsible for delivering those services. Project Level 2, therefore, examines how cost-effectiveness thinking can be applied to institution-level systems strengthening.

Project Level 2 – Institution-level Systems Strengthening

Norad (and other donors) often fund grants to entities to provide technical assistance—often referred to as systems strengthening— to further downstream implementing entities (including government or NGOs). Such technical assistance could encompass information systems, staff capacity, governance arrangements, or operational performance. A key element of this approach is that the funds granted aim to improve another entity and its programs; thus, the effect on the ultimate development outcome is indirect.

Despite the once-removed nature of systems strengthening work, cost-effectiveness thinking can still be applied in several ways. In some cases, cost-effectiveness thinking supports ex-ante decision-making by helping Norad and its partners weigh trade-offs among alternative systems-strengthening approaches, drawing on available evidence or modeling scenarios under explicit assumptions where evidence is limited (Evidence Use). In others, improving evidence use and generation within institutions, such as through embedded evidence labs, constitutes the primary systems-strengthening intervention (Evidence Capacity Building). Institutional systems strengthening may also involve improving operational performance (e.g., supply-chain or human resource management), where outputs and costs can be tracked directly and efficiency gains assessed.

This subsection outlines how Norad and its partners can use evidence to estimate and improve the cost-effectiveness of systems-strengthening programs, and how embedded labs can be employed to strengthen systems by improving evidence use and generation.

Evidence Use

Norad's role

For institution-level systems-strengthening programs, Norad's role is to use cost-effectiveness thinking to inform which types of systems interventions to support and compare alternatives within sector portfolios.

As a first step, Norad should ensure that each proposed systems-strengthening intervention is grounded in a clear, evidence-informed theory of change. Through CFPs or at other key moments in the grantmaking process, Norad can either provide a reference theory of change or require partners to articulate and justify their own using the best available evidence. Even where no impact evaluation evidence exists for the proposed intervention, relevant causal evidence often exists for individual components or mechanisms and can be used to strengthen key assumptions.

Building on this foundation, Norad's staff can use the theory of change to model cost-effectiveness prospectively, approximating expected effects and costs. While such estimates are imprecise—and inevitably formed with more ambiguity than more traditional cost-effectiveness analysis—the exercise can help clarify trade-offs across alternative approaches and identify key cost drivers. Norad can use the grant process to gather the information needed for an estimate: costs beyond the cost to Norad, key risks and any mitigating factors, and evidence to support the intended effect. Where standard sector outcome indicators already exist, they should be used as the basis for comparison; where they do not, Norad should work with partners to specify feasible, measurable outcomes and appropriate units of effect. Though it is not always possible to use exactly the same outcome indicators, to be most useful, Norad should select indicators to make them easily comparable.

In some cases, Grant Managers may need to determine the relative cost-effectiveness of a systems strengthening intervention as compared to a direct service intervention (including a Good Buy). To ease comparison, Grant Managers can build a prospective model of each program using the same outcome. In this case, the potential risks and uncertainties will drive the estimated cost-effectiveness. Producing a range is also helpful; where the ranges overlap between the alternative program models, the cost-effectiveness is estimated to be similar. If the ranges of estimated cost-effectiveness do not overlap, then Grant Managers can select a grant proposal with a higher estimated cost-effectiveness.

Partners' Role

Norad's partners should draw on relevant global and local evidence—where available—to justify key design choices and assumptions, particularly for core components of the intervention or program. Even when there is no causal evidence for the full systems-strengthening program, partners should identify and reference evidence on comparable mechanisms (e.g., incentives, information flows, capacity-building approaches) to support their proposed pathways to impact.

Using the agreed-upon theory of change, partners should collaborate with Norad to support a prospective model of cost-effectiveness, including by providing realistic cost projections, identifying major cost drivers, and flagging key risks and uncertainties with implementation.

For more details on modeling cost-effectiveness, see the methodology described in Section 4. The stylized example below illustrates how cost-effectiveness modeling can be applied to a systems-strengthening grant in the education sector.

CASE STUDY

Estimating the Cost-effectiveness of an Education Systems-strengthening Intervention

One common systems-strengthening intervention is the development of a sector-specific information management system. This intervention provides a unified data system for public health or education data, ideally with unique identifiers for each user and accurate electronic data entry and reporting processes.

In education, the theory of change for such an intervention is that when decision-makers at the school, district, regional, and national levels have access to reliable and timely data on schools, teachers, and students, they can make better decisions about policy, resource allocation, and implementation. These improvements are expected to translate into better student outcomes, including higher educational attainment and learning.

As this intervention is implemented system-wide, there are no randomized evaluations to help assess the cost-effectiveness of this type of program. In such cases, cost-effectiveness modeling can be used to generate informed estimates based on explicit assumptions, following the steps outlined in Section 3.2. The example below draws on one of Norad's past grants, which we have stylized for illustrative purposes and named "SchoolStats". The SchoolStats grant builds on a pilot Education Management Information System (EMIS) implemented in two countries in sub-Saharan Africa, and is now expanding to three additional countries. The grant includes funding for system design in each country, as well as capacity building to ensure local counterparts can effectively operate and use SchoolStats.

The outcome we will use for this estimate is a composite measure of learning and educational attainment adjusted for the quality of a country's education system, the **Learning Adjusted Years of Schooling**. This allows for comparison between interventions and across country contexts.

Read more about this measure in the published paper.

Effect

The first step is to estimate the effect size that the intervention can achieve. Ideally, average effect sizes are drawn from meta-analyses; where these are unavailable, qualitative evidence syntheses or results from multiple high-quality impact evaluations can be used to inform reasonable assumptions.

CASE STUDY, CONTINUED

Estimating the Cost-effectiveness of an Education Systems-strengthening Intervention

In this case, there are limited impact evaluations that directly estimate the impact of implementing a nationwide EMIS of the type supported by this grant. There is some impact evaluation evidence on the effects of other approaches to achieving some of the purposes of an EMIS system. Findings are mixed on data and monitoring systems for student and school outcomes,[9] as well as tracking teacher attendance.[10] In one study in the U.S., low-performing teachers were more likely to leave their positions when school leadership was provided with teacher performance information, which led to modest improvements in student achievement.[11]

Finally, while the available impact evaluation evidence suggests that data-informed instruction can improve student learning, the grant proposal did not indicate any direct teacher-facing use of data. Teachers are, therefore, not the primary mechanism through which EMIS is expected to affect outcomes in this case. Taken together, the evidence suggests that data systems can improve learning or related intermediary outcomes when they are paired with effective use mechanisms, but that effects are not automatic and depend on implementation choices. For this reason, we model SchoolStats as an enabling systems-strengthening intervention, rather than as a direct learning intervention.

Specifically, we assume that SchoolStats improves the effectiveness of existing cost-effective education interventions (“Good Buys”) by improving targeting, implementation quality, monitoring, and decision-making.

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[9] Barr, Abigail, Frederick Mugisha, Pieter Serneels and Andrew Zeitlin. “Information and collective action in community-based monitoring of schools : Field and lab experimental evidence from Uganda ∗.” (2012).

Andrabi, Tahir, Jishnu Das, and Asim Ijaz Khwaja. 2017. "Report Cards: The Impact of Providing School and Child Test Scores on Educational Markets." *American Economic Review* 107 (6): 1535–63.

[10] Duflo, Esther, Rema Hanna, and Stephen P. Ryan. 2012. “Incentives Work: Getting Teachers to Come to School.” American Economic Review 102 (4): 1241–78

Cilliers, Jacobus, Brahm Fleisch, Cas Prinsloo, and Stephen Taylor. 2016. “How to Improve Teaching Practice? An Experimental Comparison of Centralized Training and In-Classroom Coaching.” *Journal of Human Resources* 55 (3): 926–62.

[11] Rockoff, Jonah E. 2010. “Does Mentoring Reduce Turnover and Improve Skills of New Employees? Evidence from Teachers in New York City.” *American Economic Review* 100 (2): 362–66.

CASE STUDY, CONTINUED

Estimating the Cost-effectiveness of an Education Systems-strengthening Intervention, continued

Based on the evidence above, **we assume that SchoolStats increases the effectiveness of these interventions by 15 percent**. This assumption is illustrative and could be tested through sensitivity analysis.

We further assume that each country is already implementing at least one Good Buy in approximately **30 percent of schools**. This assumption is informed by *How to Improve Education Outcomes Most Efficiently*, which documents impact evaluations of education interventions in several countries in the Sub-Saharan African region and reports Learning-Adjusted Years of Schooling (LAYS) gains per student for each (Angrist 2020).

We assume that effects do not accrue over time beyond the modeled period. The paper reports average LAYS grouped by interventions; the Good Buy interventions range from 0.15 to 0.20, so we will use 0.18 for the model.

To estimate the scale of the grant, the model needs to estimate the number of students reached. The SchoolStats proposal targets five countries with about 200 schools per country. While it could vary greatly, we will also assume about 200 students per school. Five countries with 200 schools and 200 students per school give us 200,000 students affected by the implementation of SchoolStats.

Applying the assumption that Good Buys operate in 30 percent of schools, we estimate baseline LAYS as follows:

> 200,000 Students * 0.18 Average LAYS from Good Buys * 30% of Schools implementing Good Buys = 10,800 LAYS from Good Buys already being implemented in the SchoolStats treatment area.

Applying the assumed 15% improvement in effectiveness due to EMIS results in an estimate of about 1,620 additional LAYS attributable to the EMIS intervention (the outcome change).

Some models may include a discount rate of future benefits, but we omit a discount rate for this example.

CASE STUDY, CONTINUED

Estimating the Cost-effectiveness of an Education Systems-strengthening Intervention

Risk

In this type of estimation, it is important to consider risk as the probability that the intervention will have the estimated effect. This grant aims to successfully implement an EMIS system in the districts and schools outlined in their proposal, so we consider the probability of successfully doing this.

The risk in this case is medium; complex systems are more at risk of failure, and in some cases, the successful implementation of the EMIS relies on government buy-in as well as investment in technologies and devices. However, the countries in the proposal already have functioning health information management systems, so the risk may be lower as they have experience managing data systems. We will use 80% as the probability of success. We define success as successful deployment and sustained use of SchoolStats in the targeted districts.

Counterfactual

The next step is to assess how much of the observed outcome would likely have occurred without Norad's support—that is, to define the counterfactual. In some cases, it is useful to think of the counterfactual in terms of acceleration: how much did Norad's support speed up an outcome that might have happened eventually? For example, Norad's support may have accelerated the deployment of an EMIS system by three years. It is likely that each of the target countries would have eventually adopted an EMIS system without the grant, given the selection criteria outlined in the fictional grant proposal—each already had a functioning health information system, had expressed interest in developing an EMIS, and maintained a paper-based version. Therefore, the benefits of the grant are calculated over a three-year acceleration period. If the acceleration period were shorter (e.g., one year), estimated benefits would be proportionally lower.

Cost

While there are many ways to consider costs in cost-effectiveness analysis, for this exercise we use the cost to Norad as a proxy for total program costs — appropriate here because Norad is the sole funder. The budget for this grant is NOK 30 million (approximately $3 million USD at the conversion rate of 1,000 NOK = $100 USD).

CASE STUDY, CONTINUED

Estimating the Cost-effectiveness of an Education Systems-strengthening Intervention

Note that an Education Management Information System imposes minimal time costs on participants (students and teachers), since its purpose is to improve decision-making at the system level rather than to change how students or teachers spend their time. This is one reason why the cost denominator can be approximated by the grant budget without significant adjustment. In contrast, programs that require substantial participant time should incorporate that time cost qualitatively or quantitatively, depending on the depth of analysis required (see Section 4).

Because Norad is the sole funder of this grant, total program costs and Norad's costs are equal, so program-level CE and Norad-perspective CE coincide. In grants with multiple funders, Norad's share would be used for portfolio reporting but would not change the per-krone CE ratio (see Section 4).

Calculation

> Prospective CE = (1,620 LAYS × 3 years acceleration × 80% probability of success) / 30,000,000 NOK = **0.00013 LAYS per NOK**, or approximately 0.13 LAYS per $100 USD.

This example illustrates how modeling can support decision-making for systems-strengthening grants when direct causal evidence is limited. Using a comparable outcome, such as LAYS, also allows Grant Managers to compare the information management intervention against funding an NGO to implement a Good Buy (a grant that falls more into Project Level 1). In the same paper, other Good Buys provide between 1-10 additional LAYS per $100 USD (on average), so the information management system is less cost-effective by comparison. However, a Grant Manager could model additional benefits provided by the information management system, or work with their partner to increase the scale or reduce the costs to improve the relative cost-effectiveness of SchoolStats.

Next, we outline how Norad can improve the cost-effectiveness of such grants by investing in evidence generation and strengthening partners' capacity to use and produce evidence.

Evidence Generation

While evidence generation activities for institutional systems strengthening center on embedded labs, Norad can support impact evaluations through partners or specialized evaluation organizations to address evidence gaps where randomized evaluations are feasible. For example, where institutional reforms are phased, piloted, or targeted to test before implementation at scale.

One approach to addressing broader evidence gaps is to invest in thematic research initiatives focused on systems-strengthening interventions. These initiatives can be standalone or implemented through donor consortia and are often developed in partnership with research organizations. For Norad, such initiatives can be strategically aligned with priority sectors and geographies to inform future grantmaking decisions. Typically, they begin with a structured review of existing literature to identify high-value knowledge gaps—both about underlying mechanisms and about specific institutional reforms. This process informs targeted CFPs that mobilize academic and applied research expertise. Over time, these initiatives generate generalizable evidence that serves as a global public good and improves the cost-effectiveness of subsequent grants.

In some cases, Norad may complement or substitute external research initiatives with evidence generation embedded directly within partner institutions. Embedded approaches allow evaluations to be closely aligned with real-time policy questions and operational decisions, increasing both relevance and uptake.

Evidence Capacity Building with Embedded Labs

Beyond using impact evaluation evidence and calculating estimates to assess potential effects, Norad can improve cost-effectiveness at this level by funding embedded labs or technical assistance teams to improve evidence use and generation systems within partner NGOs and governments. This type of system support drives evidence use and generation throughout the system's institutions as these teams support policymakers and officials with the right evidence, at the right time, helping them identify and apply the best available evidence to address the problems they want to solve. Additionally, they can support other process improvement efforts that improve efficiency, but are not directly evidence-focused, such as data management to track outputs and key cost drivers.

Embedded labs can drive systems strengthening within the public sector, align with Norad's goal of sustainability and lasting effects, and institutionalize the use of data and evidence in policymaking beyond a particular research project or policy scale-up. Embedded labs have been deployed in many sectors, including education, social welfare, gender and social development, environment, health, and others. Research institutions can help set up embedded labs during the start-up phase. Over time, the lab can become self-sufficient, especially if it is institutionalized in strategic plans, budgets, and other long-term planning.

Norad could fund a specific CFP inviting proposals for embedded evidence labs, or work bilaterally to establish these in priority sectors and countries (for example, an environment-focused embedded lab in Brazil or Indonesia where Norad invests in rainforest conservation). To see how this works in practice, read the following case study on an embedded education lab in Rwanda, supported by Innovations for Poverty Action.

CASE STUDY

Embedded Evidence Lab for Education

For education access, Rwanda ranks highly amongst sub-Saharan African countries. In 2015, net enrollment in primary education was 97 percent. However, improving education quality, reducing high rates of teacher turnover, and attracting teachers to rural areas remain critical challenges for the country's education sector. To improve the quality of learning in Rwanda, Innovations for Poverty Action (IPA) and the Georgetown University Initiative on Innovation, Development and Evaluation (gui2de) partnered with the Ministry of Education (MINEDUC) from 2015 to 2018 to conduct a randomized controlled trial of the Supporting Teacher Achievement in Rwandan Schools (STARS) program, which was effective to improve both teacher effort and student learning.[12]

To build on these results, in 2019, MINEDUC established an embedded evidence lab with IPA and gui2de to support the scale-up of the pay-for-performance approach, as well as iteratively test model refinements. With five full-time staff spread across MINEDUC's implementing agencies, the lab directs access to policymaking processes, data systems, and implementation channels. The scale-up of STARS began in 248 schools (2022–23), expanded to more than 340 schools, and is now poised for a national scale-up covering 66,000 teachers and nearly 3 million students. This includes strengthening data systems, training inspectors and headteachers, and embedding contract management within existing government structures to ensure sustainability. Early experimental results have shown treatment effects on teachers' lesson preparation, pedagogy, and participation in consistent data collection to a national reporting system, with the strongest effects from treatment arms that engage headteachers and strengthen data verification.

[12] Leaver, Clare, Owen Ozier, Pieter Serneels, and Andrew Zeitlin. 2021. "Recruitment, Effort, and Retention Effects of Performance Contracts for Civil Servants: Experimental Evidence from Rwandan Primary Schools." *American Economic Review* 111 (7): 2213–46

CASE STUDY, CONTINUED

Embedded Evidence Lab for Education

The trial of STARS demonstrates that the approach could raise student learning by 0.21 standard deviations annually compared to a control group, equivalent to an extra year of status-quo learning. Rwanda has one of the highest measured returns to education of any country in the world – descriptive data from 2010 suggest that, for wage employment, an additional year of schooling is associated with 22 percent higher income in Rwanda.[13]

Because the performance-based contracts were expenditure-equivalent to the fixed-wage alternative, measurement is the primary cost of the program. Pupil performance is measured by annual testing, and teacher presence, preparation, and pedagogy can ostensibly be measured by head teachers or district staff at modest cost. As of 2025, approximately 304,000 students have been directly reached, and the model is expected to benefit the country's entire population of 3.23 million primary and secondary students as national rollout is completed in 2026. This breaks down to an estimated cost per student of $1.05, or a benefit-cost ratio of more than 1300:1 per pupil based on the increases to earnings estimated above. Even under more conservative assumptions, this level of cost-effectiveness compares favorably with many education interventions enchmarked in low- and middle-income countries.[14] This estimate captures only learning gains from STARS and ignores other policy reforms and institutional improvements the lab enabled, which could contribute to even greater cost-effectiveness.

Scaling STARS took years, and securing political support was essential to the lab's sustainability. The lab maintained momentum by identifying small projects that contributed to the overall scaling effort while demonstrating its usefulness in real time—for instance, using testing data systems built for the RCT to inform short-term school management decisions on grade repetition and remedial tutoring.

[13] Montenegro, Claudio E.; Patrinos, Harry Anthony. 2014. Comparable Estimates of Returns to Schooling Around the World. Policy Research Working Paper; No. 7020

World Bank Group; Government of Rwanda. 2020. Future Drivers of Growth in Rwanda: Innovation, Integration, Agglomeration, and Competition

[14] Yuan, Fei; Evans, David K.. 2019. Equivalent Years of Schooling: A Metric to Communicate Learning Gains in Concrete Terms. Policy Research Working Paper; No. 8752

CASE STUDY, CONTINUED

Embedded Evidence Lab for Education

Beyond STARS, the lab increased demand for evidence more broadly and influenced institutional restructuring: the Ministry appointed two lab staff members to senior positions, one as Head of Education Sector Planning, Monitoring and Evaluation, and one as Education Data Analyst. Fostering a culture of evidence, powered by embedded labs, can catalyze cost-effectiveness thinking more broadly throughout government ministries.

Performance Monitoring

The impact measurement of systems-strengthening programs depends on the type of cost-effectiveness strategy employed. Norad can use each systems-strengthening program's theory of change to track effects. If supporting an embedded lab as a systems change intervention, effects can be estimated as the return from more cost-effective interventions being implemented at scale over the total cost of the lab (see the Rwanda Embedded Lab example above).

For systems-strengthening programs or other programs where Norad has imperfect information, they can use cost-effectiveness modeling to estimate effects, such as in the EMIS example (but ex-post as opposed to ex-ante). Where Norad already has standard sectoral indicators, they can use those in the model; where it does not, specify feasible, measurable outcomes and the corresponding units of effect.

At the next project level, Norad continues to assess the tradeoffs among alternative approaches, this time for programs that aim to shift policies, norms, laws, and other governing structures. In these circumstances, Norad staff will need to assess options under even greater uncertainty and with less counterfactual evidence.

Project Level 3 – Regional, National, and International Policy Change

Interventions at this level target regional, country-wide, or international level changes, such as policies, laws, or regulations, rather than individuals, households, or communities.

As national policy reforms and advocacy efforts are often not amenable to impact evaluations, cost-effectiveness thinking at this level will also involve modeling estimates of effects to compare alternative approaches[15].

Grants with components at this level pose a distinct cost-effectiveness challenge: they aim to influence national policies with potentially large downstream effects, but often lack established evidence, standardized outcomes, or clearly defined "Good Buys." As a result, strategies for improving cost-effectiveness at this level (focusing on national policy as opposed to institutions) build on earlier approaches described in Project Level 2 but rely more heavily on transparent modeling, explicit assumptions, and comparative judgment rather than precise estimates.

Jump to Project Level 2

Evidence Use

Regional and National Policy Change efforts should still clearly identify an outcome of interest, even if that outcome is intermediate rather than the ultimate objective. This may be necessary when time horizons are long or when desired impacts occur far down the causal chain. For example, in national policy advocacy, the measurable outcome for an advocacy program might be an increase in education budget allocations or the passage of an education reform bill, even if the ultimate goal is improved learning outcomes. Cost-effectiveness modeling—such as in the education advocacy example below—can then estimate which strategy is expected to generate the greatest effects per krone, given explicit assumptions about how intermediate outcomes translate into downstream impact.

[15] Norad also supports local advocacy, such as campaigns that aim to induce behavior change or shift norms in individuals, households, or communities. This type of advocacy would be best served by strategies in Level 1 of the framework.

At this level, it is particularly important to state all assumptions and calculations transparently so that the degree of uncertainty is clear and the key drivers of impact and risk are properly identified. Cost-effectiveness modeling is to be used primarily as a decision-support tool rather than an accountability metric. Norad can use it to:

01

Compare alternative policy or advocacy strategies within a country sector portfolio

02

Assess whether expected effects are commensurate with the scale and duration of funding

03

Identify key assumptions, risks, and leverage points that can be addressed through grant design or partner dialogue

To calculate the cost-effectiveness estimate, grant officers should use the cost-effectiveness modeling methodology outlined in the Section 4.

Similar to institutional systems-strengthening, Norad may use the CFP or grant proposal process to ask partners to identify their theory of change to influence national policy for less complex grants at this project level. This way, Norad can compare alternative approaches using the model-based estimates to determine the most cost-effective approach. For grants supporting multilaterals conducting this type of work, Grant Managers may find the partner strategies in Section 8 more practical for assessing cost-effectiveness.

> Similarly, Norad's partners can also use cost-effectiveness thinking to assess the potential effects of their policy change efforts or inform future decisions by modeling past programs' cost-effectiveness. Partners may use the same methodology suggested in this guide to calculate the estimate, or another estimation model, as long as their assumptions, data, evidence, and calculations are explicitly stated.

With advocacy and policy change efforts, the parameters of the model are often subject to even greater uncertainty than for institutional systems strengthening, making the effects harder to predict or estimates more imprecise. However, it is still important to model the estimated cost-effectiveness of advocacy efforts for several reasons.

- One, it can help compare different grants aiming to achieve the same goal.
- Two, it forces more explicit thinking about the theory of change for the grant and the likelihood of success.
- Three, it outlines a prediction in a way that enables us to update our priors (in other words, creating learning feedback loops).

EXAMPLE

Education National Policy Change

One example of Regional and National Policy Change involves Norad's support to an international education advocacy fund operating within a larger multi-donor education partnership. The fund conducts education advocacy by strengthening civil society organizations (CSOs) through policy dialogue, public engagement, capacity building, and applied research, with the goal of enabling civil society to influence education policy in ways that respond to the needs of communities, especially the most vulnerable and marginalized children.

This is a difficult outcome to measure: reported outputs often include the number of policy changes supported and increases in national education budgets. Using these outputs (rather than outcomes farther along the results chain, like school enrollment or learning) to assess cost-effectiveness relies on a number of assumptions that will make the estimate produced by this exercise fuzzy. Explicitly considering the risks and assumptions involved in the cost-effectiveness estimate will make for a more even comparison with other possible uses of Norad's grant funding.

To model the cost-effectiveness of the fund, a first step is to estimate the benefits that the fund generates (the Outcome Change). This is a difficult task, as the policies the fund supports target a wide variety of outcomes: learning, attainment, desertion, graduation, employment, and many others. One way to simplify is to only look at the increases in national education budgets, which allows for easy comparison (comparing monetary amounts).

EXAMPLE, CONTINUED

Education National Policy Change

While larger education budgets do not automatically translate into improved learning outcomes, and policy changes vary widely in quality and impact, budget increases serve as an imperfect but observable proxy in the absence of more granular data. Because we monetize outcomes here (budget changes, and later the economic value of policy reforms), this analysis is closer to a social return on investment framing than a pure CE ratio in natural units — see Section 4. The trade-off of monetizing is that it introduces additional assumptions, which we make explicit so they can be examined. We apply the same cost-effectiveness modeling framework used in earlier examples. This approach involves risk — that the budget commitments may not translate to increased education expenditures, that the increases may not fund cost-effective approaches, that they might not result in improved educational outcomes for students — however, estimating some ballpark cost-effectiveness figure is preferable to making grants with no attempt at gauging their cost-effectiveness relative to alternatives. This approach also does not include other outputs the fund tracks, like policy changes and violations of the right to education, so there may be additional benefits that are not included in this calculation.

Given the stated objective and outputs reported, one approach to calculating a conservative estimate of the cost-effectiveness of a grant to the fund is to estimate the return on Norad's investment in terms of increased domestic education spending. In other words, for every krone Norad contributes, how much additional education budget is mobilized? For this example, we use data from the fund's 2024–2025 technical report: total grants in 2024 amounted to approximately USD 20.9 million, and grantees reported supporting 52 policy changes across 34 countries, including four countries with education budget increases.

Change in Outcome

Reported government commitments include:

- **Zambia:** 1.5% increase in the education budget (USD 20.3 million)
- **Malawi:** increase of 279.3 million Kwacha (USD 160.9 million)
- **South Sudan:** announced an increase of 10 percentage points USD 165 million)

Pakistan is excluded from this calculation due to a lack of reliable data and evidence of subsequent budget decreases. The total reported increase in education budgets is therefore **USD 346.2 million**.

EXAMPLE, CONTINUED

Education National Policy Change

Counterfactual

The fund's theory of change works through CSOs to impact national education policy. There is some evidence of effectiveness on civil society strengthening through capacity building (the fund's work with CSOs) if it includes accountability and the capacity to institutionalize changes. However, the efficacy of CSOs in influencing government is weak and varies widely for education[16]. To remain conservative, we assume that 10% of the reported budget increases are attributable to the advocacy efforts supported by the fund.

Risk

Budget commitments do not always translate into actual expenditures. Recent examples (e.g., Pakistan and South Sudan) show that announced increases may not be fully realized. We therefore apply a 50% probability of success to account for implementation risk.

Cost

In 2024, the fund disbursed USD 20.9 million in grants in the program year under analysis. We can assume that there would be about 30% additional costs in administrative and program management to deliver these funds, so a total of $27.17M.

The $27.17M figure captures direct grant disbursement and overhead but does not attempt to monetize broader social costs, such as the time spent by civil society representatives, government officials, or community members engaged in the advocacy process. For a grant manager comparing alternative uses of these funds, this is typically acceptable — provided that comparable cost conventions are used for alternatives. A more in-depth comparative cost-effectiveness analysis (e.g., for a Smart Buys-style report) would consider these broader costs more explicitly.

[16] See the Civil Society Evidence Review conducted with GPRL for Norad's Civil Society Call for Proposals

EXAMPLE, CONTINUED

Education National Policy Change

Calculation (conservative case):

> Prospective CE = ($346,194,000 × 10% counterfactual × 50% probability of success) / $27,170,000 = **$0.64 per $1**

Applying these assumptions, the fund generates an estimated $0.64 in additional domestic education spending for every $1 spent. While this represents a poor return under our stated assumptions, the exercise is useful for identifying levers for improving cost-effectiveness — such as increasing advocacy effectiveness, reducing delivery costs, or mitigating implementation risk. For portfolio reporting purposes, Norad's share of these effects — based on its approximately 2.8% share of the parent fund's annual grant budget — is approximately $0.48M out of $17.3M in program-level benefits.

Calculation (best-case scenario):

We can also adjust our assumptions to test the sensitivity of this estimate. As a best-case scenario, we include an additional $10M in estimated economic benefit from inclusive education policies (separate from the budget increases captured above) and raise the counterfactual to 30% — giving more credit to the advocacy work in driving the observed outcomes.

> Best-case CE = ($346,194,000 + $10,000,000) × 30% × 50% / $27,170,000 = **$1.97 per $1**

Under these more generous assumptions, the fund generates an estimated $1.97 in additional benefit for every $1 spent — a modest positive return. The wide range between conservative and best-case estimates ($0.64 to $1.97) reflects genuine uncertainty about the share of policy outcomes attributable to advocacy, the rate at which budget commitments translate to expenditures, and the broader economic value of inclusive education reforms.

Grant managers can use this range to ask "How much benefit should this grant generate to be worth continued investment?" and to identify which levers would most improve cost-effectiveness in future iterations.

EXAMPLE, CONTINUED

Education National Policy Change

The spread of estimates also illustrates the role of qualitative judgments in the model: each of the parameters above (counterfactual share, risk discount, value of inclusive education reforms) is a judgment that can be revisited and substituted as additional evidence becomes available. The discipline of the model is not in producing a precise answer but in making those judgments transparent and interrogable.

Note that under the revised framework, the previous adjustment of "Norad's contribution share" from 2.8% to 10% is treated separately from the CE ratio. A higher effective contribution share — reflecting Norad's broader catalytic role beyond proportional funding — would affect Norad's share of total program effects (for portfolio reporting), but it does not change the per-krone cost-effectiveness of the underlying program.

While highly stylized and sensitive to assumptions, this example illustrates the types of trade-offs Norad faces when supporting policy change. Next, we translate these considerations into grant-level strategies for Regional and National Policy Change.

Evidence Generation

At the national policy level, evidence generation focuses less on causal attribution and more on documenting pathways to policy change, implementation bottlenecks, and conditions for success. While national reforms are rarely suitable for randomized evaluation, systematic documentation of the policy reform process can generate valuable lessons for future investments and cross-country learning.

Norad can support this type of learning by encouraging partners to systematically document how policies were piloted, adapted, negotiated, and scaled, including the role of coalitions, incentives, and timing. When policy reforms build on evidence-based interventions, documenting how that evidence was used in policymaking can also strengthen future advocacy and investment strategies.

Evidence Capacity Building with Embedded Labs

Embedded labs may also be used at this level to strengthen Evidence Use and Evidence Generation. For example, in 2024, Peru's Environmental Evaluation and Enforcement Agency (OEFA, by its Spanish acronym) established an embedded evidence lab (OEFA Innova) in partnership with IPA and J-PAL to embed systematic data collection, rigorous impact evaluation, and iterative innovation into the agency's regulatory and enforcement functions. The OEFA Innova lab supports this objective through a five-stage learning cycle that starts by identifying policy challenges, designs and rigorously tests solutions, and incorporates lessons and scales successful approaches. One of the projects the Lab is supporting is the use of satellite imagery to strengthen municipal compliance with sustainable waste management practices. They are testing interventions to increase the use of a citizen reporting app and municipal responsiveness to reports to address garbage accumulation in public spaces. They are also developing a WhatsApp chatbot to boost the adoption of an app that helps users assess whether environmental emergencies require reporting.

At the country level, embedded evidence labs like OEFA Innova in Peru illustrate how systems strengthening can directly enhance both evidence generation and evidence use—two pillars of the cost-effectiveness framework. With this approach, Norad's partners, aiming to strengthen or advocate for national policies, can ensure that their advocacy efforts are sustainable and cost-effective using a systems-strengthening approach.

Performance Monitoring

Similar to institutional systems-strengthening, the social return on investment (SROI) for Regional and National Policy Change initiatives can be calculated to get a rough estimate of effects. The analysis is similar to the evidence use strategy, but instead uses actual past efforts and real data where available.

While such estimates are necessarily approximate, they can serve as a useful performance monitoring tool by making assumptions explicit, testing whether anticipated benefits materialized, and identifying key drivers of success or failure. Over time, comparing ex-post estimates across similar policy-focused grants can help Norad refine its expectations, improve portfolio allocation, and strengthen learning across sectors and countries.

Project Level 4 – Global Evidence Systems

Grants at this level generate global public knowledge goods, support foundational research, promote evidence use across countries, or strengthen international institutions. Rather than targeting specific populations or national systems directly, these interventions enable and amplify cost-effective decision-making in Project Levels 1–3.

Examples include commissioning global public-goods research or evidence synthesis to inform policy, and strengthening institutions that produce, curate, or translate evidence for decision-makers. Strengthening Global Evidence Systems should involve evidence generation and contributions to global knowledge public goods around effective interventions and drivers of impact.

Evidence Use

A high-impact form of strengthening global evidence systems is the production of evidence syntheses to inform policy decisions across multiple contexts. These types of products support evidence use to improve cost-effectiveness at the NGO project level, institutional systems-strengthening level, and broader policy reform. One prominent example is the Global Education Evidence Advisory Panel (GEEAP) and its report Cost-effective Approaches to Improve Global Learning. The report identifies the most cost-effective approaches to improving foundational learning, while also covering related outcomes such as attendance and persistence. As a global public good, it enables policymakers across diverse contexts to ground education decisions in the best available cost-effectiveness evidence.

Norad and its partners that operate within Global Evidence Systems can commission or conduct evidence syntheses that contribute to global public knowledge goods. Some multilaterals already conduct evidence syntheses or meta-analyses, but implementation guides are less common and could be an area of focus for improving cost-effectiveness by easing the path to take up and scale recommendations.

These types of knowledge products facilitate easy take-up of cost-effective interventions and can help bridge the gap between research and implementation by summarizing the best available evidence in accessible formats and tailoring recommendations to the operational realities of development partners.

Examples of how global partners have supported evidence uptake include:

Normalizing Mask Usage to Combat Covid-19	This study in Bangladesh identified an effective approach to increase mask-wearing and reduce transmission of COVID-19. The researchers developed an implementation toolkit and offered procurement and locally-contextualized communications support to implementing partners, enabling rapid scaling of the intervention to reach millions of people across South Asia.
Compendium for Driving Efficiency through High-Fidelity Implementation at Low Cost	The What Works Hub for Global Education's compendium for Driving Efficiency through High-Fidelity Implementation at Low Cost aims to identify the core components of highly effective interventions (e.g., structured pedagogy) to help maintain implementation fidelity at scale.
Graduation Essentials	BRAC's Graduation Essentials specifies a program design that is likely to deliver long-term effects for participants.

Norad's partners might be well-placed to develop implementation guides for their most cost-effective efforts, or to contribute data to ongoing efforts to develop guides for the sector or intervention of interest, like the What Works Hub's compendium.

Evidence Generation and Performance Monitoring

At the global level, evidence generation often focuses on reducing uncertainty about which approaches are most promising, particularly in sectors or outcome areas where consensus has not yet emerged. Global research initiatives are well-suited to this role because they pool risk, coordinate learning, and generate evidence that benefits many donors and implementers simultaneously.

These are often organized by established research institutions with reputations for thinking about cost-effectiveness and evidence use in policymaking. JPAL, IPA, and CEGA are some research centers leading high-impact policy research initiatives. Some examples of research initiatives include:

- **Learning for All**, which focuses on identifying and scaling effective approaches to improve education outcomes
- **Jobs and Opportunities Initiative**, which supports rigorous evaluation of labor market and employment interventions

Often, these initiatives will have tiered funding models, where more modest amounts are available for pilot evaluations. Where interventions look promising, larger amounts are unlocked for more robust testing. Additionally, Norad can fund impact evaluations for innovative interventions or in sectors where evidence is scarce.

Other donors have demonstrated the value of this approach. Development Innovation Ventures (DIV), formerly at USAID, defines innovation broadly to include new technologies, business models, delivery mechanisms, and institutional arrangements. DIV uses a tiered model to fund three stages of innovation—piloting, testing for impact and cost-effectiveness, and scaling interventions with rigorous evidence. Although many tested innovations yield modest or uncertain returns, DIV's portfolio-level analysis estimated a benefit-cost ratio of over 17 for the period from 2010–2019. This estimate compares the benefits from a subset of high-reach innovations to the total portfolio cost, providing a conservative estimate of social returns.

France's Fund for Innovation in Development (FID), established in 2021, follows a similar logic. FID supports prototyping and piloting early-stage ideas, rigorously evaluating impact, initiating first scale-ups, and deploying proven interventions through public entities. To date, FID has funded 98 projects across 30 countries, with total commitments of €50.1 million.[17]

[17] Fund for Innovation in Development. *n.d.* "About Us." Accessed January 19, 2026

Multi-site impact evaluations are another public good for which bilateral and multilateral foreign aid has a unique vantage point for coordinating and funding. Where Norad and its partners are implementing similar programs across multiple countries or contexts, this kind of study can contribute to external validity, increasing generalizability and predictive power, and help identify which contextual factors make an intervention more or less effective and/or costly. While synthesizing disparate studies on similar interventions or outcomes can also be of great value to development effectiveness, one well-coordinated and implemented multi-site evaluation across several countries lays the foundation for a "built-in meta-analysis" with great potential to draw out lessons about the intervention. Relative to multiple uncoordinated studies, a multi-site study can also reduce fixed costs— sites can be added without having to duplicate all of the setup effort and cost. With results from multiple geographies and cultures, multi-site studies can provide information about contextual adaptations and make the evidence salient for a wider range of policymakers.

> Together, these examples illustrate how global evidence generation—when structured to manage risk and reward learning—can play a central role in improving the long-run cost-effectiveness and accountability of development investments. However, we recognize that funding this type of knowledge work comes with practical funding constraints. Norway should work to clarify the funding and approval process for funding such crucial knowledge activities.

The next branch of the framework focuses on strategies for improving cost-effectiveness in organizations that support a multitude of programs and activities. The strategies depend on the degree of influence Norad has to make changes within these institutions or appetite for reallocating the budget.

8. Part Two: Increasing Cost-effectiveness of Partners



Broad/Unrestricted Project Support to NGOs

With some grant agreements, Norad provides NGOs with significant Project Support funding, covering a portion or most of their operating budgets. In this case, the grants for Project Support function more like Norad's Core Support grants, which are typically used for operational support or unrestricted funds. Applying cost-effectiveness principles to these grants is more challenging, as operational support resources could be allocated to any aspect of an NGO's ongoing programs and operations (e.g., research, advocacy, program implementation, overhead). At the same time, these grants give Norad much more leverage to influence NGOs' evidence use and generation practices, as they are the majority donor (unlike Core Support grants to multilaterals).

Evidence Use

Norad's Role

Although competition may be relatively limited for these grants, funding is formally allocated through calls for proposals. Because partners pursue diverse objectives across different contexts, direct like-for-like cost-effectiveness comparisons are often not feasible. Nevertheless, Norad retains meaningful influence—particularly with Norwegian NGOs—through agreement negotiations, renewal processes, and ongoing strategic dialogue. The degree of influence varies by relationship, but in many cases, Norad has substantial scope to guide partners toward more evidence-informed and cost-effective approaches.

A first step for a grant manager is to take an informal audit of their partner's current evidence use. For portfolios that wish to complete a structured assessment of the NGOs in their portfolio for cost-effectiveness, they can use the Trust Funds assessment in Section 8.

Jump to Section 8

The assessment includes a set of criteria for judging the evidence use, evidence generation, and alignment with Norad's goals of individual trust funds, as well as recommendations for increasing cost-effectiveness in cases where Norad has leverage or potentially reallocating funding (at the grant manager's discretion). Grant managers can use their assessments to prioritize where they want to intervene and engage more deeply, such as on programs and projects where strong evidence exists but is not being used to inform decision-making.

Norad's partner NGOs work on issues in areas with strong supporting evidence (such as health) as well as areas with relatively little evidence (such as LGBTQ rights). Where strong evidence exists, interventions identified as Good Buys should serve as default approaches within partners' portfolios, consistent with the principles outlined for Project Level 1. Rather than requiring partners to justify each individual activity, Norad can use grant agreements and renewal discussions to encourage alignment with evidence-backed interventions for priority outcomes. In sectors with little or emerging evidence, Norad's role shifts from encouraging alignment with "Good Buys" to identifying global knowledge gaps and encouraging internal and external evaluations and learning.

Where sufficient evidence exists to conduct a review but has not yet been synthesized for partners' use, Norad can take a proactive role in producing or commissioning evidence reviews to inform both its own funding decisions and NGO strategy. As a major donor, Norad is well-positioned to collaborate with partners in defining the scope of such reviews while also encouraging uptake of the findings in future programming.

Norad's approach to improving the cost-effectiveness of grants for broad or unrestricted funding to NGOs may vary on several dimensions. In addition to the sector or outcome the partner works on, as discussed above, Norad's strategy should take into account the complexity of the grant and the status of the organization as the Norwegian arm of an international organization or an independent organization. If the organization's mandate is narrowly focused on a particular outcome or intervention, a Grant Manager may apply strategies from the relevant project level from Section 7, or break the grant down into components that can be analyzed. If an organization has a broad mandate and the grant covers many outcomes or interventions, influencing the partner's evidence use is likely a more cost-effective strategy for Norad. The amount of leverage Norad has for that will vary depending on the partner. Some NGO partners are national branches of a larger organization, like the Red Cross, while others are independent Norwegian organizations.

One of these partner types is not always more cost-effective than the other: there can be cost-effectiveness benefits to having access to infrastructure like that of the Red Cross, but also benefits to the focus of an independent organization. Norad will likely have more scope for influencing the evidence use and generation practices of Norwegian organizations, as compared to branches of other organizations.

EXAMPLE

For example, an application from a Norwegian branch of an international health organization for the Civil Society Call for Proposals included limited detail about what interventions would be implemented under the grant. Additional details about intervention selection and contextualization would be helpful for assessing the likely cost-effectiveness of efforts in each country covered by the proposal. The submitted Knowledge Management Plan includes a planned investment in a systematic review – Norad may be able to support this effort with connections to knowledge partners and additional resources to investigate cost-effective approaches to a mutually agreed-upon outcome, e.g., health facility climate adaptation. The Knowledge Management Plan also mentions a requirement for end-of-project evaluations, "considering impact" for every project of more than 3 years and emergency response of more than NOK 10M. Norad might also be able to provide resources and engage knowledge partners to strengthen impact evaluation approaches.

An application from a Norwegian organization working on SOGIESC (Sexual Orientation, Gender Identity, Gender Expression, and Sex Characteristics) inclusion for children and youth, for which the evidence base is more limited, included a number of proposed activities for which a randomized evaluation could be feasible. Given the thin evidence base in this area, such evaluations would add to the global evidence base on effective interventions to improve outcomes for children and youth with diverse SOGIESC and inform the design of future grants to ensure effective use of resources and drive greater impact.

> In both of these cases, Norad can use its relationships with the organizations to encourage improved evidence use and evidence generation practices, not just for these particular grants, but for the organizations' other activities as well, and leverage greater return on investment for Norad.

Evidence Use

Partner's Role

NGOs should use Good Buys wherever possible to maximize the use of Norad's resources. As mentioned above, Norad should collaborate with partners to ensure they understand how to contextualize Good Buys and the available global evidence base, identify evidence gaps, and commission Comparative CEAs or evaluations to address them.

Additional cost-effectiveness best practices for partner NGOs include collecting accurate cost data, especially for new programs, to identify key cost drivers; conducting ex-post cost-effectiveness analyses (based on actual costs and impact evaluation data); and joining research consortia or broader cost-effectiveness initiatives that contribute to global public knowledge goods.

Cost-Effectiveness Analysis Resources for Partners

01

J-PAL Cost-Effectiveness Analysis guidelines and related resources and templates

02

IRC Cost Analysis methodology and resources

03

IPA Automated CEA tool

Evidence Generation

When providing NGO partners with significant operational support, Norad should require high-quality evidence generation for novel interventions or for programs where there is little impact evaluation evidence. We return to this idea throughout the framework (Evidence: use it or produce it!). New impact evaluations are generally not required for well-established Good Buys, but may be warranted when interventions are implemented in new contexts, adapted for different populations, delivered through new implementation models, or modified in ways that may affect impact.

Norad can encourage or require evidence generation activities that align with partners' strategic learning needs, including:

Aggregation	Collaborating with partners to determine what their evidence needs are and commissioning evidence reviews for priority outcomes.
Single or Multi-Site Evidence Generation	Funding impact evaluations of promising or innovative interventions. NGOs implementing similar programming in multiple countries may be well-placed to conduct multi-site impact evaluations to test interventions in multiple contexts.

Grant managers play an important role in identifying relevant research, spotting evidence gaps across partner portfolios, and guiding partners toward high-value learning opportunities. Grant Managers can also link any additional evidence generation needs identified through evaluating cost-effectiveness to their portfolio Knowledge Plans.

Evidence Capacity Building with Embedded Labs

While discussed in detail in Project Level 2 – Institutional Systems Strengthening, one option to increase the capacity of NGO partners to use and generate evidence is to fund embedded technical assistance teams. For larger NGOs, having the internal capacity to use evidence to make decisions can sustainably improve the cost-effectiveness of Norad's grants. Many large NGOs already have some evidence or evaluation teams, so these could be supplemented with a specific cost-effectiveness position.

Jump Project Level 2

Performance Monitoring

Performance monitoring approaches for this grant modality vary depending on the mix of activities supported. While Good Buys typically do not require new impact evaluations, partners should track outputs and monitoring data to ensure interventions are implemented with fidelity and that costs remain controlled. The approach to monitoring data outlined for Project Level 1 can also be applied at this level to ensure that performance monitoring efforts themselves remain cost-effective.

Another approach to monitoring evidence use and generation improvements at partner NGOs is to track changes at a project or program level, where Norad aims to intervene and estimate the amount of funding directed towards more cost-effective approaches. Grant managers can record each opportunity to improve or increase evidence use, generation, or evidence capacity building, and capture information such as the program title, description, sector, "changeable" or influenceable budget, type of evidence engagement, and what the outcome of the effort or engagement was.

This approach could be used for all grants where Norad attempted to improve evidence use or generation, but not necessarily for trust funds or multilaterals. The former Office of the Chief Economist used a similar system for tracking its work and calculating a return on USAID's investment for the office.

"Soft-earmarked" Core Support to Multi-laterals, Including Trust Funds

Norad provides core support to multilateral partners that is often "soft-earmarked" to a sector, theme, or geography. Contributions to trust funds—typically administered by multilateral institutions—function similarly, with the fund's mandate effectively shaping the earmark. This core support is distinct from the core support discussed in Section 8, where the funds are unrestricted.

Jump to Section 8

Because Norad's leverage varies across multilateral institutions and trust fund governance structures, strategies to improve cost-effectiveness should be tailored to Norad's degree of influence.

Evidence Use

Prioritizing Among Trust Funds and Multilaterals

Norad's grant portfolios often support several funds and multilaterals as part of their strategic priorities; however, to increase the cost-effectiveness of their portfolio, teams ought to think critically (even if fuzzily) about the relative likely effects of core funding to the alternative trust fund and multilateral recipients of Norad funding.

There are two possible approaches for improving the cost-effectiveness of Norad's funding to bilateral and multilateral trust funds (or similar vehicles): 1. reallocating funding from partners that are relatively less cost-effective to those that are relatively more cost-effective, or 2. leveraging their contributions to improve the way a fund operates. The cost-effectiveness of Norad's funding to these institutions is likely best proxied by estimating the cost-effectiveness of the fund's ongoing operations. Where cost-effectiveness is relatively low (compared to the other funds or other funding opportunities altogether), Norad should also consider leverage: how much does Norad think its contribution can improve what the trust fund is already doing, and thus what is the effect of Norad's contribution with respect to this change in the effectiveness of the larger pool of resources? If Norad has sufficient influence, leveraging its contribution to improve the cost-effectiveness of a fund can create an outsized impact. However, this introduces more risk compared to adding funding to an already optimized pot of money. For funds with low cost-effectiveness where Norad has limited leverage, the best way to improve the cost-effectiveness of Norad's grants is to reallocate funding to a more cost-effective partner.

There are a variety of options for assessing the cost-effectiveness of funds and multilaterals. Calculating even an imprecise estimate of their total effects involves many assumptions and unknowns, as well as information and data that may not be available or easily accessible. We recommend conducting a more qualitative assessment of the funds using four criteria aligned with Norad's goals of improved cost-effectiveness and alignment with key priorities. This approach can be less time-intensive, can be repeated as needed, and doesn't require information about the scale, counterfactual scenarios, attribution, etc.

We recommend scoring the four criteria but not aggregating the four scores quantitatively via a fixed weighting. We see that as unnecessarily creating several risks: ignoring nuances in tradeoffs across criteria that may be unique to specific comparisons; obscuring differences in confidence about the scores; and creating an illusion of precision with respect to the optimal weighting of the criteria. Instead, the adjudication is best done by using the four criteria to understand how the options compare on single dimensions and then, more holistically, deciding, for the situation at hand, how to consider tradeoffs when one option is better on some criteria but inferior on others.

4 Criteria for Assessing Cost-Effectiveness of Trust Funds and Multilaterals

CRITERION 1 – A record of funding the most cost-effective interventions and using evidence in decisions

The fund uses evidence from the global evidence base to make decisions and promote the most highly cost-effective interventions among its grantees. This includes both using evidence for internal decision-making as well as funding or supporting the most cost-effective interventions. While there may be cost-effective interventions not yet widely recognized in the literature, this criterion can be evaluated against interventions with strong evidence of relative cost-effectiveness.

A starting point for assessing whether multilaterals use evidence in their funding decisions is to begin with known "Good Buys" and review the available information for each fund. This assessment of evidence use may vary depending on what level the fund works at, the countries it works in, and the sector, but in general, Grant Managers should look for good buys evidence use at the national or regional level, depending on the country. This assessment can be supported with query tools to determine the proportion of funds allocated to interventions considered a "Good Buy" and any "Bad Buys"[18]. If there are good indicators that the entity generally uses a "Good Buys" approach, with appropriate analysis of contextual needs and contextual adaptation, it suggests they are using evidence in their decision-making.

To further assess evidence use practices, review the processes the fund uses to make decisions and distribute funding to its sub-grantees. **Guiding questions to probe a fund's Evidence Use:**

- Does the fund include an assessment of the cost-effectiveness of sub-grantees' activities as part of its own grant process?
- Does the fund adapt and scale programs that have demonstrated positive results through evaluations or pilots, and scale back or discontinue programs that did not perform well?
- Does the fund apply research insights—including lessons from randomized controlled trials—to inform program design (for example, by using or commissioning evidence syntheses to identify "Good Buys")?

[18] Query tools could include qualitative query tools for analyzing large amounts of documents such as Nvivo or Artificial Intelligence query tools such as ChatGPT or Claude.

4 Criteria for Assessing Cost-Effectiveness of Trust Funds and Multilaterals

CRITERION 2 – Quality Evidence Generation

The organization funds or participates in rigorous causal impact evaluations and contributes to global public goods by sharing data and evaluation results. In addition to contributing to global knowledge on what interventions are most cost-effective for influencing a particular outcome, evidence generation is integral to effective evidence use. A starting point for assessing a fund's evidence generation is to rate evaluations it produces using a set of objective criteria. This can be done using publicly available data and evaluation results, which also indicate contributions to public goods, as well as results and reports shared with Norad as a donor. Beyond outputs, a fund's evaluation policy and any other information available on its practices for facilitating evidence generation can be assessed.

Guiding Questions:

- Do they fund rigorous counterfactual impact evaluations and make them publicly available? And research initiatives and portfolios of public goods on what works?
- Do they have an evaluation office or team?
- Do the final evaluation reports make appropriate causal claims, go through peer review, have academic affiliation, etc.?
- Does the fund have a cost-effective approach to performance monitoring that it applies to its own projects or requires its grantees to follow? Do they follow the principles outlined in Project Level 1 to collect data that is useful and timely for operational and program design decisions?

The first two criteria sit in balance with each other. If a fund is overwhelmingly implementing Good Buys, it does not need to be conducting a lot of impact evaluations (but could still contribute to knowledge public goods, e.g., improving costing data for its programs, producing implementation guides, etc.). If a fund supports innovative approaches or is expanding approaches to new contexts, it may not have a record of funding established cost-effective interventions, and should be running appropriate evaluations to measure effects and cost-effectiveness. For portfolios that fund multiple Trust Funds, grant managers should consider the allocation between funds in relation to the balance between Evidence Use and Evidence Generation. One fund may conduct or fund more Evidence Generation than others; in this case, it isn't necessary to push a different fund to increase their Evidence Generation, if the mandates are sufficiently similar (such as foundational learning in education) and they are using evidence well.

4 Criteria for Assessing Cost-Effectiveness of Trust Funds and Multilaterals

CRITERION 3 – Priority Outcome and Geographic Focus

The priority outcome(s) of the fund and their geographic focus (e.g., LICs, or a particular region) align with Norad's and the relevant portfolio's priorities. While Norad considers alignment with its priorities in other steps of its grant management, in some cases, the priority outcome and geographic focus of a fund are relevant to the question of cost-effectiveness. This criterion may be more important for some sectors than others. In a sector where the funds Norad supports are closely aligned on an outcome, or if each works on a distinct outcome Norad prioritizes within the sector (and they align with Norad's geographic focus), this criterion is unlikely to be a determining factor for cost-effectiveness, and a grant manager should focus on the other criteria to compare the cost-effectiveness of the potential partners. However, if Norad has a specific outcome or population of interest for a particular sector, there may be variance in how well alternative funds align with Norad's goals and, therefore, the effects per krone Norad might expect to achieve towards that specific outcome and population by contributing to one fund vs. another. For example, if Norad wishes to contribute to trust funds working on climate or agriculture, a grant manager might consider whether the alternative funds work on climate mitigation vs. adaptation, or whether they have a gender focus, in addition to alignment on higher-level sector outcomes.

The score for this criterion might be a simple binary of whether the alternative funds' outcomes and geographic focus align. Alternatively, a portfolio team might conduct an analysis of the problem and identify where the need is greatest, and then select funds that prioritize those countries and outcomes. This approach is more involved and requires a certain level of analysis, such as using a CBA to estimate where the greatest effects would be.

Guiding Questions:

- What outcome does Norad aim to support with this grant? Is there a particular population Norad wishes to prioritize with this contribution? What proportion of the fund's activities align with these priorities?
- In addition to any sectoral focus, does the fund align with Norad's sustainability goals?
- If the fund has a broad scope in terms of geography/income level, what proportion of their work is in priority countries for Norad?

4 Criteria for Assessing Cost-Effectiveness of Trust Funds and Multilaterals

CRITERION 4 – Financial and Policy Leverage

The fund leverages further funding or works within government systems, so effects are maximized when additional resources are harnessed, and aid money improves how the country's government budgets are allocated.

Some funds leverage outside funding with innovative financing instruments, catalyzing additional education spending. For example, the World Bank's International Development Association subsidizes loans and leverages donor contributions into larger funds using concessional lending and other market-based financing instruments. Other funds and multilaterals also have financial instruments to leverage further funding, such as matching grants or loan products.

On the policy side, domestic spending is much larger than international aid, so leveraging country governments' policies and budget decisions is an effective way to scale and mobilize resources toward cost-effective approaches. Ideally, funds should take government priorities into account while nudging towards greater cost-effectiveness.

Norad collected relevant information in its 2025 review of funds. Further analysis could examine each fund's strategy for engaging with government systems.

Guiding Questions:

- To what extent does the fund work within existing government systems? Are they able to influence policy change within those systems?
- Does the fund leverage more financial resources for the sector, such as through market-based financing or concessional lending?

Each portfolio should review the multi-donor funds against these criteria and use their qualitative review to inform their decision-making. Based on this assessment, Norad typically has two levers:

- Reallocate funding toward higher-performing funds and channels; and/or
- Use their influence to strengthen a fund's cost-effectiveness practices.

Reallocation is most relevant where Norad has limited influence across a portfolio, while governance-focused strategies are most feasible where Norad has stronger influence and sufficient staff capacity to engage.

Evidence Use at Trust Funds where Norad has significant influence

For funds where Norad has significant influence, grant managers can promote funding Good Buys (or systems work that enables Good Buys) through the fund. This could take various forms, depending on Norad's relationship with the trust fund and the exact governance structure of each fund. Most trust funds develop their own governance structures and practices, so each may have its own idiosyncrasies to consider when promoting evidence use broadly or a specific set of Good Buys. One measure of the level of influence Norad has with a fund is the rating it received in Norad's most recent review of trust funds. In the 2025 review, funds rated 3 or 4 would fall into the significant influence category.

Some examples of ways a grant manager could influence a fund towards greater cost-effectiveness:

- **The annual work plan**—if Norad can provide input or feedback on the annual work plan, this is a good opportunity to embed many of the other cost-effectiveness strategies into the fund's planned activities for the year. Grant managers can work with the Department for Knowledge and Innovation to identify where the fund has strong evidence use and generation practices and where it could improve, and then make specific recommendations to the work plan.
- **Calls for proposals executed by the fund**—In cases where Norad has the opportunity to provide input on the fund's CFP itself, the grant manager can take similar measures outlined in the Central Evidence Review process proposed in Appendix A, such as adding a Good Buys appendix to CFPs. The grant manager could also assess proposals' contextualization of the suggested Good Buys.
- **Investment Decisions**—If Norad/Norway has a vote on the fund's board, it has significant leverage to ensure that an increasing share of funding goes to highly cost-effective interventions and evidence-generation activities.
- **Revision of the fund's results framework, evaluation policy, and plan**—Norad/ Norway is often asked to give its input and could use the opportunity to suggest metrics and policies that encourage the fund's overall cost-effectiveness. For example: # of programs or countries reporting cost data; # or % of evaluations that are impact evaluations; share of programs that are recognized as Good Buys; monitoring data includes outcomes (not just outputs). Eventually, funds would track cost per unit of impact, but this is not a recommended first step if funds aren't systematically tracking costing data yet.

Of course, these strategies must be weighed against other considerations and goals that Norad has in its position with these funds.

Evidence Use where Norad has limited influence

For trust funds where Norad has less influence in decision-making, it will be more challenging to improve cost-effectiveness through Norad's direct actions. Funds rated 1 or 2 in the 2025 internal review of trust funds would fall into this category. Some funds where Norad has little influence may still rate highly on the cost-effectiveness criteria; in this case, Norad can maintain its contribution and use the assessment criteria as an accountability mechanism, periodically reassessing to ensure that the fund or multilateral continues to prioritize cost-effective interventions, evidence use practices, and evidence generation activities.

In cases where a trust fund does not meet the criteria, the key to improving cost-effectiveness may be diverting funding to a different partner or channel, either one that is more cost-effective on its own or where Norad has more influence. This may be politically challenging for a variety of reasons. Still, at least cost-effectiveness is taken into consideration, and Norad identifies opportunities for improvement that it can incorporate into its strategy at each fund.

Evidence Generation

Many multilateral agencies have their own evidence generation teams or units within the institution that conduct impact evaluations. The World Bank has a large repository of impact evaluations on its programs, including research from DIME (Development Impact). Funds managed by multilaterals can implement evidence-generating activities within their own grantmaking processes, including internally and externally conducted evaluations or knowledge exchanges. Norad can provide support for these existing high-quality evaluation offices or teams.

Evidence generation in multi-donor funds could also include a separate evaluation fund that grantees could apply for, or going further and requiring an impact evaluation if grantees are implementing novel (or novel to their context) interventions. For example, a fund could include evaluations as part of their grant-making process when it establishes the multi-year country compacts. Countries or applicants wishing to receive funds would need to include evidence generation in their plans if the fund (and Norad) identified significant knowledge gaps in their proposals.

Norad could also encourage the funds where it has a high degree of influence to consider funding embedded labs and technical assistance as part of country compacts.

Performance Monitoring

For a large fund or multilateral institution, it is challenging to conduct an analysis or estimate the effects of all its programs to gain a thorough understanding of the total impact. It is difficult to collect all the necessary information, and running the analysis is

time-consuming, all for an estimate that may be imprecise or not affect Norad's ultimate decision-making. An alternative is to sample a fund's projects or country compacts and estimate the fund's effects. This would represent a conservative estimate of the potential effects of the fund or institution.

EXAMPLE

An example of this type of assessment is the approach developed by Development Innovation Ventures (DIV) at USAID. DIV developed a portfolio-level approach to assessing returns on development innovation funds supporting social science research and development.[19] Comparing the benefits of a subset of high-reach innovations to the total portfolio cost makes it possible to generate a conservative estimate of SROI even when conceptual difficulties or data limitations make it impossible to assess returns on some investments in the portfolio.

Applying it to DIV's portfolio between 2010 and 2019 results in a social benefit-cost ratio of over 17. DIV's approach was open, defining innovation broadly to include new applications of technology as well as novel business models, delivery methods, production processes, products, or services that were expected to improve development outcomes. DIV also supported applied research and replications of proven innovations in novel environments, and used a tiered model to fund three stages of innovation: piloting, testing for impact and cost-effectiveness, and transitioning innovations with rigorous evidence of effects and cost-effectiveness to scale. DIV's estimated SROI divided the benefits of a subset of high-reach innovations by the total portfolio cost, resulting in a conservative estimate of returns on the overall portfolio. If a fund or institution is funding innovative or highly cost-effective interventions as part of its portfolio, Norad could take a similar approach to assessing its overall cost-effectiveness. Looking at a sample of activities, the scale of selected interventions and estimates of their effects, and the total cost or value of the fund, Norad can calculate a rough estimate of SROI representing a conservative estimate of impact potential.

Taken together, these performance monitoring approaches allow Norad to assess whether its support to institutions and funds is likely to generate effects at scale, even when comprehensive program-level evaluation is infeasible.

[19] Kremer, Michael, Daniel Björkman Nyqvist, Brandon Tan, Jonathan Robinson, and others (note: often abbreviated depending on version). 2021. "*Is Development Innovation a Good Investment? Evidence on Scaling and Social Returns from USAID's Innovation Fund.*" Working paper



Core support to multilaterals

In general, assessing the cost-effectiveness of Norad's unrestricted funding to large multilateral institutions is unlikely to yield large marginal improvements. Norad often has limited discretion over these allocations due to Ministry of Foreign Affairs (MFA) designations, and its financial contribution typically represents a small share of total multilateral budgets.

Moreover, influencing programming decisions in large, multi-donor institutions can be challenging, and conducting a comprehensive cost-effectiveness assessment would require substantial data, time, and analytical capacity. In many cases, such an effort would not itself be a cost-effective use of resources. However, understanding how funded institutions are using evidence to improve their work or generating evidence about its effects can be helpful to inform future MFA funding decisions to make the most of Norway's development funding.

Evidence Use by Norad and Performance Monitoring

Similar to the approach outlined in Section 8, Norad can use a set of criteria to assess the relative cost-effectiveness of its operational support to multilateral institutions. Since Norad has limited leverage to influence evidence use and generation practices at multilaterals, this would mainly be an accountability exercise. Because multilateral core support is not tied to specific outcomes or geographies (unlike "soft-earmarked" funds), criteria related to alignment do not apply. Instead, assessment should focus on:

Jump to Section 8

- Criteria 1- Evidence Use
- Criteria 2 - Evidence Generation
- Criteria 3 - Policy and Financial Leverage

These criteria can be assessed in large part by reviewing public information, e.g., Annual Reports, Donor Reports, and meeting records, and can inform recommendations to MFA on allocation of funding to multilaterals.

Where Norad has little influence, there is no direct strategy for evidence generation or evidence capacity building.

9. Challenges, Trade-Offs, and Limits of Cost-Effectiveness

This framework supports cost-effectiveness "thinking" throughout Norad's grants and portfolios.

This approach aims to convey that even for grants that don't fit neatly into a "Good Buys" framework, it is still possible to consider potential impact against estimated costs. However, we recognize that there are challenges and limitations to using cost effectiveness as a guide for all decision-making, and that many other factors could and should influence grant management decisions. Nevertheless, cost-effectiveness thinking can often help illuminate tradeoffs of taking one course of action over another, inform future approaches, and justify decision-making to the MFA, Parliament, and taxpayers. This section discusses some challenges, tradeoffs, and limitations of an emphasis on cost-effectiveness and ways the framework aims to address or compensate for them.

Challenges and Tradeoffs

Measurement and attribution

Many development outcomes are diffuse, long-term, or difficult to separate from confounding factors, which can make cost-effectiveness estimates challenging and lead donors to feel pressure to fund only interventions that are more measurable. This framework recognizes that difficulty and includes strategies for estimating the cost-effectiveness of approaches that are harder to quantify.

Equity

There is often a perceived tension between equity and cost-effectiveness. This can be addressed by recognizing the inherently comparative nature of cost-effectiveness and comparing interventions within an "equity" category, not across. Specifically, this is accomplished by defining cost-effectiveness as a measure of effects achieved per krone spent on an intervention, for a particular population. Thus, while the decision to reach a particular population may come at the expense of another, one can take a target population as given and examine the most cost-effective approach to supporting that

particular population. This helps ensure that populations that may be more costly to reach due to geography or demographics, yet are important for equity reasons, are not excluded in the name of efficiency. Where a grant does make cost-effectiveness trade-offs that affect equity (e.g., increasing costs to reach a particularly vulnerable population or scaling a program in areas that are relatively less expensive), those trade-offs should be considered in modeling and transparently discussed as part of the grant decision.

Innovation

Emphasizing cost-effectiveness can raise concerns about stifling innovation, but pursuing greater effects per krone should be a tool to foster innovation to find what works. The framework proposes strategies for guiding partners toward approaches supported by existing evidence, but Norad should always welcome innovative proposals, so long as they are supported by a strong theory of change. Supporting innovation to scale pathways can itself be a cost-effective use of development assistance funding, as illustrated by the examples of DIV and FID discussed in the framework. The tiered approach taken by both funds takes into account the risk of testing new approaches by starting at a small scale and considering cost-effectiveness at the portfolio level.

Sustainability and local ownership

Cost-effectiveness is sometimes perceived as at odds with sustainability and local ownership, and both factors can influence the cost-effectiveness of alternative interventions. Therefore, it is important to consider how they are incorporated into cost-effectiveness assessments and grant management decisions. They can and should be incorporated into the estimated effects in cost-effectiveness modeling through the assumptions described throughout the framework. If there is a strong priority for local ownership beyond what is included in the model, that could be a decision factor that leads to choosing an approach other than the one that is relatively most cost-effective. The framework also provides strategies for building evidence use and generation of partners with precisely the goal of sustaining cost-effective policy approaches well beyond Norad's involvement. For example, embedded labs can improve effects per krone of a particular intervention in the short term and increase local capacity to use cost-effectiveness evidence to improve other government programs and generate evidence to support their decision-making.

Political economy constraints

This framework recognizes that cost-effectiveness is only one of many factors considered in Norad's grant management decisions. Norway and Norad have strategic interests, historical relationships, and political pressures that will not always point in the same direction as cost-effectiveness evidence. However, even in these circumstances, the framework can help model the expected cost-effectiveness of the chosen approach and articulate the tradeoffs involved in the decision to inform future policy.

Limitations

When high levels of precision are important but not feasible

The framework recognizes that some cost-effectiveness estimates may be very imprecise, and in some cases, the level of precision may be important for decision-making. This is especially true where strict cost-effectiveness analysis or counterfactual evaluation is not feasible.

Where evidence and staff resources are limited

When the evidence is limited and/or there are no readily available evidence syntheses to draw from, and time and resources are limited, it may be more difficult to model cost-effectiveness for a particular grant decision.

When deciding which outcome or sector to prioritize

Cost-effectiveness cannot aid decision-makers in selecting which outcome to prioritize. It can be challenging to select whether one outcome is more important or impactful without making many subjective judgments.

When deciding which funding channel to utilize

The outcome of interest and the availability of cost-effectiveness evidence can help determine which channel to choose, but there is no one funding channel that is routinely more cost-effective than another since the goals and contents of Norad's grants are so heterogeneous.

10. Next Steps for Norad to Operationalize this Framework

This framework is a comprehensive overview of strategies to improve the cost-effectiveness of Norad's grant portfolio.

It details approaches to Evidence Use, Evidence Generation, Evidence Capacity Building, and Performance Monitoring for different types of grants that Norad makes or could make, based on the available evidence relevant to each. It is intended to establish a shared understanding of cost-effectiveness and guide grant managers through incorporating cost-effectiveness thinking into their grantmaking decisions, using the best available evidence to maximize the effects per krone of Norad's portfolio.

Implementing the strategies suggested here will take time and require both policy changes and internal capacity building, as well as strategic partnerships to achieve. Some of the appendices that follow propose particular policy shifts that would support implementation of this framework. We recommend starting with a centralized evidence review to help institutionalize a common understanding of evidence of effects and consistently apply cost-effectiveness evidence in grantmaking decisions, and adjusting the CFP process to incorporate consistent use of evidence of effects in CFPs themselves, as well as evaluation of applications. It is also important to consider how needs for evidence syntheses will be met and how knowledge partnerships for evidence generation and capacity building will be institutionalized. In addition, ensuring a common understanding of cost-effectiveness (as distinct from cost-efficiency) and institutionalizing a "use it or produce it" approach to evidence through socialization of this framework and related resources is a key next step.

While the strategies outlined here are applicable to any single grant and hold the potential to improve the cost-effectiveness of individual grants, their effect will be greatest if adopted and applied throughout the organization. While adopting and applying these approaches at scale will require investment of time and resources up front, increasing the cost-effectiveness of Norad's grants will support Norway's own national interest as well as achieving greater progress towards development outcomes globally.

11. Appendices

Jump to a specific appendix.

Appendix A – Centralized evidence review

Appendix B – Provides a detailed memo outlining recommendations for integrating cost-effectiveness into Norad's CFP process.

Appendix C – Sample language for a CFP evidence appendix

Appendix D – Estimating SROI of knowledge partnerships

Appendix E – Further reading

Appendix A: Proposed Centralized Evidence Review

Integrating cost-effectiveness evidence analysis into a decentralized grant-making process poses several challenges, including institutionalizing a common understanding of impact evidence, consistently using cost-effectiveness evidence in the design of funding opportunities, supporting evidence generation activities to fill both global and local knowledge gaps, and maximizing cross-sectoral learning. Using and applying certain types of cost-effectiveness evidence and analysis, and especially doing cost-effectiveness modeling, is a specialized skill set and role within development agencies, and grant officers must be experts in many other areas. A central review process solves some of these challenges and creates opportunities for consistent application of the global evidence base for future grants.

This proposal is not a return to the AMOR centralized results management strategy. Instead, the proposal creates a collaborative process between the Knowledge and Innovation Department and the sectoral areas to produce a cost-effectiveness evidence analysis of proposed grants. This approach builds on similar practices introduced by USAID's Office of the Chief Economist. Starting with a centralized approach will allow for piloting with grants from across portfolios and establishing consistent metrics for review. The process could later be decentralized to the Department level with sufficient capacity building and staffing.

This brief outlines the recommended strategy for a centralized cost-effectiveness review, or "evidence check", including a "triage" step with prioritization criteria for which awards should be reviewed in full.

Step 1: Triaging Awards to Decide the Extent of Evidence Review

Not all grants can or should be reviewed for expected cost-effectiveness; the bandwidth of any centralized unit must be considered to avoid bottlenecks. Thus, the first step is a rapid triage system to determine the extent of review each funding proposal should receive.

The Investment Document should be submitted to the Knowledge and Innovation Department at the same time that it is submitted through other channels. The Investment Document should contain sufficient information for the Knowledge and Innovation Department to triage the proposal and determine the appropriate level of evidence review.[20] Minor edits to the Investment Document may support the triage, but may not be strictly necessary.

[20] Pending Question #1 for Norad from GPRL: Does the Investment Document provide sufficient information for the triage, or will any additional information be needed? We think it is likely sufficient, and of course the process can always include the Knowledge and Innovation Department asking a few clarifying questions.

The goal of the triage is to identify grants where cost-effectiveness evidence is most valuable for the design of funding opportunities, or where generating cost-effectiveness evidence has the most promise. To decide which grants to review, the Knowledge and Innovation Department will consider several factors:

- Bandwidth of the Knowledge and Innovation Department staff
- Strength of cost-effectiveness evidence for the sector and the planned purpose of the grant
- Potential for the grant to generate knowledge
- Size of the grant
- Extent of Norad discretion on activities of the grant (e.g., whether Norad is a minor co-funder and thus has low influence on the planned activities vs sole funder)

Based on these factors, the Knowledge and Innovation Department will either pass or conduct a review, determining its scope based on the grant type. For each grant identified for review, the Knowledge and Innovation Department will partner with the identified individuals in the sectoral group to be the “Review Team.”

Step 2: Cost-Effectiveness Review Process

The Review process varies by the funding channel or grant type proposed in the Investment Document.

For Project Support (including Calls for Proposals)

The Review Team reviews two main aspects of chosen grants: (1) Have they used the best available cost-effectiveness evidence to maximize impact? (2) Do they include an appropriate evidence generation strategy, i.e., one that allows for both reporting on generated impact when viable to ascertain and also contributes to the global public good in sectors with key evidence gaps?[21]

If conducting a more limited Review, the Review Team will submit a 1-page memo attached to the decision document. The memo should include a short note highlighting existing cost-effectiveness evidence and a brief recommendation based on the extent to which the grant recommendation aligns with that evidence and/or supports evidence generation.

[21] Note for Norad from GPRL: Supporting tools can be developed to help Review Teams assess these questions consistently.

A full Review may include various inputs depending on the grant type and available capacity. The Review Team can choose to give targeted input on a Call for Proposals before it is released, such as reviewing or drafting specific language to include. The Review Team may also request to engage deeply in co-designing the grant with the department, commission, or conduct a best-buy analysis, systematic review, or integrate a measurement and learning plan.

In general, all future CFPs should include the following elements to increase the cost-effectiveness of Norad's grantmaking:

- An appendix with an evidence summary of "Best Buys" for prioritized goals as a default starting position. External knowledge partners can support the generation of these appendices if available.
- Prompts that guide applicants through the adoption of their chosen activities to ensure cost-effectiveness is maintained, and interventions are selected appropriately for their context. The "How" questions relate to the program's scale, costs per unit of outcome, and implementation risks, among others.
- Applicants who wish to deviate from the best buys must justify their decision and plan for an impact evaluation of their chosen approach (ensuring all grants that Norad funds are either **using** or **producing** evidence). This leaves room for partners to innovate.

To effectively implement these updates in future CFPs, the language in the Call should be drafted and reviewed by Norad's legal experts to ensure that the guidance is not overly prescriptive and remains appropriate for a grant (as opposed to more prescriptive contracting language). Sample guidance language for CFPs is attached to this brief as an appendix.

For Soft-earmarked Core Support (e.g., Trust Funds within Multilaterals)

For multi-donor trust funds, the level of effort the Review Team selects should scale with Norad's influence over the fund. The full effort scenario could include a Review that identifies or conducts a targeted evidence synthesis in order to guide the use of the Trust fund towards implementing or strengthening a government's ability to implement "Best Buys", or to generate knowledge via rigorous evaluations of interventions and policies that further the goals of the Trust fund. If no influence is viable, the middle effort scenario could include merely a review of whether the Trust fund, as envisioned, is using cost-effectiveness evidence or generating cost-effectiveness evidence to fill in knowledge gaps. The lowest effort scenario would be for funds that are deemed outside of where cost-effectiveness evidence can be produced, in which case the review could at most review the Theory of Change proposed by the Trust fund to judge its plausibility from a theoretical and empirical (to the extent possible) perspective.

For Non-earmarked Core Support

In most cases, the Review Team will likely pass on reviewing unrestricted core support grants. However, if the Review Team wishes to review a grant for core support, the review should focus more on the grant recipient's institutional evidence practices, i.e., how well they use evidence in the design of their programs, and whether they produce appropriate impact evaluations of their operations.

Step 3: Approval Process

Once the review is complete, the Review Team prepares a memo or report with their recommendations and attaches it to the decision package. The Review Team becomes the process owner at this point to ensure the Review memo is seen by all decision-makers and to support the grants manager in incorporating their recommendations, if needed. If the recommendations are not incorporated, a note-to-file explaining the divergence is attached to the decision package (we assume the decision package includes the complete Investment Document with the Cost-Effectiveness Review memo or note-to-file).

The next step in the process is to send the decision package to the approver, either the section head or the division head, depending on the size of the grant (or, in some cases, the Director General for very large or strategically important grants). The approver reviews the package, considers the Review Team's recommendations and any notes to file, and signs off on the grant or CFP. The Review Team can provide any necessary follow-up to ensure approved recommendations are implemented correctly.

Summary of the Evidence Review Process:

1. The grant manager drafts the Investment Document and sends it to the appropriate channels.
2. The Knowledge and Innovation Department conducts triage. If a Review is decided, the Knowledge Department convenes a Review team with sector colleagues (5-10 days).
3. Review Team conducts cost-effectiveness review and issues memo (3-4 weeks).
4. The grant manager incorporates recommendations or provides a note-to-file.
5. Decision package finalized and approved.

Appendix B: Call for Proposal Language

In general, future Calls for Proposals should include standard guidance to ensure that partners and applicants are considering the cost-effectiveness of their programs and activities as early as possible in the grant process. This gives Norad the opportunity to direct partners towards more evidence-based interventions while not dictating the exact contents of applications. Not all guidance will be applicable to every CFP; grant managers and committees can use their discretion to determine which guidance is appropriate for their Call, with recommendations from the Knowledge Department and Review Team.

Some of the sample language below is intended to complement a “Best Buy” appendix, a summary document detailing the 2-3 most cost-effective interventions for a defined outcome. The language presented here is only sample standard language, and CFP committees will need to adapt the language based on each unique CFP.

Sample Language for Encouraging Best Buys and Evidence Generation (Use it or Produce it)

“To maximize the effects per krone (or cost-effectiveness) of our grants, Norad requires that applicants demonstrate how their proposed approach is informed by existing cost-effectiveness evidence. We have attached an appendix to this Call for Proposals that includes the interventions and approaches that the global evidence suggests are the most cost-effective solutions for improving XYZ outcome, also known as “Best Buys”.

Applicants proposing projects that work closely with end users (communities, individuals, schools, firms, et al.) must justify how their proposed approach aligns with the Best Buy shown to be cost-effective in similar contexts. Not every Best Buy is appropriate for every context; therefore, it is imperative that applicants consider the available evidence alongside contextual evidence before integrating a Best Buy into their program design. Applicants should reference specific evidence when justifying their chosen approach, and may use citations from the Best Buy appendix as needed.

Where diverging from a known “Best Buy” or evidence-backed approach, applicants must provide a clear rationale for the alternative design and explain how it is expected to deliver comparable or superior cost-effectiveness. Furthermore, applicants proposing an approach that diverges from a known Best Buy MUST include an evaluation strategy with a credible counterfactual strategy for their program.

For Programs that Support System Strengthening

Applicants proposing systems-strengthening efforts or policy advocacy efforts must present a clear and credible theory of change that links proposed activities to expected outcomes.

The theory of change should:

- *Identify the key causal steps (inputs, outputs, outcomes, and impacts) that connect program activities to intended results;*
- *Provide supporting evidence for each key link in the causal chain, drawing where possible on high-quality or counterfactual evidence from relevant studies; and*
- *Cite all sources clearly (e.g., published evaluations, systematic reviews, or credible grey literature).*

Where empirical evidence is limited, applicants should explain the rationale for their assumptions and indicate how they will test or validate key uncertainties during implementation.

Prompts for Adopting Best Buys

In addition to the above guidance, CFPs could also include prompts that guide applicants through the adoption of their chosen activities to ensure cost-effectiveness is maintained and interventions are selected appropriately for their context. The “How” questions relate to the program's scale, costs per outcome, and implementation risks, among others. Grant managers and CFP committees should add additional prompts that are specific to the proposed Best Buys to help guide applicants in their contextualization/adaptation of the approach. Some sample prompts:

- How will you adapt “Best Buy” into your program design? What is the experience that will enable you to implement the Best Buy successfully?
    - Please describe the context where you plan to implement the XYZ program. Please describe any baseline evaluations conducted in the past or administrative data related to the outcome XYZ.
    - In the Best Buy appendix, there are contextual factors detailing where and when the Best Buy is most cost-effective. Please describe in detail the contextual factors where you intend to implement the Best Buy, and any deviations from the evidence.
- How many participants or constituents do you plan to cover with your proposed activities and budget? Please be specific; include ranges, and justify those ranges.
- What are the inputs required to implement your proposed activities? What are the costs associated with those inputs, and how will you scale them?
- Please identify any risks with implementing the proposed approach, and how you will mitigate them (2-3 main risks). Include any risks related to reaching participants, ensuring program delivery or uptake, or any outside risks (emergencies, conflicts, environmental disasters, political risks, or other).

Appendix C: Sample Language for an Evidence Appendix

Future Calls for Proposals should include an appendix with an evidence summary of "Best Buys" for prioritized goals as a default starting position. External knowledge partners can support the generation of these appendices, if available. While each Evidence Appendix will be unique to each program's stated outcomes, some general language might be helpful as a point of departure:

"The global evidence on X outcome suggests that some interventions are routinely more cost-effective than others. Norad defines cost-effectiveness as "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 krone cost of the intervention [as compared to alternatives]. In short, it can also be thought of as "effects per krone."

While there are several promising interventions that demonstrate impact for improving X, Norad has consulted with researchers in the field to identify the "Best Buys", the interventions that maximize impact in X for the available resources. Below, we define each of these "Best Buy" interventions in detail, along with key characteristics that are essential to maintaining program impact.

- **Best Buy – Intervention A**
  - Description of Intervention
  - Summary of Supporting Evidence
  - Contextual Factors
  - Cost data - range, cost per outcome
- **Best Buy – Intervention B**
  - Description of Intervention
  - Summary of Supporting Evidence
  - Contextual Factors
  - Cost data - range, cost per outcome
- **Promising – C**
  - Description of Intervention
  - Summary of Supporting Evidence
  - Contextual Factors
  - Cost data - range, cost per outcome
  - Ongoing research questions
- **Promising – D**
  - Description of Intervention
  - Summary of Supporting Evidence
  - Contextual Factors
  - Cost data - range, cost per outcome
  - Ongoing research questions

Appendix D: Knowledge Partnerships

Estimating the Value-Add of Knowledge Partnerships for Designing and Evaluating Norad's Grants

Based on decades of research, we know that some interventions are much more cost-effective than others. Evaluation evidence informs policymakers – broadly construed to include donors, governments, and direct implementers – how to maximize their impact with their inevitably scarce resources and policy levers. Thus, the impact of investing in knowledge partnerships is best estimated by examining a level deeper, i.e., by examining how evidence improves the impact of policies and programs. What are the changes further downstream made as a by-product of including strong evidence use and evidence generation practices?

Although the global evidence base has grown tremendously over the past 30 years, two broad problems remain: our ignorance still outpaces our knowledge, and our knowledge often does not shape policy. As a result, programs are not run as effectively as they could be or, worse, ineffective programs take up scarce resources.

Knowledge partners can help donors solve these two problems by:

- Providing tailored evidence reviews to update portfolio knowledge bases and influence calls for proposals and guidance to partners
- Advising on the evaluation of funding proposals to prioritize technical quality and adherence to evidence on effective interventions to influence a particular outcome
- Designing high-quality evaluations to measure the cost-effectiveness of grants and generate evidence that can be used by Norad and others to improve the effectiveness of future grants
- Building data collection and management systems for tracking costs, inputs, outputs, and outcomes
- Improving processes for using data appropriately to adjust operations and program implementation
- Identifying knowledge gaps to guide future knowledge generation

> This document aims to provide a framework for estimating the value-added by knowledge partnerships, specifically for designing and evaluating Norad's grants.

By engaging knowledge partners in the design and evaluation of grants, Norad can improve both the effectiveness (increasing the impact per participant) and efficiency (increasing the total number of participants reached with a fixed activity budget) of the work it funds.

Estimating Social Return on Investment (SROI): A 2x2 Framework

To set up a knowledge partnership, as with any grant, the donor ought to expect a positive social return on investment. We use the term “expect” in a statistical sense: the social return if the intervention is successful multiplied by the likelihood of success. And the “social return” refers to the expected change in the impact of policies informed by the knowledge partnership, divided by the cost of the knowledge partnership.

$$SROI = \frac{Impact\ with\ knowledge\ partner\ engagement\ -\ Impact\ without\ knowledge\ partner\ engagement}{Cost\ of\ evidence\ work}$$

We discuss how to incorporate SROI of a knowledge partnership using a 2x2 framework: (1) **Timing Perspective:** Evidence use (EU, i.e., planning, looking forward) vs evidence generation (EG, i.e., evaluation, learning), and (2) **Scope:** Engagement by knowledge partnership on one specific grant vs e

	Scope (grant or portfolio)	
Timing (planning or evaluation)	A) Evidence Use - specific grant	C) Evidence Use - portfolio
	B) Evidence Generation - specific grant	D) Evidence Generation - portfolio

A) Evidence use for a specific grant

A knowledge partner’s engagement on evidence use for a specific grant may include providing sector expertise to identify cost-effective interventions that improve the outcome(s) of interest to develop an evidence appendix for a Call for Proposals or to inform discussions with an applicant during the grantmaking process. Developing the evidence appendix could involve a rapid evidence review, drawing from existing evidence syntheses, or conducting an in-depth meta-analysis. The SROI for this engagement could be calculated as the difference between the expected impact of a business-as-usual grant to work on that outcome and the estimated impact of the knowledge partner’s recommended intervention, divided by the cost of consultation with the knowledge partner.

Illustratively, if a meta-analysis costing 1M NOK improves the cost-effectiveness of 50M NOK grants by 10%, that would imply an immediate SROI of about 5:1. If the analysis then helped guide future decisions by Norad and others, the SROI could increase considerably.

B) Evidence generation for a specific grant

Engaging with a knowledge partner on evidence generation for a specific grant includes funding independent impact evaluations (or other such policy-informing research) of programs, whether funded by Norad or not; funding process and operational evaluations that may produce important knowledge that informs implementation of policies and programs but is not an impact evaluation; and, funding research more broadly that serves to inform policymaking.

Norad should prioritize Evidence Generation engagements for questions with bigger knowledge gaps, i.e., relatively little existing cost-effectiveness evidence. To estimate the expected impact of Evidence Generation work, one must consider the likely strength of the evidence to be generated relative to the existing evidence in order to gauge potential change in policies as a result of the new knowledge. That is not a trivial exercise, but one that could be tackled consistently across opportunities in order to generate more consistent internal decision-making for when to invest.

C) Evidence use for a portfolio

Norad may also engage a knowledge partner to consult on evidence use for a portfolio of grants. This type of engagement may include commissioning an evidence review for priority outcomes selected by Section leadership to identify cost-effective or promising interventions or consulting on evaluation criteria for grant proposals to ensure adherence to evidence and appropriate contextualization and implementation of proven approaches. The SROI estimation for this engagement might compare the average expected impact of grants in the portfolio with the expected impact of the cost-effective interventions identified. There can also be risk in evidence use engagements, introduced at different points in the grantmaking and implementation process. Perfect adherence to knowledge partners' cost-effectiveness recommendations is unlikely, which affects the range of potential impact, so discounting can be used to incorporate this into the SROI estimation.

D) Evidence generation for a portfolio

Similarly, Norad may engage a knowledge partner on evidence generation for a portfolio of grants. For outcomes with relatively low availability of evidence on cost-effective interventions, this type of engagement might involve consulting with partners to develop an evaluation plan to generate evidence that can, in turn, increase the cost-effectiveness of Norad's future grants, as well as contribute to global knowledge public goods. The SROI of this kind of investment in development innovation can be estimated by subtracting the expected impact of the same funding spent on typical grants from the impact of the innovative programs, as measured by rigorous impact evaluations, and dividing by the cost of engagement with the knowledge partner.

A portfolio approach can also account for the risk inherent in testing innovative interventions. Not all innovations will be successful, but there is still value in learning from the evaluations so that the SROI calculation can be adjusted accordingly. Norad might account for the variability in cost-effectiveness across grants in the portfolio by focusing on a subset of grants with the largest budget or reach. Taking this approach would help ensure that interventions with null impact are not continued, thereby also increasing the overall cost-effectiveness of the portfolio.

Estimating Social Return on Investment (SROI): Two Examples from USAID

We provide two examples of estimating the SROI for knowledge partnerships, both from the last few years of work at USAID.

1. USAID's Office of the Chief Economist (OCE): An example of Evidence Use for a Portfolio

OCE estimated that a dollar spent on its staffing could conservatively generate between 39 and 53 dollars in additional consumption for households participating in USAID food security programming. In establishing OCE, USAID was building its in-house evidence use capacity, staffing OCE with evidence use experts who could bring the right evidence, at the right time, and in the right format to key decision makers within the Agency. In the absence of Norad staff with the bandwidth and expertise to dedicate to such advising, a similar model could be used to estimate the impact of engaging external knowledge partners.

This method assumed that without OCE intervention, the programs would be similar to others USAID had funded and would produce similar results. The expected impact of the programs as such was estimated using costs and evaluations of previous programs and estimates of the impact of cash transfers on household consumption.[22]

OCE's engagement increased the precision, clarity, and focus of the solicitations, resulting in a plan to implement the graduation approach. The expected impact of the activities resulting from the improved solicitations was estimated using the median impact estimate from seven impact evaluations of graduation programs in relevant contexts.

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[22] Crosta, Tommaso, Dean Karlan, Finley Ong, Julius Rüschenpöhler, and Christopher R. Udry. 2024. "*Unconditional Cash Transfers: A Bayesian Meta-Analysis of Randomized Evaluations in Low- and Middle-Income Countries*." NBER Working Paper No. 32779

Kondylis, Florence, and John Ashton Loeser. 2021. "*Intervention Size and Persistence*." Policy Research Working Paper No. 9769. Washington, DC: World Bank

To calculate OCE's added value, the projected household consumption generated without OCE was subtracted from the projected estimate of household consumption generated with OCE. These differences (using the two different estimation approaches) were discounted based on the possibility that the final program may be less effective than the evidence-based design that resulted from OCE's support, and then compared to the cost of funding one Senior Advisor in OCE for one year.

$$SROI_{OCE} = \frac{Estimated\ HH\ consumption\ generated\ by\ graduation\ -\ HH\ consumption\ generated\ by\ business\ as\ usual\ RFSA}{Cost\ of\ one\ Senior\ Advisor's\ time\ for\ one\ year}$$

2. USAID's Development Innovation Ventures (DIV): An example of Evidence Generation for a Portfolio

DIV developed a portfolio-level approach to assessing returns on development innovation funds supporting social science research and development.[23] Comparing the benefits of a subset of high-reach innovations to the total portfolio cost makes it possible to conservatively estimate SROI even when conceptual difficulties or data limitations make it impossible to assess returns on some investments in the portfolio. Applying it to DIV's portfolio between 2010 and 2019 results in a social benefit-cost ratio of over 17. DIV's approach was open, defining innovation broadly to include new applications of technology as well as novel business models, delivery methods, production processes, products, or services that were expected to improve development outcomes. DIV also supported applied research and replications of proven innovations in novel environments, and used a tiered model to fund three stages of innovation: piloting, testing for impact and cost-effectiveness, and transitioning innovations with rigorous evidence of impact and cost-effectiveness to scale.

DIV's estimated SROI divided the benefits of a subset of high-reach innovations by the total portfolio cost, resulting in a lower-bound estimate of returns on the overall portfolio. A similar approach may be appropriate for Norad in the case of a knowledge partnership for evidence generation for a portfolio, or an approach similar to that used by OCE could be used, dividing the expected increase in impact of the portfolio as a whole by the cost of the knowledge partnership.

$$SROI_{DIV} = \frac{Benefits\ of\ a\ subset\ of\ high\ reach\ innovations}{total\ portfolio\ cost}$$

[23] Kremer et al. 2021

Conclusion

These examples demonstrate the magnitude of the potential impact of investing resources in evidence use and evidence generation through:

- Improved cost-effectiveness of grants using evidence to guide partners toward interventions with greater impact per krone
- Improved learning from high-quality evaluations that fill key evidence gaps and increase the cost-effectiveness of future grants; production of global public knowledge goods

Strategic and systematic engagement with knowledge partners has the potential to significantly increase the cost-effectiveness of Norad's grants.

Appendix E: Further Reading

Cost-Effectiveness Principles

- USAID Position Paper: Cost Effectiveness
- USAID Position Paper: Direct Monetary Transfers for Development Outcomes

On Generalizability

- The Generalizability Puzzle
- A Framework for Taking Evidence from One Location to Another

Examples of "Good Buy" evidence syntheses

- Global Education Evidence Advisory Panel (GEEAP) Report: "Cost-effective Approaches to Improve Global Learning"
- Improved Activity Cost-Effectiveness Review: Women's Agricultural Income
- Innovation Commission for Climate Change, Food Security, and Agriculture: Food Security, Nutrition and Climate Resilience Evidence Review

Methodologies

- Development Innovation Ventures SROI calculation
- JPAL Cost-Effectiveness Analysis guidelines and related resources and templates
- IRC Cost Analysis methodology and resources
- IPA Automated CEA tool

Implementation and Contextualization Guides

- This study in Bangladesh identified an effective approach to increase mask-wearing and reduce transmission of COVID-19. The researchers developed an implementation toolkit and offered procurement and locally-contextualized communications support to implementing partners, enabling rapid scaling of the intervention to reach millions of people across South Asia.
- The What Works Hub for Global Education's compendium for Driving Efficiency through High-Fidelity Implementation at Low Cost aims to identify the core components of highly effective interventions (e.g., structured pedagogy) to help maintain implementation fidelity at scale.
- BRAC's Graduation Essentials specifies a program design that is likely to deliver long-term impact for participants.

On Scaling

- IPA Enabling Stage-Based Learning: A Funder's Guide to Maximizing Impact