



## Annex 11

### Value for Money (VfM) Guidance Note

December 2025

#### 1. Purpose of this guidance note

This guidance-note by the Danish Ministry of Foreign Affairs (MFA) aims to support the strategic partners (organisations) in developing or refining their organization-specific VfM strategies (or equivalent documents) to ensure, document and strengthen Value for Money (VfM) across both administration and implementation at the HQ as well field level, both internally and in their partnerships with local partners.

It provides:

- Principles and good practices to consider,
- Guidance on integrating ESG considerations where relevant,
- Suggestions for context-sensitive VfM indicators, and
- Illustrative examples from development and humanitarian programming.

This guidance respects the diversity of the organisations and encourages adaptation to organizational needs rather than standardization across different partners. The ambition is to strengthen learning, transparency, accountability, sustainability and long-term effectiveness, not to impose one-size-fits-all metrics.

The expectation is that partners will identify selected indicators for measuring and analysing own progression in strengthening VfM both at the country and HQ level.

The VfM strategy may be discussed during annual consultations and reviews and may be requested by auditors. It serves as a direct reference to the strong value proposition of the Danish Strategic Partnerships as a cost-effective modality for implementing Denmark's strategy for development cooperation.



## 2. Understanding value for money (VfM)

VfM is about achieving the best possible outcomes with available resources. It is not synonymous with cost-cutting, but rather about making informed, equitable, and transparent decisions that maximize sustainable impact.

The MFA's approach is inspired by the widely used 4-Es framework including cost-effectiveness:

- **Economy** – minimizing the cost of inputs (e.g. goods/services) without compromising quality.
- **Efficiency** – optimizing the ratio of inputs to outputs. How well the organisation is converting inputs into outputs.
- **Effectiveness** – achieving intended outcomes and long-term changes. How well outputs produced by an activity are having the intended effect.
- **Equity** – ensuring fair access and targeting, especially for those most in need.
- **Cost-effectiveness** – impact on poverty reduction as well as welfare and economic development, relative to project inputs.

## 3. Key elements of a partner-specific VfM strategy/approach

Organisations are encouraged to consider including the following (non-exhaustive) components in their VfM strategies or operational frameworks:

- Organisational VfM Vision and Objective (aligned with organisational mission)
- Scope of Application (administration, finance, procurement, implementation, management, field and HQ)
- Principles (e.g. proportionality, local ownership, sustainability)
- Processes for VfM Decision-making (examples and safeguards)
- Indicators and Methods (qualitative and quantitative at field and HQ levels)
- Integration of ESG Factors (environmental impact, social equity, and governance structures)
- Learning & Accountability

## 4. Integrating ESG into VfM thinking

In line with increasing partner interest, VfM strategies should, where relevant, reflect Environmental, Social, and Governance (ESG) factors:

- **Environmental:** Promote climate resilience, reduce carbon footprints, and apply environmental screening.



- **Social:** Promote participation, gender equality, and inclusion.
- **Governance:** Ensure ethical practices, transparency, and accountability.

The organisations are not required to provide any ordinary ESG reporting as this is not applicable to CSOs. Nevertheless, the organisations may find the European Sustainability Reporting Standards (ESRS) useful for inspiration and voluntary alignment.

## 5. Suggested Indicators for monitoring VfM progress

Rather than standardizing indicators, the MFA encourages flexible, fit-for-purpose indicators reflecting progress over time. The indicators below may function as inspiration. The Organisation is encouraged to identify/develop a limited number of indicators to follow throughout the partnership period in order to monitor progress on strengthening VfM. The following examples may provide inspiration for the choice of indicators:

Subject examples	Illustrative indicators
<b>Economy</b>	% of procurement contracts awarded competitively; local sourcing rate
<b>Efficiency</b>	Admin-to-program cost ratio; delivery cost per beneficiary, output/outcome –based budgets and reports vs achievements of results on output/outcome level
<b>Effectiveness</b>	% of intended outcomes achieved; user/beneficiary satisfaction levels, results achievements and performance at sub partner level
<b>Equity</b>	% of assistance reaching the most in need/ marginalised groups (e.g. female-headed households/ people living with disabilities)
<b>Environmental</b>	% of projects with environmental risk mitigation plans
<b>Localization</b>	% of funds managed by local partners
<b>Partnership approach</b>	Increased length of sub-partner agreements and example of synergies established by the partnership approach.
<b>Capacity building</b>	% of local partners lifted to higher level of capacity
<b>Knowledge sharing</b>	Examples or % of partners supported on X Y Z capacity building efforts
<b>Staff retention and skills maintenance</b>	% of staff rotating per year
<b>Hiring processes</b>	% of open application processes readvertised
<b>Procurement</b>	% of procurement processes considering environmental impact
<b>Adaptation</b>	Examples of adaptive management, applying learning and adapting to changes in contexts



<b>Cost-effectiveness</b>	Case studies or data showing the impact on poverty reduction or welfare creation relative to the input provided.
<b>Value creation</b>	Examples of the value added by the Danish organisation in the partnership e.g. in terms of quality and local leadership

The VfM strategy can be a 'light document' and shall be accessible to all staff for whom the strategy is relevant. It is suggested that the organisation adds some examples to illustrate the VfM thinking and VfM culture.

### Examples:

In humanitarian contexts, a shift from blanket status-based targeting (e.g. presence in a camp) to vulnerability-based targeting (e.g. prioritizing female-headed households or HH without employment) for improved cost-efficiency.

Utilising graduation approach for improved sustainability.

Utilising programming with multiplier effect e.g. training of trainers improved cost per indirect beneficiary.

Limiting the number of geographies and smaller engagements providing economies of scale with lower support cost ratios.

Shifting from externally designed interventions to co-creation processes with local partners only, identifying cost-effective local resources and complex community dynamics resulting in more culturally and contextually appropriate solutions and lower cost per output.

Optimizing administration systems and processes internally in the organization releases time for more project work.

## 6. Implementation and next steps

The organisation shall have a strategy or equivalent for ensuring and strengthening VfM in the administration and implementation, including selected indicators for measuring and analysing own progression in strengthening VfM both at the country and HQ level. For this purpose it is expected that the organisation will take reasonable steps to:

- Build upon existing VfM tools and approaches.
- Use this guidance to refine partner-specific strategies.
- Share approaches and lessons learned through SPA platforms.
- Foster a learning culture around VfM.
- Apply the VfM strategy in partnerships with local partners.



- Promote a VfM approach through actions and capacity building efforts internally and for local partners.
- Make the VfM approach available internally by distribution internally and in the partnerships.
- Report by examples and by measuring progress within a number of indicators identified by the organisation.
- Present progress on VfM indicators during annual consultations when requested.
- Provide VfM strategy to external auditors to consider as part of the performance audit.