VALUE FOR MONEY (VFM)

Guidance

SEPTEMBER 2025

Introduction to Value for Money

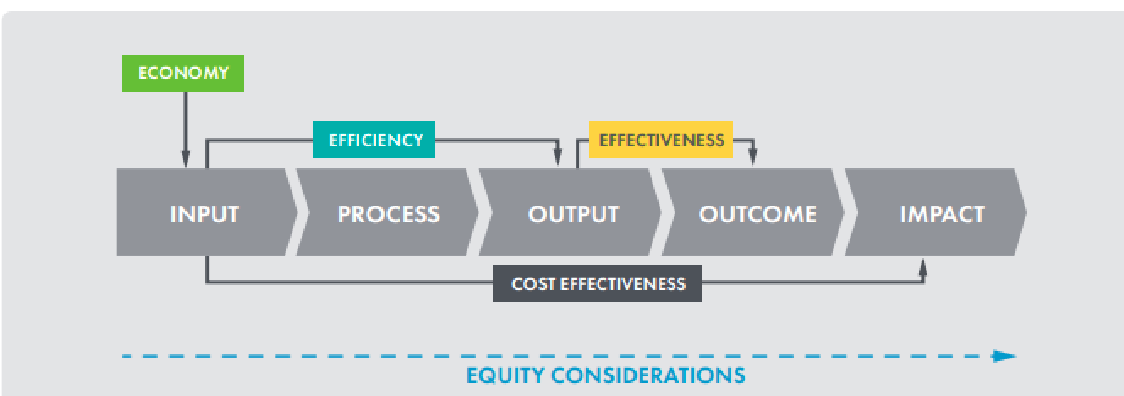
Background

In recent years, humanitarian and development needs have surged dramatically — driven by protracted conflict, climate-shocks, displacement, and food insecurity — yet at the same time, available financing has failed to rise commensurately, leaving widening gaps between what is required and what can be delivered[1].

Value for Money (VfM) is a widely accepted concept within the humanitarian and development sector and is used by governments and organizations to justify overseas aid expenditure to the taxpayer/public to ensure financial accountability. Analysing Value for Money can help humanitarian and development actors to gauge and learn about programme delivery with the ambition to design interventions that have the most impact to most people in need within limited budgets.

Definition

Value for Money in our programmes is about maximizing the use of financial resources to improve people's lives[2] The purpose of the VfM is to develop a better understanding (and better articulation) of costs and results so that we can make more informed, evidence-based programmatic choices. This is a process of continuous improvement. VfM itself is not a tool or a method, but a way of thinking about using resources responsibly well. Mercy Corps' task is to demonstrate how we create the greatest impact possible with the resources made available to us.



[1] https://devinit.org/resources/falling-short-humanitarian-funding-reform/#exec-summary

[2] FCDO's definition of VfM is "[to]... maximise the impact of each pound spent to improve poor people's lives"

To assess Value for Money, Mercy Corps embraces FCDO's approach[3] centred around the five E's—Economy, Efficiency, Effectiveness, Cost-Effectiveness and Equity. At the simplest level, a programme which demonstrates value for money is economic in sourcing inputs, efficient in generating outputs, effective in producing outcomes, cost-effective in creating impact, and has a degree of equity to ensure benefits are distributed fairly, which combines to maximize impact. VfM decision-making is about balancing the five Es, not just pursuing the lowest cost. It is also useful to contextualize each of the five E's when articulating VfM, as these will vary depending on the programme.

Understanding the five E's

It is important for teams to fully understand VfM five E's to ensure we design our programmes with VfM considerations in mind. In addition, we would be in a stronger position during implementation to report back to donors and programme participants, with VfM considerations to then be able to demonstrate to the public how we ensure VfM.

Economy

Economy does not mean that cheaper is better, but it is important that we demonstrate the reasoning behind costs. It is crucial to contextualise the programme in terms of why costs might vary or be more expensive, especially with respect to Equity considerations (e.g. targeting hard-to-reach participants).

Are we getting the best price for inputs? Have we procured inputs and hired staff at the best/most competitive rate given the work we expect to deliver? Were we able to attract the best candidates in the market among the peer organisations? Does the quality of goods and services reflect the diversity of needs for the population especially those groups who are hard to reach or marginalised based on age, sex, ability, identity, or association?

Efficiency

Efficiency is related to the ability to measure the direct attribution of our intervention to outputs and link those outputs to costs. While Efficiency is affected by Economy, other considerations come into play - scale, design and process are examples that may drive Efficiency's monetary metrics up and down based on the nature of the intervention and context. Efficiency also relates to other factors, such as timeliness, reach and quality. Equity plays an important role in Efficiency as reaching targeted groups may result in cost savings in terms of benefit accrued by all stakeholders.

Are we doing things the right way? What processes do we follow to ensure we are being efficient? How do we ensure the inputs (costs) are attributed to the outputs? What's the cost per output produced?

Effectiveness

Measuring Effectiveness is a complex issue, comparing costs with broader socio-economic outcomes. Effectiveness is linked to a programme's contribution to outcomes and costs' contribution to those outcomes. The drivers of effectiveness are linked to the relevance and potential of the action, the validity of the theory of change, and our ability to assess change and adjust our approach throughout implementation.

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67479/FCDO-approach-value-money.pdf

Given the outputs as per Efficiency, to what extent are we achieving the outcomes of the programme? What's the cost per outcome change? Have we incorporated challenges with inclusion, safety and dignity?

Cost-Effectiveness

Cost-effectiveness expands the concept of Effectiveness by linking inputs to impact, rather than limiting the link between outputs and outcome. This is generally assessed as part of in-depth study[4].

Given the inputs as per Economy, to what extent are we achieving the impact or longer-term outcome of the programme?

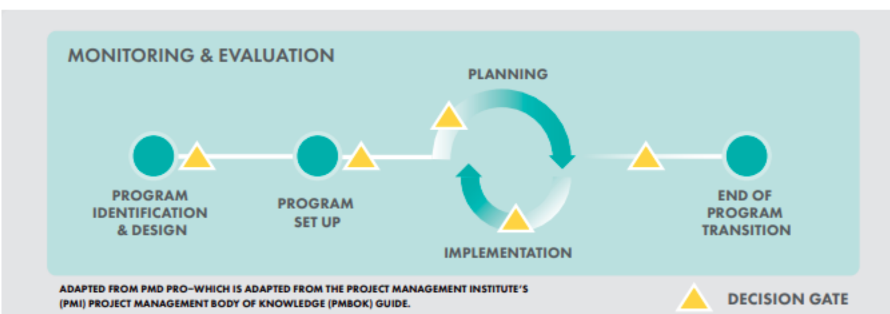
Equity

Equity means understanding how multiple aspects of a person's identity intersect in ways that can intensify inclusion or exclusion. For example, a disabled refugee woman living in a host-community will have different needs, level of access and capacities than an elderly refugee woman living in a camp. Equity should take into account gender, age, people with disabilities and marginalised groups identified by the programme. It might also include factors such as urban / rural, or camp / host-communities.

Has our programme intervention targeted, reached and impacted the poorest, marginalised groups, women and girls, and people with disabilities? Have our resources been distributed in an equitable way across groups? Has this resulted in fair results?

Value for Money in the programme cycle

A VfM approach can be effectively considered if embedded in all phases of the programme life cycle. From Program Identification and Design to End of Program Transition, VfM contributes towards programme quality if integrated into programmatic and supporting functions, namely Finance and Operations.



- At the Identification and Design phase, the programme should clarify what role VfM will play in programme quality and decision making, while clarifying how VfM evidence is gathered, analysed and used to strengthen internal processes and the intervention logic.
- During Programme Set Up, Planning and Implementation, programmes are expected to lay out a VfM framework. Building on the programme logic, the VfM framework specifies the details of metrics and indicators to measure the 5E's, including data sources and data use. The VfM framework is also an instrument to document how the 5E's are intended to be reported, especially with respect to relevant benchmarks.
- To effectively measure the five Value for Money dimensions (i.e. Economy, Efficiency, Effectiveness, Cost-Effectiveness and Equity), Mercy Corps integrates VfM analysis in Monitoring, Evaluation, and

[4] Impact evaluation using experimental or quasi experimental design

Learning (MEL) processes. This integration ensures that VfM assessments are grounded in robust data collection, ongoing programme monitoring and evidence-based learning, enabling programmes to systematically evaluate and maximise the use of resources to improve results across all five E's.

- VfM is a powerful way to justify scale-ups of interventions, new cycles of funding and investment in pilots. To this extent, VfM plays a crucial role as part of the End of programme Transition.

Value for Money analysis at Mercy Corps

Mercy Corps and partners analyse Value for Money utilising different analytical methods, mixing both qualitative and quantitative data, and relying on MEL, programme and financial data. Methods used to collect primary data consist of Key Informants Interviews (KIIs) and cost allocation workshops. Cost or budget data is analysed using Dioptra[5], while triangulation, desk review and thematic analysis help to interpret results from cost analysis. For each 5E criterion, the programme identifies specific evaluation questions to measuring VfM. Equity is integrated into each of the other four dimensions as cross-cutting considerations need to be made.

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About Mercy Corps
Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within.
Now, and for the future.

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[5] Dioptra is a web-based software which pulls from existing financial information and walks users through a standardized methodology to category and classify cost s and for estimating cost-per-output.