**IASC Information Note to HCs/HCTs Using Activity-based Costing**

**Key Findings from the Activity-based Costing Review**

1. On behalf of the IASC Humanitarian Programme Cycle Steering Group, OCHA commissioned a study by an independent external team, composed of Abby Stoddard and Barnaby Willitts-King, to take stock of the application of activity-based costing for budgeting strategic response plans. The report was completed in August 2014 and aims to inform IASC discussions without prescribing specific recommendations for action or institutional/procedural changes. The desk review looked at activity-based costing in a sample of countries: Afghanistan, Central African Republic, DR Congo, Haiti, Yemen and Zimbabwe. The occupied Palestinian territory and South Sudan were also included as two countries that considered applying this approach before resuming with coordinated project planning in 2014. The complete report accompanies this note.
2. The review team found that there is no single methodology or data source used by clusters undertaking activity-based costing, making objective comparison between the cases difficult. Country cluster coordinators independently developed a tailor-made approach for their cluster. As a result, what is called activity-based costing actually encompasses a number of different methods. In addition, the level of quality and rigor varied across cases and across clusters. With the exception of Afghanistan, ***most clusters in the country cases were not able to provide the review team with a written methodology or shareable set of formulas for how they derived their costing estimates***. Global clusters did not feel sufficiently included in the application of the approach at the field level, and some expressed concern that activity-based costing may not be a workable method for their cluster’s budgeting. The review team identified several potential advantages and disadvantages to activity-based costing. A summary is included in the graphic below.

**Activity-based costing potential advantages and disadvantages**

**\* Potential advantages**

**\* Potential disadvantages**

1. The study concluded with a number of necessary ‘ingredients’ for an activity-based costing model to work. The key ones are referenced below:
* **Transparency of and consistency in costing methods is needed, taking into account the particularities of different clusters/sectors.** The study highlights that activity-based costing methods are currently “very inconsistent, lacking technical depth, credibility and transparency in data sources and assumption. This weakens their ability to convince stakeholders of their merits and their value as support to planning and resource mobilisation (…) The issue is both in generating costing estimates and in communicating the margins of error based on the quality of data sources (…) Many examples of good practice could be shared more widely” (p.36).
* **Sector-based project tracking is needed in some form.** The study concludes that “projects are needed in some form to allow activity and financial tracking for cluster and donor coordination”, but that the actual planning of projects could be delayed until after the strategic planning process. A “projectless” humanitarian programme cycle is hard to imagine; (…) the timing of projectization is what varies along with the level of effort involved in preparing specific documents and cluster vetting” (p.36). This refers to deferred project planning as done in Haiti, Iraq, Yemen and the Central African Republic; the initial strategic response plan is launched with activity-based costing figures, and later complemented with coordinated project planning for monitoring, resource mobilization and tracking purposes. In the few contexts where coordinated project planning was dropped altogether, there was concern about accountability and transparency of funding and operations, and this demanded increased OCHA and cluster capacity to be able to match donor funding to planned activities.
* **If activity-based costing is applied, OCHA and cluster coordinators need to provide sufficient support.** This applies particularly to information management capacity to track funding and response activities for transparency and accountability.
* **The process of introducing a new approach is very important, and there needs to be sufficient time and support to allow buy-in.** The consultants received feedback from the case study countries which referred to a “rushed” introduction at the country level, ultimately affecting implementation of the approach. It concludes that “global and country level clusters will need to ‘own’ activity-based costing much more than they currently do if it is to be an effective coordination method” (p.37).
1. Given the above, OCHA country offices and clusters in contexts that use an activity-based costing approach are encouraged to:
2. **Document per cluster the activity-based costing methodology applied during the 2015 planning process. The data sources need to be clearly cited and their quality assessed. The OCHA country office is requested to compile the information from clusters to inform further IASC discussions of the practice.**
3. **Allow sufficient time for discussion and buy-in of the approach.**
4. **Ensure OCHA and cluster capacity to support the activity costing process as well as the financial tracking.**
5. **Consider undertaking deferred project planning as an accompaniment to activity-based costing, if feasible.**