INTER-AGENCY STANDING COMMITTEE

**Opportunities to improve the costing of Humanitarian Response Plans (HRPs)**

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Geneva

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**I Background**

In December 2016, **the IASC Principals agreed:**

* *That the IASC Costing Sub-Group should continue its work, under the direction of the Principals, but with expanded expert participation (as noted in the Roadmap) to include budget/finance experts as well as staff with hands-on experience of developing response plans at the country level.* ***Action by:******the IASC Costing Sub-Group, until end June 2017.***
* *That the IASC Costing Sub-Group explores future options for a light, incremental approach, building on field analysis and lessons learned from current and previous costing approaches, and testing of different methodologies initially through a table-top simulation exercise.* ***Action by:******the IASC Costing Sub-Group by end June 2017.***

Following this decision, the group’s participation expanded to include experts from FAO, ICVA, IRC, UNHCR, UNICEF, WFP, WHO, the Global Food Security Cluster, and the Global Protection Cluster. The Group’s work was facilitated by OCHA.

The group reviewed costing methodologies in country teams with an HRP or a similar product. It held focus-group discussions on costing in five countries. The CAR, DRC, Ethiopia (not formally a HRP, but uses similar process), Mali, and Niger were selected, in order to have a choice of different methodologies reviewed. ICVA also partnered with ACBAR[[1]](#footnote-2) to conduct a review with an NGO perspective of costing in Afghanistan.

## Costing methodology in 2017 HRPs or similar

Project-based costing (PBC) is used in: Colombia (no registration on OPS), Cameroon, Chad, Djibouti, Haiti, Iraq, Libya, Mali, Niger, Nigeria, oPt, Pakistan, South Sudan, Sudan, Syria, Ukraine, and Yemen (shifted back to PBC in 2017).

Unit[[2]](#footnote-3)-based costing is used in Afghanistan, DRC, Ethiopia, Mozambique, and Myanmar.

Both unit-based and project-based costing are used in CAR, Burundi (marketplace), and Somalia (projects + clusters estimates for famine, later replaced by projects).

Some country teams have been applying unit-based costing for several years now, though approaches vary across and within country cases and often are not fully documented in terms of how unit costs are determined. This is true also for the details of project-based costing.

**II Findings**

In general, the Costing Group found that the interviewed country teams are satisfied with the methodology they have chosen, whether unit or project based. Two criteria for satisfaction were consistency and clarity of the process. Therefore, the costing group suggests the following:

* Country teams should not change methodology without seriously considering the implications, and avoid moving back-and-forth between methodologies.
* Once a methodology is decided, a clear calendar and clear guidance should be shared, and respected.
* The methodology for the costing used should be documented.

There is a general sense that one method does not fit all, and that different contexts and past practices lend themselves to different methodologies. Therefore, the Costing Group’s position is that Country Teams should be encouraged to choose the method best suited to them, through careful consultation of local stakeholders and weighting the capacity of different actors (Agencies, Clusters) to engage.

The Costing Group has written an initial guidance document (annex one) to help Country Teams decide what methodology is best suited within their contexts. The Costing Group wishes to continue its task, possibly with support from a consultancy, by writing fuller guidance, including basic methodology, with inputs from each global cluster and with the support of the Global Cluster Coordination Group (GCCG) for consistency. This guidance should include project-based, unit-based and hybrid options.

**III Next Steps**

## The IASC Principals are asked to:

1. **Formally recommend HCTs adopt a coherent and transparent process and method for costing Humanitarian Response Plans that is appropriate to context and capacities, with options including project-based or variations on unit-based costing.**
2. **Commission the Costing Group, with support from the Global Cluster Coordination Group and individual Global Clusters, to develop guidance for unit-based costing, based on existing, country-based guidance where available, providing both coherent common guidance and cluster/sector-specific adaptations as needed**
3. **Commission the Costing Group to review and improve the existing guidance on project-based costing so as to ensure increased credibility, transparency, and simplicity.**

*Prepared by the Costing Sub-Group, June 2017*

**Annex 1 – initial guidance**

**HRP COSTING METHODOLOGY OPTIONS**

1. **General good practices**

* Country teams should not envision changing costing methodology unless there is a strong rationale to do so, and the below points are well understood.
* Country teams should prepare well before the planning and costing processes start and define the timeline and costing methodology beforehand.
* The agreed-upon methodology should reflect consensus, so the preferred methodology is actively supported by all clusters/agencies
* Once the methodology has been agreed, based on existing country capacity and expertise, brief key stakeholders on the process and request for support as needed.
* As some categories of intervention lend themselves more readily to applying cost drivers than others – i.e. shelter vs. protection estimating the effect of some activities, such as case management or protection monitoring, might require additional time and/or resources from Country Teams.
* The process must be clear, and no unexpected changes (such as setting a ceiling at a late stage for example) should be accepted.
* During the year, OCHA and partners should actively participate in ensuring that FTS is updated.

1. **Project-based costing**

**Preconditions**

* Agreement by all partners for full public disclosure of their project on OPS / FTS
* OCHA in country is able to support in OPS usage - including OPS introductions, training and user support (in addition to the support provided by OCHA Geneva), and is able to manage and communicate on the overall process of project submission and vetting.

**Methodology**

The clusters/sectors identify humanitarian activities, with indicators and targets in line with the strategic objectives and present them in the cluster/sector response plans of the HRP. Subsequently, all sector members submit their projects, including project budgets, via the online project system (OPS) database. Cluster coordinators vet projects according to an agreed timeline and selection criteria[[3]](#footnote-4), and all projects are subsequently submitted to the HC for final approval. The total sector budgets are calculated as the sum of the approved project budgets. The total budget, as listed in the HRP and financial tracking service (FTS), is the sum of all sector budgets. Main responsibility for costing lies with Agencies and (I)NGOs, vetting process lies with the Clusters

**Advantages**

* Already familiar to UN agencies and NGOs.
* Peer-review of projects strengthens sector internal dynamics and allows for quality check of submissions, and for coherence with sector response plans.
* This process provides an overview of response capacity. Looking at planned projects, sector coordinators have a vision of who is intending to do what where, which facilitates identification of potential gaps in the response, as well as duplication of projects.
* When well-coordinated, produces a solid picture of financial needs. Also, provides visibility to participating organisations vis-à-vis donors. This gives donors easy access to information about organisations on the ground to facilitate their funding decisions.
* Financial tracking is simplified with projects registered in the OPS database, clearly indicating which organisations are participating in the HRP, in which sector and for which activities.
* Does not require specific programming expertise from clusters/sectors to estimate budgets/ cost individual activities.

**Disadvantages**

* The process can be time consuming and heavy, especially for organisations who have already secured funding.
* Aggregate of projects rather than a coherent picture of needs of affected populations
* Lacks transparency and cost comparability within projects to facilitate better cost effectiveness
* The process can be lengthy and seen as static, and revising projects can be seen as cumbersome, thereby discouraging country teams of updating the financial ask in changes in the situation.
* The approach may lead to over-budgeting as organisations inflate funding needs to cover their project costs.
* Local partners may be discouraged from participating in the process due to difficulties with OPS.
* The process is less suitable for a sudden onset emergency (i.e. Flash Appeal)

1. **Unit-based costing**

**Preconditions**

* Buy-in from all sectors and agencies ahead of the planning process.
* Agreement by partners and sectors to share minimum information on participating partners and activities implemented within the HRP framework with OCHA in order to enable response monitoring and financial tracking. This would also include agreement on where/how this information is stored/managed, and if made publicly available in some form
* Strong, functioning sectors to ensure sound, well-informed costing methodology and inclusive coordination in the absence of a closed list of projects and partners.
* HC leadership is required to apply this methodology across the sectors.
* Understanding within each sector on key principles of unit cost methodologies, and agreement to a coherent approach within and across sectors for costing key activities/services and common cost drivers (e.g. common elements across sectors like community-volunteers, transport etc.) and/or investment in bringing in technical expertise to bring all cluster coordination teams to a similar capacity to lead cluster/sector process.
* Solid baseline information on number of people in need and (unit/activity) prices is needed to generate trustworthy cost estimates that can be documented.
* The requisite amount of human resources for fully implementing the approach.
* A simplified approach to unit costing can be applied in sudden onset situations to enable a timely production of Flash Appeals. This should then be followed by a more evidence-based, documented unit costing methodology, or coupled with projects if so desired.

**Methodology**

Unit-based costing for humanitarian appeals refers to a method of estimating overall resource needs for a humanitarian response plan (HRP), using average costs per sectoral activity, per person served, or per item delivered. This average unit cost can then be multiplied times the anticipated need in different population planning groups, to arrive at an expected total. This calculation allows a country operation to focus its HRP on the overall estimated cost for the planned response, in line with the humanitarian needs overview (HNO) and the country’s strategic objectives and necessary activities, rather than the projects and programmes implemented by partners in the appeal.

In this approach the costs per sector are determined on a unit cost per person per type of activity; sectors identify humanitarian activities, with indicators and targets, and present these in the sector response plans. The HCT/IC must decide whether activities/services identified are grouped by intervention area (e.g. higher level outputs) and costed at this level, or whether smaller supporting activities under each intervention area (e.g. training, facilities repair, service operation) are costed separately. For each planned unit, an estimate budget is established, using a unit-based costing method, and these sector budgets form the total HRP budget. Projects are not vetted, nor registered in OPS.

Two alternatives include projects at a later stage:

**Flash appeal style**: requirements are unit based/estimates at the onset of the emergency, then, when the appeal is revised, projects are elaborated, and the requirements are the total of projects requirements.

**Marketplace approach**: (as done in CAR/Burundi) where requirements remain unit based costing, but projects total might be higher or lower, showing either lack of coverage by agencies, or competition among agencies. There is not enough evidence at this point that this method is useful. In particular, Agencies have reported that this means additional work that does not yield additional funding.

The responsibility for costing lies with the clusters, less with the agencies.

**Advantages**

* The approach promotes participation by all actors in the response planning process, without requiring the disclosure of detailed project information by organization.
* Reduces transaction costs related to project planning and vetting and possible complications due to government engagement in this process.
* The planning and budgeting process of the HRP is less influenced by organisation’s concerns about projects and funding requirements, encouraging more cohesive planning and prioritisation.
* The methodology promotes improved strategic coordination and coherence of appeal documents.
* If the HCT has the right capacities in place, rapid application is possible in sudden onset crises., and it allows for easy revisions.
* Organisations and sectors are under less time pressure during the HRP process, with a lighter administrative burden, particularly on organisations, prior to the launch of the appeal.

**Disadvantages**

* As there is no peer review and vetting process, there is weaker quality control in the project planning phase, including quality assurance tools such as the gender marker and the identification of duplications and gaps in a sector’s overall intervention package.
* Loss of transparency and accountability as incentive to use OPS and FTS systems may decrease the reporting of funding received and the accuracy of FTS data.
* Difficulties related to financial and activity tracking, and the absence of a clear overview of participating organisations makes sector coordination more challenging.
* Difficulties related to estimating cost for activities for some sectors/areas such as protection, coordination, or multi sector activities
* Security/access aspects and their implication on the costing of activities are complicated. considered.
* Lack of existing guidance at a global level.
* For calculating the cost of multipurpose cash, there needs to be clear coordination between the different sectors involved.
* Lack of partner visibility, potentially impacting access to donor funding.
* Loss of project review/vetting in the planning phase, and project-related quality assurance tools such as the gender marker.

1. **Guidance to be developed**

The guidance should build on the above guidance points, and include advice on both methodologies.

#### For unit-based costing:

The accuracy with which countries are able to estimate unit costs will make the difference between accurate and inaccurate HRP budget envelopes.

Given the need to balance between consistency (so that estimates from different sectors add up to a total budget in a logical fashion) and sector-specific methods of costing that capture the greater complexity of what is provided in Protection or Coordination activities for example, it would be optimal to have responsibility lay within the clusters but be overseen by the Costing Group. The Costing Group, with the support of a consultant, would be responsible for providing a template to the clusters, technical assistance as clusters are developing their approaches, and provide a check that everything is comparable enough across clusters to add up to an internally consistent budget when applied in practice. The guidance would then be disseminated and supported through the clusters.

It should include:

* Estimates of the unit cost of serving individuals by sector, broken down by the specific activities that may be provided. Unit costs should include weighting for different contexts to estimate the effect of contextual factors, contingencies and risks. For instance, a cost per person for WASH services would be broken down into separate estimates of the cost per person for clean water delivery, latrine provision, and hygiene promotion. Such a data set would need to be produced in-country but collated centrally, so that methodology can be reasonably assured, and clusters can then share information across countries as necessary. For instance, when an HRP is being developed for a new country, this will allow data from other contexts to be surfaced and used.
* A clear framework for combining figures from needs assessments with projected unit costs to come up with a total budget envelope by sector.
* Guidance on how to adjust unit cost estimates based on anticipated risks in that response (e.g. security concerns, political risk, exchange rate risk).
* Recommended process (steps, responsibilities, necessary inputs, timing) and indications of the requisite amount of human resources for fully implementing the approach

#### For project-based costing

Since this method has already been documented[[4]](#footnote-5), the costing group should focus on improving it wherever possible.

In particular

* Evaluate the options for simplified projects (requirements/agency/cluster), in particular if a country team can handle the selection of projects without the information being available through OPS, or if there is agreement that clusters are able to define their requirements based on Agencies’ inputs.
* The costing group should feed into the development of the new version of OPS, which should be more user-friendly. This version will be piloted in few countries for the 2018 HRPs.
* More education is needed. As an example, there is a lack of understanding of what a “project” (vs a programme) really is. This lack of understanding is quite key in explaining the lack of accuracy of HRPs (at least on the NGO side). Having workshops organised by OCHA and NGO Fora at key moments of the HPC is an example of good practice from the Syria context.

1. ACBAR, the Agency Coordinating Body for Afghan Relief & Development, is an Afghan independent body bringing together 135 national and international NGOs working in Afghanistan. [↑](#footnote-ref-2)
2. For simplicity and consistency, it has been agreed that the term “unit-based costing” would be used, as the previous term of “activity based costing” was deemed too narrow. [↑](#footnote-ref-3)
3. Can be found here: https://docs.unocha.org/sites/dms/CAP/2014\_SRP\_guidance-27\_Sep\_2013\_EN.pdf [↑](#footnote-ref-4)
4. In the IASC endorsed SRP/HRP guidance: <https://docs.unocha.org/sites/dms/CAP/2014_SRP_guidance-27_Sep_2013_EN.pdf> [↑](#footnote-ref-5)