

Development of a proposal for a methodology to cost inter-agency humanitarian response plans



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Disclaimer

This was an independent study and opinions expressed are those of the consultancy team, and do not necessarily reflect those of the IASC. Responsibility for the opinions expressed in this report rests solely with the authors.

List of Acronyms

ABC	Activity Based Costing
CAR	Central African Republic
CHS	Core Humanitarian Standard on Quality and Accountability
DAC	Development Assistance Cooperation
DFID	UK Department for International Development
DRC	Democratic Republic of Congo
ECHO	European Commission's Humanitarian Aid & Civil Protection
FAO	Food and Agriculture Organization
FGD	Focus Group Discussion
FTS	Financial Tracking Service
HC	Humanitarian Coordinator
HCT	Humanitarian Country Team
HPC	Humanitarian Program Cycle
HRP	Humanitarian Response Plan
HR	Human Resources
HQ	Headquarters
IASC	InterAgency Standing Committee
ICAI	Independent Commission for Aid Impact (UK government)
IPSAS	International Public Sector Accounting Standards
IRC	International Rescue Committee
IT	Information Technology
M&E	Monitoring and Evaluation
NFIs	Non Food Items
NGO	Non-government Organization
NICRA	Negotiated Indirect Cost Rate Agreement (USAID)
NPAC	Non Programme Attributable Costs (DFID)
OECD	Organisation for Economic Co-operation and Development
OPS	Online Project Systems
OPR	Operational Peer Review
RUTF	Ready-to-Use Therapeutic Foods
SDG	Sustainable Development Goals
SRP	Strategic Response Plan
TOR	Terms of Reference
UK	United Kingdom
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNOG	United Nations Office in Geneva
WASH	Water, Sanitation and Hygiene
WHO	World Health Organisation
WFP	World Food Programme
WHS	World Humanitarian Summit

Executive Summary

Background and Purpose

The Inter Agency Steering Committee (IASC) introduced the Humanitarian Programme Cycle (HPC) concept in 2013 as part of the Transformative Agenda to replace the consolidated appeal process (CAP) in protracted crises. The shift to HPC was intended to both streamline processes and at the same time shift the focus from fundraising to achieving results and improving accountability. The Humanitarian Response Plan (HRP) is a key component of the HPC with the purpose of providing an effective management tool for the Humanitarian Coordinator (HC) and the Humanitarian Country Team (HCT). The HRP should include an estimate of overall budgetary requirements based on needs that provides a basis for both tracking contributions and an assessment of how effectively and efficiently needs are being met.

However, there is a growing consensus that HRPs are not adequately fulfilling their intended purpose, notably in terms of providing a coherent and strategic costing of needs and situational analysis. This study was therefore commissioned to develop alternative costing approaches to present to the Principals of the IASC during their meeting at the end of 2016 as an initial step towards revising HRP systems.

Timeframe, Consultant Profile and Methodology

During July-October 2016 a consultancy team with a background in interagency coordination, management of humanitarian programs, budgeting and financial management in the non-profit and private sector carried out a desk study supplemented by a series of interviews and consultations. A total of 70 key informants provided a range of perspectives from different UNs agencies, NGOs, global cluster coordinators, country offices, donor governments and the corporate world. An interagency workshop hosted by UNHCR in Geneva in late September provided an additional opportunity for consultation. The methodology employed for this study involved mapping current and planned budgeting and reporting systems for selected agencies, interagency initiatives and comparative examples drawn from the public and private sectors. Different costing approaches were assessed based on their feasibility and relevance to the stated purpose of HRP costing. Oversight and guidance for this independent study was provided by the IASC Costing Group appointed by the IASC Principals, comprised of representatives from FAO, UNHCR, WFP, the World Bank and OCHA.

Key Findings

It became evident during our consultations that many key informants lacked an in-depth understanding of costing terminology and approaches. The IASC Costing Group has faced similar challenges due to a lack of technical inputs (e.g. finance and economics) and perspectives from staff who have had hands-on experience of putting together response plans. This has contributed to a situation where debates around costing of HRPs have at times appeared to be more about agency mandates and resistance to revising systems and processes of individual agencies than identifying practical solutions to better meet the needs of affected populations.

Changing the HRP system: despite some difference of opinions, there was a consensus that an improved costing approach for HRPs should be able to contribute to an overall objective of focusing on the needs of affected populations, through increasing transparency, credibility and cost-effectiveness. There are certain advantages with continuing with the current project-based system, notably its compatibility with donor grant systems and interagency information management systems. There are also a number of disadvantages. One of the main shortfalls is that current project-based cost system encourages a “summing up” of different projects so that HRPs are often perceived more as an expression of agency requirements rather than a coordinated and credible reflection of the response to priority needs of

affected populations. In addition to perceptions about inflated budgets, it is evident that HRPs are not yet realising their strategic potential and are often seen by stakeholders as primarily a fundraising tool.

Forces influencing the HRP: The content and quality of the HRP finds itself pushed and pulled by a combination of internal and external influences. Examples of such influences include whether HRPs should be mainly driven by supply of funds (how much will donors give?) or demand-driven (based on the needs of the affected population) and how much granularity is needed when trying to ensure that the HRP is strategic while also remaining sufficiently streamlined and taking account of the perspectives of the host country. The HRP must also address the challenge of interfacing with the different systems of humanitarian agencies.

Different Emergency Types: while a more systematic approach to costing during disaster preparedness planning could help in streamlining HRP processes, findings suggest that different approaches to costing should be applied to quick and slow onset disasters. During a rapid onset emergency there is need for a timely and flexible ‘credible reference’ budget, whereas a slow onset or chronic crisis offers opportunities for analysis during HRP processes since these typically roll over into subsequent years.

Different costing options for HRPs: six different potential costing options were examined, ranging from those based around the current project-based system, to one solely based on past experience, to sector-based (“ABC”) costing for activities and services, to sector-based (“ABC”) costing based mainly on outcomes, cost-benefit analysis and costing based on probabilistic risk based-parameters. Subsequent analysis based on findings suggests that a HRP cost methodology based on drivers of results, which could be activities, services, outputs or outcomes, would be the most appropriate in the short and medium term. Given current trends and incentives it is likely that HRP cost approaches will be focusing increasingly on outcomes in future.

Components in the preferred costing approach: findings indicate that a HRP “costing cascade” methodology based on cost drivers and unit costs would be appropriate:

- i. *Compile relevant data* – identify target population groups and compile relevant data from clusters and needs assessments.
- ii. *Decide on the cost ‘drivers’* - these can be activities, services, outputs or outcomes using the different terminologies across the UN system. In the short to medium term these would be activity focused, but a combination of incentives and support would allow a shift towards costing for collective outcomes if conditions allow.
- iii. *Define the associated unit costs.* These costs may be a range, but preferably an average figure or point figure should be used as “credible reference” that can be adjusted or justified with a qualitative narrative to account for context.
- iv. *Identify risk and contingency factors* that influence cost drivers and adjust unit costs if needed.
- v. *Clear presentation of the basis for unit costs and qualifiers* in the HRP to provide a transparent view of the costing model.

Reporting: difficulties with tracking and reporting are the major reasons why attempts to implement ABC approaches for HRPs have proven difficult since they are primarily project-based. The current trend to improve outcome measurement may result in a move in HPC processes towards collective outcomes based on contributions from multiple agencies. Such a shift will require significant revision in terms of how tracking and monitoring is done and OCHA is currently reviewing different options to not only improve capture of financial information, but also improve reporting on outcomes.

Identifying and Managing Risks: The success or failure of improved HRP costing approaches will depend to a large extent on successfully identifying and managing key risks. This includes managing the tension around the multiple role of the HRP as a needs-based strategic reference, a fundraising resource and a tool to facilitate management and progress reporting. The functioning of the HRP is highly dependent on the performance of other HPC components notably the quality of the needs

assessment, HNO prioritization processes, data quality and the extent that agencies and clusters are held to account for commitments in the HRP. A HRP approach will need to also be able to accommodate the diversity of planning, budgeting and reporting systems amongst different agencies.

Conclusions and Recommendations

Despite the various challenges, a number recent developments provide reasons for optimism. These include increased awareness of relevant issues resulting from the Grand Bargain discussions. In addition, several agencies are in the process of revising their own budgeting and monitoring systems that should, among other things, result in greater transparency and increased accountability for setting targets and measuring results.

If the HRP is to be seen as a ‘credible reference’ of needs of affected populations that the international humanitarian system could rally around findings suggest that a costing approach for HRPs should be:

- A budget based on outcomes linked to a coherent overall strategy;
- Be user-friendly to create and report against;
- Able to be used as the basis to measure results (including outcomes); and
- A reasonable reflection of the local context.

In the short to medium term, a cost approach based on cost drivers and unit costs should be developed linking to projects and using the preferred costing approach described above. The system should be designed in such a way so as to provide incentives for stakeholders to progressively move over time to a system that is based on collective outcomes.

While initially a costing methodology will need to be compatible with project-based approaches, such a transition would allow movement towards a more streamlined process with a stronger focus on results as both programme and programme support staff become familiar with this. In the longer-term, this would facilitate more focus on a needs-based strategic approach that is based on collective outcomes as other HPC components and overall accountability is strengthened.

A series of immediate-term and longer-term prioritised recommendations are provided at the end of this report that are targeted separately at the IASC Principals, the IASC Cost Group and OCHA. Priority recommendations to the IASC Principals and Cost Group include criteria for determining an appropriate HRP cost approach and a proposed process for field testing and piloting. It is also recommended that the IASC Cost Group should benefit from perspectives from budget/finance, economics and staff who have had recent hands-on experience of HRP processes at a country level. Priority recommendations for OCHA are focused on ensuring they fulfil a key facilitation role and that information management and reporting systems are revised in such a way so as to facilitate a smooth transition to a revised, and more effective and accountable, approach to response planning.

1. Objectives of the Study

This consultancy aimed to review current practice and develop options for the future taking into account good practice from other actors, charities and the private sector. Based on the Terms of Reference,¹ the objectives were as follows:

- Assess current approaches used to cost inter-agency humanitarian response plans and document the main strengths and weaknesses of existing practice.
- Document innovative approaches to costing and budget forecasting used in the private sector (including insurance companies), by government entities and any other relevant actor (e.g. charities and the non-profit sector in general).
- Identify external practices that are relevant and transferable to the particular context of humanitarian planning.
- Based on the review of both humanitarian and external approaches to budget forecasting, develop technical proposals on how to cost inter-agency response plans.

The technical proposal in this report for revised HRP approaches is supported by recommendations targeted at specific stakeholders to facilitate decision-making on an appropriate model and how to implement. Options are also explored on how financial tracking and reporting might be carried out to support the revised costing approach.

2. Introduction

2.1.HRP within the Humanitarian Programme Cycle

The IASC introduced the HPC concept in late 2013 as part of the Transformative Agenda to replace the CAP in protracted crises. This change was viewed as needed since the CAP, both as a process and document, was found to be overly cumbersome and at the same time there was a desire to shift the focus from fundraising to achieving results and improving accountability.²

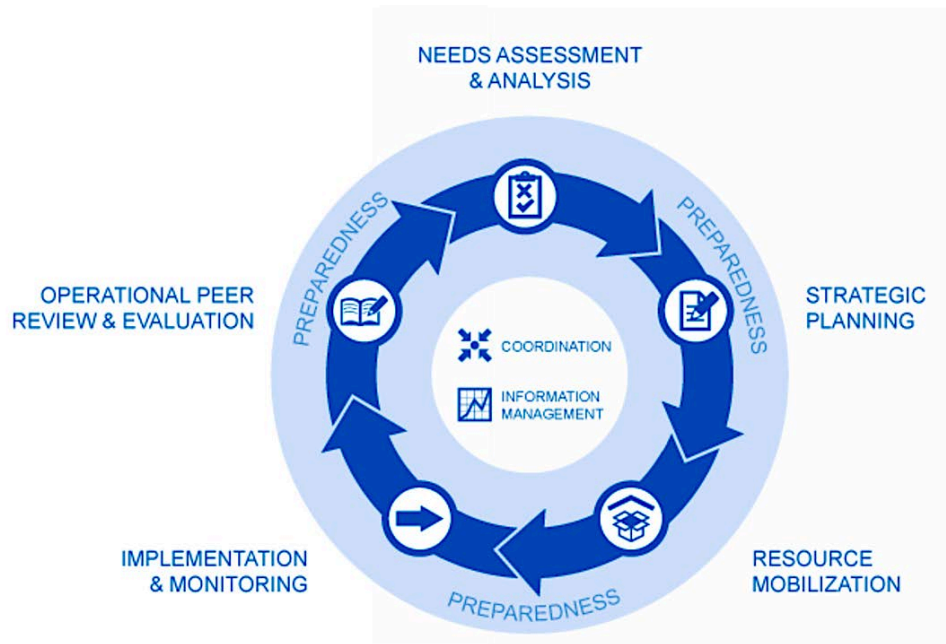
As illustrated in Figure 1 below, strategic planning³ is one of the five key components of the HPC. The HRP thus provides the HC and the HCT with a strategic tool in the form of a response plan to help guide the collective response.

¹ Attached as an annex.

² <https://www.humanitarianresponse.info/en/programme-cycle/space>

³ Initially known as the Strategic Response Plan (SRP) and subsequently renamed HRP.

Figure 1 - Humanitarian Programme Cycle



2.2. Background to the Study

Pressure to improve Cost Effectiveness and Value for Money

OECD-DAC donors are under increasing pressure to justify the use of funds to their taxpayers, and this has contributed to a drive towards more contracting and outcomes-based commissioning. This has translated into pressure on the international humanitarian system to develop appropriate transparency and cost-effectiveness measures, and as such wishes to review the system of costing methodologies.⁴

International non-government organization (NGO) networks are also paying increasing attention to cost effectiveness, including in their accountability commitments to communities affected by disasters, as illustrated by the ninth commitment of the 2015 Core Humanitarian Standard (CHS): *communities and people affected by crisis can expect that the organisations assisting them are managing resources effectively, efficiently and ethically.*⁵

The World Humanitarian Summit and the UN Secretary General’s High Level Panel on Humanitarian Financing also provide an opportunity to secure broad support for a new way of costing humanitarian operations. The Grand Bargain has set some ambitious goals directly related to HRPs:

- Ensure needs assessments provide a sound evidence base for humanitarian response plans and prioritise appeals with due regard to specific accountabilities of mandated agencies. Jointly deciding on assumptions and analytical methods used for projections and estimates;

⁴ In the United Kingdom (UK), for example, in 2004 there was roughly a 50:50 split between grants and results based contracts across all government funding (including DFID). This split is now roughly 20:80 in favor of results based contracts (“Payment by Results”) and has been the de facto standard used by DFID since 2014.⁴ Similar trends are seen with USAID, ECHO and other donors.

⁵ CHS Alliance, Group URD and the Sphere Project (2015) The Core Humanitarian Standard on Quality and Accountability (Page 9) <http://www.corehumanitarianstandard.org/the-standard>

- Prioritise humanitarian response across sectors based on evidence established by the analysis. As part of the IASC Humanitarian Response Plan process on the ground, it is the responsibility of the empowered Humanitarian Coordinator/Resident Coordinator to ensure the development of the prioritised, evidence-based response plans; and
- Provide transparent and comparable cost structures by the end of 2017; Ensure that an effective process for participation and feedback is in place and that design and management decisions are responsive to the views of affected communities and people.

Intended Role of Response Plans

Previous approaches to costing humanitarian response were derived from the original appeals process embodied in United Nations (UN) General Assembly Resolution 46/182, which calls on the ERC to issue a “consolidated appeal”. A coordinated humanitarian response by the international humanitarian system to a disaster or crisis of a reasonable scale has been increasingly reliant on collective response plans which, in its current form, is known as a Humanitarian Response Plan (HRP).⁶

The HRP is intended primarily to be a management tool for the Humanitarian Coordinator (HC) and the Humanitarian Country Team (HCT) that includes an estimate of overall budgetary requirements that should be based on needs and provides the basis for both tracking contributions and how effectively and efficiently needs are being met.⁷ As illustrated by the “Grand Bargain” discussions in the lead up to and during the 2016 World Humanitarian Summit (WHS),⁸ there appears to be a collective desire to improve the cost effectiveness of humanitarian operation.

At the same time, there is a growing consensus that HRPs are not adequately fulfilling their intended purpose, notably in terms of providing a coherent costing of needs, and this study was subsequently commissioned to develop an alternative model or models for costing HRPs to be presented to the IASC Principals as an initial step to revising HRP systems.

3. Research Methodology

The study was carried out by a two-person team with a combination of expertise and experience in humanitarian programming, humanitarian financing, budgeting and cost accounting (in the private sector, government and humanitarian agencies) and value for money approaches. The methodology for the study took the following approach:

Assess “Where we are now” by mapping relevant practices, capturing the main strengths and weaknesses of different approaches.

Identify “Where we want to get to” by:

- Identifying and unpacking the underlying drivers (and obstacles) with existing systems of humanitarian agencies and the reasons for changing the model;

⁶ It should be noted that the scope of this study did not cover UNHCR-led Refugee Response Plans (RRPs) which, like HRPs, are comprehensive inter-agency plans that are specifically tailored to refugee emergencies. They are a key feature of the Refugee Coordination Model, which states that RRP should be developed in an inclusive fashion so as to, among other things, ensure RRP and relevant HRPs are aligned.

⁷ <https://www.humanitarianresponse.info/en/programme-cycle/space/page/strategic-response-planning>

⁸ WHS (2016)

- Assessing financial tracking information available now and those that may be required in future through such initiatives as the International Aid Transparency Initiative (IATI);⁹
- Identifying good practices from the private sector, government agencies, humanitarian agencies to identify private sector models that could potentially be comparable;
- Highlighting practices that are transferrable, recommend those that should be adopted by the new costing practice

Recommend “How we are going to get there?”:

- Select costing approaches for subsequent testing and piloting; and
- Identify procedural implications and next steps.

A total of 70 key informants were interviewed during the course of the study.¹⁰ The team initially focused on capturing perspectives from those who had been the most involved in prior discussions, including members of the IASC Costing Group, senior staff with responsibilities for budgeting and finance within their agencies, global cluster coordinators along with a review of relevant research and country level perspectives. The circle of key informants was subsequently widened to include perspectives from NGOs, the corporate world (including social investment perspectives) and government. An interagency consultation workshop held during September 2016 hosted by UNHCR in Geneva provided an opportunity for an interactive review of an earlier draft report.¹¹

3.1.Constraints and limitations

The implementation period of this study overlapped with summer holidays and availability of interviewees was thus limited. Apart from a two-day visit to Rome in early July to interview key informants in WFP, FAO and the Food Security Cluster, this has been a desk-based study with additional interviews by phone and Skype. The home bases of the consultants near Geneva and London respectively did nevertheless allow for a number of face-to-face interviews and focus group discussions. As described below, a major finding of this study has been that the financial and budgeting staff from different agencies have not been significantly involved in relevant consultations to date. This meant that gaining an understanding of this perspective required significantly more primary data collection than originally anticipated and there was at times confusion about terminology and understanding of budgetary processes.¹² The study design did not include country visits and key informants for this study mainly drew upon global level perspectives, which underlines the importance of field testing and piloting during further development of the HRP costing approach.

⁹ <http://www.aidtransparency.net/>

¹⁰ A list of key informants is attached as an annex.

¹¹ See annex for an agenda and summary of results.

¹² A notable exception was WFP, which had recently carried out their own review of financial and budgeting systems of other UN agencies and international NGOs to help inform the revision of their own systems.

4. Defining issues with the current HRP cost methodology

Findings below are categorised into different sections, starting with advantages and disadvantages of the current approach to HRP costing followed by an examination of what may work for the future including a review of existing Activity-Based Costing ('ABC') models in use in some country offices today. This report then considers components of the HRP systems and processes, applying HRP to different emergency types, and finally a description of risk, reporting and tracking considerations.

What is current practice and what works well?

Current practice is for HRP costs to be developed by summing together funding requirements for projects with the HCT playing a key role in ensuring these are prioritised to meet identified needs. Where this is well facilitated and coordinated, it helps in identifying the *financial* resources needed to provide an appropriate humanitarian response. The main benefits of the current system is that it is widely known amongst humanitarian agencies, relatively easy to understand and fits well with donor grant systems and interagency information management systems that tend to be project-based.

Weaknesses of the existing cost methodology

The practice of summing together funding requirements for projects does not easily allow cost projections to be based on a consolidated picture of need, which emerged as a major weakness of the current system. Indeed, one of the HRP's main functions is to provide financial placeholders for projects without necessarily having a guiding focus for results.

Evidence collected from interviews, records of discussions, Operational Peer Reviews (OPRs), interagency humanitarian evaluations (IAHE) and other relevant research studies indicate a strong consensus that the HRP needs to change to be able to contribute to an overall objective of focusing on the needs of affected populations, transparency and credibility, as well as a focus on cost-effectiveness. Some of the key shortfalls in the current system are listed below.

Credibility

- The HRP cost methodology is often viewed as a fundraising figure rather than a credible resource figure based on the needs of affected populations. This reduces the relevance of the HRP as a strategic-level interagency management tool. The HRP should understand humanitarian need, operating context and response strategy and communicate this in a way that can be easily understood by donors and other external stakeholders to encourage a credible cost position and coordinated response.
- A significant amount of funding is being channelled outside HRPs, making it difficult to accurately track and assess the extent to which needs have been met. This leads to perceptions that financial requirements are inflated, and potential 'double counting'.
- Sector/cluster response plans are often retrofitted to the projects rather than following the logical sequence of the planning process. Additional projects are often added during a new crisis as new agencies arrive or donors find "new" money. This tends to increase budgets further and further undermine the perception of the HRP budget is an accurate representation of needs.

Transparency

- The current system, summing budgets mainly from agencies and international NGOs, does not necessarily promote alignment with host government planning, supporting national civil society and NGO consortia.

- HRP processes often do not take adequate account of the capacity available to deliver a humanitarian response and may not have a visible benefit beyond the marking of agency roles for the benefit of donors

Comparability and cost effectiveness

- Summing up project budgets lacks transparency and comparability of costs, including a clear understanding of direct, direct support and indirect costs. This makes benchmarking challenging, with the result that agencies often struggle to explain cost differentials for hard to reach groups. Benchmarking therefore falls back to a comparison of cost line items at the lowest level; such as commodities or staff.
- Interviews have highlighted that HRPs costed on a skeleton basis are treated the same way as enhanced responses. As such donors often see all asks as having the same priority.
- The system makes it difficult to produce adequate management information to guide operational decisions and track consolidated performance.

Administrative burdens

- The current HRP project-based costing process often imposes a significant administrative burden on country offices. These typically occur within a tight timeframe leaving insufficient time for consultations, including with affected populations. This was the main reason cited by field-based staff for wishing to change the current system.

Summary of the pros and cons of the existing costing system

Any HRP cost methodology must be sufficiently flexible to adapt to different systems in the humanitarian system, including donors requiring agencies to submit proposals in standard formats along with the Grand Bargain commitments to increase use of cash and the amount of resources channelled to national NGOs. The table below provides an overview list of pros and cons of existing cost methodology of summing project requirements.

Table 1 – Advantages and disadvantages of project-based costing systems

Pros of existing costing system	Cons of existing costing system
<ul style="list-style-type: none"> • Recognised as a useful tool to convene humanitarian actors together to discuss needs • Already familiar to UN agencies and INGOs. • Fits with existing tracking systems • When coordinated well produces a solid picture of <i>financial</i> need. 	<ul style="list-style-type: none"> • Aggregate of projects rather than a coherent picture of needs of affected populations • Often seen as a fundraising figure rather than a credible reference • Significant funding in being channelled outside of the HRP • Lacks transparency and cost comparability to facilitate better cost effectiveness • Imposes a heavy administrative burden.

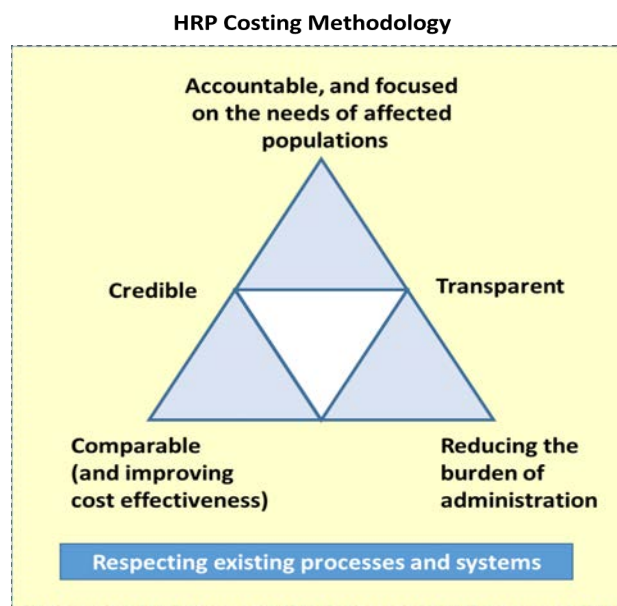
While HRPs have yet to realise their anticipated strategic potential, interviewees mostly recognised that the HRP does add value in terms of providing a reasonable overview of the consensus of international agencies and occasionally (depending on the context) national stakeholders about the needs, priorities and who intends to do what. In this sense, it has served a purpose as a key reference for agencies,

national (including governments) and donors to coordinate their work around. The targets in HRP also provide a baseline for subsequent monitoring and evaluation which, for L3 Emergencies, take the form of Operational Peer Reviews and Interagency Humanitarian Evaluations.

Key components of an effective cost methodology

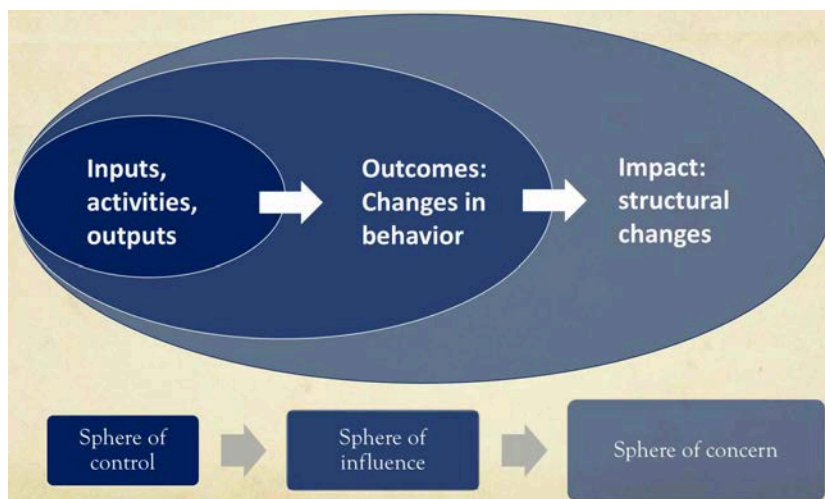
If a HRP cost methodology is to provide a ‘credible reference’ for a coordinated multi-sector budget it should be sufficiently transparent to allow comparability, demonstrate cost effectiveness and reflect the local operating context. To be cost effective, it should also not impose a significant administration burden. These different components are illustrated in Figure 2 below.

Figure 2 : The components of HRP cost methodology



Whereas projects have a tendency to encourage target-setting and reporting at the output level, one of the key potential advantages of the HRP is that it can be a useful tool to agreeing on joint targets and offer a basis for measuring contributions and influence of agencies or sectors/clusters to outcomes (Figure 4).

Figure 3 – Contributions to Outcomes



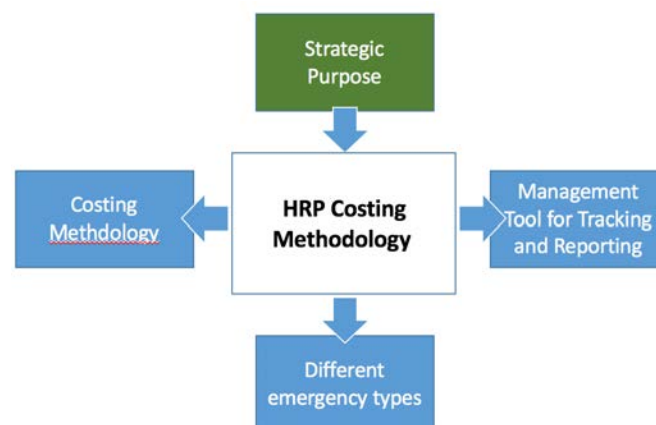
The prevailing view amongst interviewees was that donors tended to be a dominant influence on HRP processes, but they would like the HRP to fill the role as a ‘credible reference’ that is based on priority needs of affected populations. Key informants with a donor’s perspective generally viewed the HRP as a useful tool, but also expect it to be a credible representation of needs of affected population. In general, they saw the application of activity driven and unit-based costing as appropriate provided that this is based on a system that ensures accountability for delivering results (notably outcomes). A comprehensive checklist of components of an appropriate HRP costing methodology is provided as an annex.

Considerations for a costing methodology

This study identified four dimensions that are important to consider when selecting an appropriate HRP costing option as illustrated in Figure 3 below. These include:

- Strategic Purpose (Section 4);
- Costing methodology, including learning from previous experience with application of Activity Based Costing methodologies (Sections 5 and 6);
- Different types of emergencies (Section 7); and
- Management tool for tracking, monitoring and reporting (Sections 8).

Figure 4 - Four key dimensions of a costing methodology



The next sections map out options that would allow the HRP to become ‘fit for purpose’.

5. Cost methodology

5.1. HRP Costing Options

This section considers the various options that can be used to cost HRPs based on an analysis of results of interviews, a review of humanitarian practice, and a review of related costing practices from the private and commercial sector.

Costing as projects (based on current approach)

The current methodology for costing HRPs relies primarily on summing funding requirements for projects for different agencies. Project budgets are typically based on standard UN cost categories according to International Public Sector Accounting Standards (IPSAS) / United Nations Office in Geneva (UNOG)¹³ or could also be based on activities, outputs or outcomes developed by clusters.

Most UN agencies and NGOs have used this method in the past, and staff are generally familiar with its application. However, this approach focuses on the financial management of projects and as already highlighted in Section 4 it does not allow a clear coordinated link from HRP cost to outcomes and non-financial results.

Benchmarks and cost comparisons for value for money purposes sit mainly at the cost categories level e.g. comparison against international staff or travel, for example, which limits depth of analysis.

Costing against prior experience as a broad brush approach

One of easiest and quickest ways to cost an HRP budget is to base it on prior experience. This could prove particularly useful for rapid estimates or during protracted emergencies where there is no significant change in the operating context.

This figure could be based on prior experience within the country itself or a similar country. This approach could also be useful where there is one large agency operating at scale as a key actor, which is able to determine the needs and budget based on their own work.

Costing based on unit cost ‘drivers’

The next costing methodology relies on identifying a unit cost ‘driver’. This could be an activity (e.g. installing water points) or something more complex, such as an outcome (e.g. ensuring a certain level of nutritional quality). It could equally be a standard service level being delivered for a certain cost (e.g. in the Ebola crisis HRP). The unit cost ‘driver’ in the HRP budget is the unit cost which best explains the activity, service or outcome. The overall cost would then be established as unit cost ‘driver’ multiplied by the number of units provided, set against the cost per unit across the HRP response.

An example would be the unit cost of feeding malnourished children. An estimated number of children targeted along with the quantities of food commodities needed is the basis for an aggregate cost. This method is similar to so-called Activity Based Costing described in Section 7, but uses a variety of cost drivers not merely a ‘per population’ or ‘headcount’ measure.

The potential benefit of costing based on unit cost ‘drivers’ is that these can link directly to activity or outcome costs and facilitate basic HRP reviews of value for money, for example, by being able to

¹³ See annex for further details

compare units at an activity or outcome level rather than just being able to look at cost centres such as staff, equipment etc. While it may take more effort to identify the activity or outcome costs, this approach facilitates benchmarking. This way of costing budgets is widely used across the UN and NGOs. There is also pressure from certain donors e.g. DFID, ECHO and USAID, to move towards outcome funding as this enables them to talk more concretely about results.

The final issue considers flexibility, which is a key advantage of a HRP costing approach based on unit drivers. With other cost methodologies projects have to be reviewed and scrutinized as to how work will be completed, whereas with this method complete flexibility about how an agency or NGO implements can be delegated. Using such a system, a budget can be allocated to the agency, but then agencies will be paid on the basis of outcomes. Such an approach will require more robust M&E systems to implement, but should prove more effective at meeting humanitarian needs and promoting innovation.

Costing based on cost-benefit analysis and investment appraisal

This approach looks at whether spending money can save money in the long-term, or has some other longer-term benefit. It takes into account both the current expenditure as well as the benefits (both financial and non-financial) of a course of action.

As an example, during the Bangladesh Sidr response some households were given food aid alone whereas others were given food aid and livelihoods training.¹⁴ Those receiving livelihoods training did not come back asking for support the next year (or the year after). Despite an initial higher cost, the net long-term cost of the intervention was thus reduced over time for this target group.

While the HRP works on a one-year cycle, investment appraisal requires longer-term planning. Interviews highlighted concerns from several agencies about how to represent the long-term benefits of some decisions within a short-term (one year) HRP mechanism.

The cost-benefit method of project costing is complex and relies on agencies having good quality, long-term outcome and impact data and evaluation studies to make this effective. This approach is more suited to recovery and reconstruction than an emergency response.

Costing based on probability and risk-based parameters

The final costing methodology considered calculates costs against probability risk-based parameters. It develops a cost of support, given a certain level of risk and a certain level of benefit. This occurs typically with insurance products, for example, where policies may pay to rebuild people's homes after a cyclone. The World Bank uses risk-based probabilistic models to cost its work. For HRPs, costing based on risk parameters can be useful when contingency planning.

5.1.1. Conclusions on different costing options for HRPs

Table 2 summarises the different cost options and summarises the pros and cons of each option. Yellow shading highlights the recommended short- and longer-term options based on study results.

¹⁴ <http://www.fao.org/emergencies/fao-in-action/projects/detail/en/c/180355/>

Table 2 – HRP Costing Options

Methodology	Pros	Cons
<p>Base on project costs alone from UN cost categories (based on status quo)</p> <p><i>Conclusion:</i> Would involve no change and would leave HRP process suffering with same weakness.</p>	<ul style="list-style-type: none"> • Current HRP model and thus requires relatively little adjustment. • Understandable for implementing partners, including local NGOs • Sectors/clusters can improve methodology by ensuring costs are aligned against activities and outcomes. 	<ul style="list-style-type: none"> • Lacks coordinated focus on need of affected population and outcomes/results of work • HRP process has been identified as needing to change • Donors want to focus on outcomes and results based funding.
<p>Base on previous experience and scale against the budget of a similar emergency response.</p> <p><i>Conclusion:</i> Requires good information management. Lacks inclusivity and coordination.</p>	<ul style="list-style-type: none"> • Speed and ease • Based on previous learning 	<ul style="list-style-type: none"> • Lack of coordination and engagement with actors • Unacceptable to most donors as lacks synthesis and sophistication • Tendency to cut-and-paste, discourages innovation
<p>Sector Based Costing (Based on Activities / Services)</p> <p><i>Conclusion:</i> Would be a step forward in the right direction without commitments to outcomes.</p> <p>** Appropriate methodology in the short/medium term **</p>	<ul style="list-style-type: none"> • Moves the HRP process to focus more on beneficiary need • Aligns with most agency process 	<ul style="list-style-type: none"> • Will take time to implement and align • More difficult to track • Donors would want the move to outcomes based commissioning
<p>Sector Based Costing (Based on outcomes)</p> <p><i>Conclusion:</i> Could be an optimal solution, but cost and difficult to implement given that most agencies are focused on activities.</p> <p>** Appropriate methodology for the longer term **</p>	<ul style="list-style-type: none"> • Focus the HRP process clearly on beneficiary need • Aligns with stated donor aspirations 	<ul style="list-style-type: none"> • Will take time to implement and align • More difficult to track • Incompatible with current agency systems
<p>Costing based on Cost-Benefit analysis and Investment appraisal</p> <p><i>Conclusion:</i> Difficult and more complex, but may be of value in transitional contexts.</p>	<ul style="list-style-type: none"> • Looks at longer-term return on investment model against spend • Aligns with transitional arrangements of emergency to recovery 	<ul style="list-style-type: none"> • Difficult and complex to put in place standards • Moves away from one-year basis of HRP • Difficult for donors to understand and review

Methodology	Pros	Cons
	<ul style="list-style-type: none"> Moves away from one-year basis of HRP 	
<p>Costing based on Probability and Risk Based Parameters</p> <p><i>Conclusion:</i> Difficult and more complex, but a valid response where probabilistic estimates are used and costs align against these.</p>	<ul style="list-style-type: none"> Works well in some contexts when planning for contingencies and variability, including planning for pandemics, mega-disaster events and/or for insurance-type interventions. 	<ul style="list-style-type: none"> Difficult and complex to put in place appropriate standards Moves away from one-year basis of HRP Difficult for donors to understand and appraise

Findings from the study indicate that costing methodology based on cost ‘drivers’ (such as activities, services and outcomes) is the most appropriate approach for the short to medium term. Feedback during interviews and during the consultation workshop indicate that although many staff, particularly those based in the field, are generally positive about such a change but there are some concerns about how a system will work in practice. These concerns can be partly attributed to the lack of familiarity with budget- and finance-related costing systems, and terminology amongst programme staff. Prior attempts to introduce activity-based systems on an *ad hoc* basis in some countries have not helped to dispel these reservations even though, in reality, this is similar to approaches often used by clusters. A stepwise process that progressively enhances understanding, and comfort levels, is likely to be more effective:

- Step 1:* Cost project budgets more consistently against activities, services or outcomes, which will provide a non-financial costing dimension based on needs.
- Step 2:* Move towards a set of activities, services or outcomes that have been standardised and adapted to specific country contexts, facilitated by sector/cluster coordinators.
- Step 3:* Promote the use of standardised cost drivers across projects in an HRP (activities, services or outcomes), with sector experts playing a key quality assurance role.¹⁵
- Step 4:* Cost the HRP at an aggregate level based on cost drivers.

While initially a costing methodology will need to be compatible with project-based approaches, such an approach would allow movement towards a more streamlined process that with a stronger focus on results as both programme and programme support staff become familiar with the new approach. In the longer-term, this would facilitate more focus on a needs-based strategic approach that is based on *collective outcomes* as other HPC components and overall accountability is strengthened.

In summary, the major change that this report envisages taking place is to bring a non-financial dimension to HRP costing methodologies and anchor this firmly in affected population’s need and results.

¹⁵ An example of this approach is attached as Annex 5.

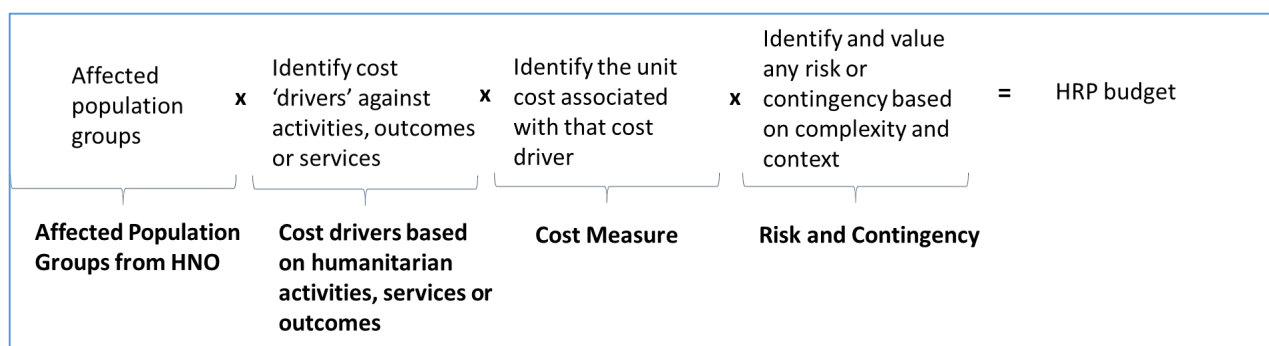
5.2. Applying Sector Based Costing in Practice

An HRP cost methodology based on cost ‘drivers’ and unit costs can be based on four components, namely:

- The affected population groups;
- The cost ‘drivers’ in the budget that will help meet priority needs of affected populations;
- The unit cost associated with that driver, including concerns about how to absorb administrative costs and overheads into a unit cost (see section 5.7); and
- The risk or contingency weighting in the model to take account of contextual factors.

This is illustrated in the figure below, which provides the building block and the basis of our following calculations. We note that defining affected population groups will have already been completed in the HNO, and can therefore link into the HRP.

Figure 5 - Different Components of an HRP Cost model



5.3. An example of Sector Based Costing focused on Nutrition

A costing methodology based on cost drivers may be more easily understood by an illustrative example, rather than by looking at calculations such as Figure 4. The example in Table 3 below focuses on two types of nutrition outcomes. The activity is distributing feeding kits to three different towns (A, B and C). While there is a standard feeding kit cost (including distribution) of \$15 per adult and \$18 per child, this report sees that complexity and context (such as security issues or hard to reach target groups) need to be taken into account as a direct risk and contingency uplift.

Table 3: Example for a nutrition intervention

Cost Drivers (1): Outputs Services Outcomes	Activities (2)	HRP Cost			
		Targeted population groups (3)	Cost per target population group (4)	Risk and contingency (5)	Total cost of delivery (6)
Average per person daily energy supply (DES) is at 100%	Cost of malnutrition feeding kit per person in:	520,000 adults in towns:			
	- Town A	200,000	\$15 per kit	100%	\$3,000,000
	- Town B	120,000	(including distribution)	200%	\$3,600,000
	- Town C	200,000		167%	\$5,001,000
Energy from cereals, roots and tubers as percent of DES meets 40%	Cost of malnutrition feeding kit per child in:	156,000 children in towns:			
	- Town A	60,000	\$18 per kit	100%	\$320,000
	- Town B	36,000	(including distribution)	200%	\$288,000
	- Town C	60,000		167%	\$133,600

Findings suggest that some categories of activities lend themselves more easily to this approach and, indeed, there are already some concrete examples from some sectors.¹⁶ The advantage of a unit cost approach using cost drivers is it allows it to be applied to different sectors and activities, including protection. More detailed examples based on nutrition, WASH and protection interventions are attached as annex 7 to this report.

5.4. HRP “costing cascade”

A sector-based approach of *costing a HRP using cost drivers* can be represented as a ‘cascade’, as depicted in Figure 5 where the process can be represented as a number of steps:

Step 1: *Compile relevant data.* This will involve identifying the target population groups and other relevant data from clusters and the HNO process.

Step 2: *Decide on the cost ‘drivers’.* Cost drivers can be activities, services, or outcomes. In the short to medium term these could be activity focused, but a combination of incentives and support would allow a shift towards costing for collective outcomes once the other component parts of the HPC are conducive to such a change.

Step 3: The next step is to *define the associated unit costs.* These costs may be a range, but preferably an average figure or point figure should be used as “credible reference” that can be justified with a qualitative narrative where necessary.¹⁷ Absorb standard rates of overheads and support costs into unit rates. Unit rates can also be adjusted for context and complexity factors.

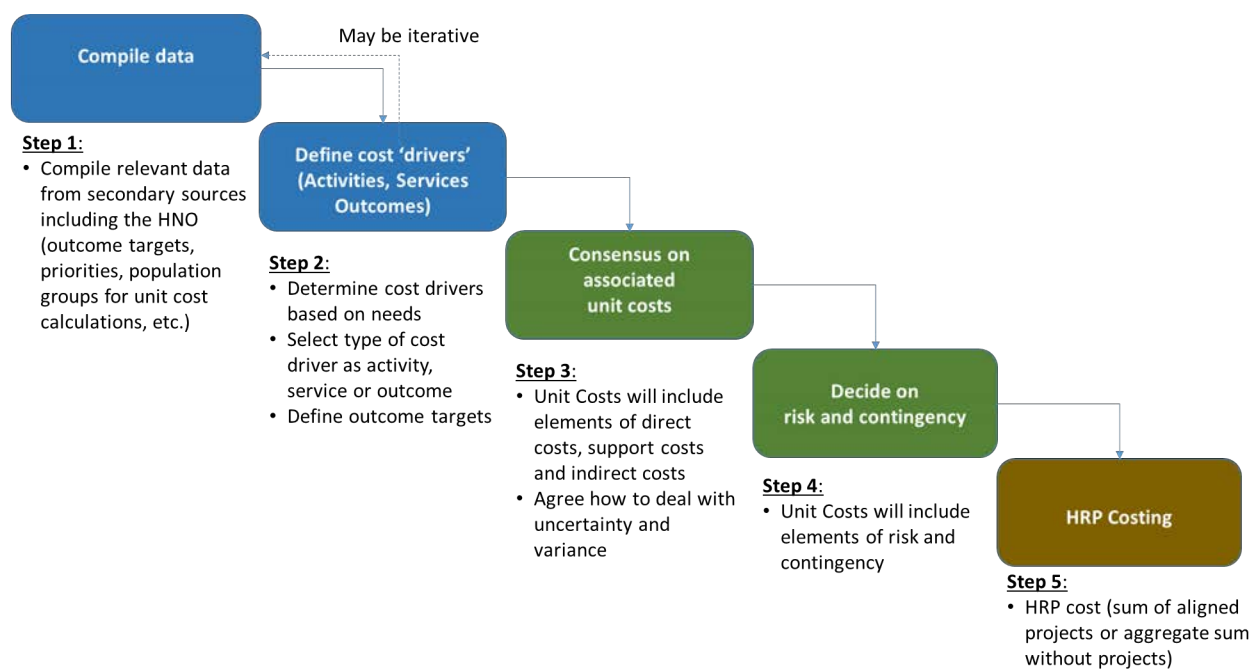
¹⁶ Blaakman (2014)

¹⁷ The unit cost could be weighted to take into account contextual factors, such as risk, geography, seasonality and/or access. Previous experience suggests that trying to be too “scientific” about weighting unit costs to produce complicated formulae undermines the usefulness of the process and result. Direct costs, direct support

Step 4: Identify a multiple which needs to be applied for *risk and contingency*. Given the complexity across contexts this may be needed. However, to keep the system relatively simple these weightings should only rarely be applied and it is likely that most contextual variations would be justified by narrative and applied through Step 3 and using appropriate unit costs.

Step 5: Clearly present the basis for unit costs and qualifiers in the HRP to provide a transparent view of the costing model. Any significant deviations from unit cost drivers could be explained. Figure below depicts the HRP cascade costing model process.

Figure 6 - HRP Cascade Costing Model



5.5. Elements of the “costing cascade”

Step 1: Compile data and define target population groups

In the first step we compile relevant data from secondary sources including the HNO; such as outcome targets, priorities, population groups for unit cost calculations, etc. Identifying target population groups will typically have been done as part of the HNO. Units can be further disaggregated based on geography, relative nutritional status, etc. Based on the groups identified, this should allow alignment of activities, services or outcomes dependent on the complexity of need and this will inform the allocation of resources.

Step 2: Identifying Cost Drivers

While there are some differences in terminology and interpretation amongst agencies, three main cost drivers can be identified:

costs and indirect costs can be considered when defining the unit cost, but a system that combines a ‘credible reference’ figure for unit cost along with a qualitative narrative to provide justification for any significant variance is likely to be more practical.

- **Activities**¹⁸ – are focused on work to be completed, funds or technical assistance and typically link to outcome targets through logical frameworks. A good example of this is provided by WFP’s proposed revised budget system which, once in place, will focus on activities with the aim of having systematic and transparent links between country office programs and strategic outcomes.
- **Services** – focused on a defined activity level for a given cost. A good example of this is seen with WHO, which consolidated their Ebola response and costs around different levels of services to various target population groups.
- **Outcomes**¹⁸ – represent changes in the institutional and behavioural capacities for development conditions that occur. An example of costing against outcomes is given in Annex 7.

As mentioned above, some categories of intervention lend themselves more readily to applying cost drivers than others, such as nutrition, or WASH. Staff working in these areas were found to have had more experience of applying cost driver approaches and staff working in protection-related areas appear to have relatively little experience of applying this. Cluster coordinators (and a few other) interviewees nevertheless concurred that it should be feasible to identify cost drivers and agree on unit costs on the understanding that they will often need to be supported by a written narrative based on strategic objectives to justify cases where costs appear to be relatively high.

Although most key informants were unfamiliar with how cost drivers based on activities, service or outcomes could help in calculating unit costs, there was recognition that this provided a more practical approach than a relatively generic ‘unit cost per beneficiary’ perspective. Some illustrative examples from the famine response in Somalia, and IRC’s work in protection are provided below.¹⁹

Nutrition & Food Security (Somalia):²⁰ DFID supported the 2012-2014 multi-agency Somalia Humanitarian Programme as a famine response. An end of project review was conducted in March 2014. In the Somalia context, the main cost drivers included cost of imported ready-to-use therapeutic foods (RUTF) for nutrition activities and secondly the cost of transportation of agricultural inputs for food security interventions.

Key Findings relevant to cost drivers:

- UNICEF as single chain *procurer* of ready-to-use-food compared to NGOs was, with one exception, more cost efficient. UNICEF procurement gave a saving of around \$10 or more per child treated for severe acute malnutrition given the economies of scale it could purchase at.
- One of the main challenges that UNICEF faced when assessing the relative cost efficiency of different implementing partners delivering therapeutic feeding services was that, unless they were fully funding a particular partner, they lacked information on the full cost of a service package for each partner. This limited UNICEF’s ability to carry out a unit cost analysis. However, based on available data, *delivery* by local NGOs were found to have provided better value for money.

Protection (IRC Iraq):²¹ IRC found that a major cost driver for certain protection programs (specifically case-based services, referrals, and monitoring for at-risk women and children) was the

¹⁸ <https://undg.org/wp-content/uploads/2014/06/UNDG-RBM-Handbook-2012.pdf>

¹⁹ See annex 6 for more detailed examples.

²⁰ DFID (2014)

²¹ IRC (2016)

time of case managers and case workers, comprising between 50% and 80% of total program costs and that local wage levels for people of the requisite skill level almost entirely drove cost efficiency.

Key Findings relevant to cost drivers:

- The actual cost per individual case is highly context specific, because an item with such a highly varying unit cost comprises the majority of costs.
- Case-based protection programs (especially in high wage places) should consider the feasibility of task shifting, i.e. assess which administrative tasks can move to less skilled employees.

Step 3 and 4: Identifying Unit Costs and Considering Risk and Context

The commercial sector is constantly bidding for contracts where they have to factor in complexity and contingency. Humanitarian agencies find themselves facing similar challenges. Most global cluster coordinators interviewed during this study felt it was feasible to reach consensus on unit costs for relevant cost drivers of activities, services and/or outcomes and were able to cite some examples²² where this practice has been applied. It was pointed out that this had been easier in some clusters than in others, which seems to be based on a combination of the type of the cost driver (e.g. WASH versus protection) and the familiarity of sector/cluster coordinators, and cluster members, with costing methodologies. Water engineers, for examples, have more familiarity with costing approaches than staff with a human rights background.

There are various ways of handling such complexity and absorbing context and risk into unit costs, including:

- **Using benchmarks or reference costs** – previous experience with clusters have shown that it should be possible to agree on standard reference unit costs, on the understanding that it is possible to take account of context by also estimating a non-cost risk or contingency figure.
- **Using cost ranges** – Unit costs don't necessarily need to be a point data (i.e. a set cost), but could be a range. One of the potential problems of a range is that it could create incentives for agencies to select the higher end of the range, while donors may favour estimates at the lower end. Narrative explanations would therefore need to accompany cost ranges to explain which cost within the range was chosen.
- **Weighting for different contexts** – different contexts could be given a weighting value to estimate the effect of contextual factors. For example, weightings could be applied to costs to account for differences between assistance in rural versus urban areas.
- **Risk and contingency** – weights for risk or contingencies could be factored into the unit cost to allow for variability, for such things as hard to reach target populations or security.

As clusters and agencies become better at capturing relevant unit data unit costs will be driven from data from past projects. This will improve cost-effectiveness and appropriate budgeting. This has the advantage that agencies will be able to see what is a reasonable cost per activity, rather than taking project budgets at face value. Findings, including those from the private sector, that a weighting for risk and contingency should be included in the model to provide sufficient flexibility to adapt to local contexts.

²² See, for example, Blaakman, Aaron (2014)

5.6. Comparative examples of good practice

The TOR for this study suggested looking at relevant examples of good practice from the private sector and other institutions outside the humanitarian system that could potentially inform a revised HRP costing model. Drawing upon examples from social investment,²³ these provide both a financial as well as a social return on investment and sees a cost methodology whereby the financial return, the social return on investment (usually in the form of outcomes) and the risk of the investment are weighed up against each other to give a required rate of return.

Similar to our HRP costing model, social investment uses a cost methodology based on a combination of risk and contextual factors (such as hard-to-reach target populations). However, a basic unit cost model using unit cost x beneficiary numbers = total cost is inadequate as it largely ignores risk and context, and this is dealt with in various ways:

- Creation of a third axis to cost risk and context (i.e. an econometric model);
- Absorb risk and complexity into the outcomes or unit costs;
- Forget about risk and context entirely and just price the investment on financial outcomes alone; or
- Start with ranges and investment figures which incentivize outcomes with cheaper capital i.e. the more you deliver the cheaper your money becomes.

Social investment talks about blended returns²⁴ and it is equally possible to say the same about HRP unit costs. This will require the unit cost to be multiplied by an expediency marker e.g. speed of response, or a risk marker, or a rural/urban marker. Each different dimensions considers the varying parameters:

$$\text{Unit cost} = \text{basic unit cost} \times \text{factor uplift 1 (expediency)} \times \text{factor uplift 2 (risk)} \times \text{factor uplift 3 (rural/urban)}^{25}$$

One of the challenges encountered with previous attempts by HCTs to follow so-called ABC-type approaches is that they haven't been able to adequately factor in complexity and ended up reducing the unit cost to a cost per beneficiary which, for reasons explained above, is often difficult to justify. This approach is similar to the third bullet point in the list above (i.e. "forget about risk") and was rejected by the majority of key informants who stressed that complexity must be adequately reflected if a HRP costing approach is going to be credible. At the same time, there was a commonly heard request to keep systems simple, which makes it a challenge to find a suitable balance.

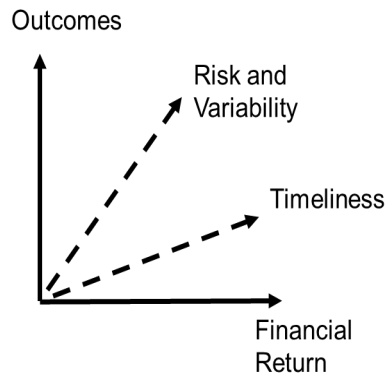
The complexity in unit rates as already suggested in this section, could be addressed by *adjusting unit costs for each area of complexity*. This would give a model where a unit cost is then multiplied by a number of parametric multipliers. This is a much more econometric view of the world and could be used to incentivize performance in each area as shown in Figure 6 below.

²³ Social investment includes any investment activity which has an intent to create both a social outcome and a financial return. See <http://www.socialimpactinvestment.org/> or <https://thegiin.org/> for general information, or <http://www.goodinvestor.co.uk/> for costing methodologies.

²⁴ Blended returns is where we have a trade-off between social and financial return on investment. Bugg-Levine, A. and Emerson, J (2011), *Impact Investing: Transforming How We Make Money While Making a Difference*.

²⁵ An uplift factor was seen as the additional cost of working in that environment or context.

Figure 7 - Complexity by using multiple axes and each has a multiplier or ‘uplift’ factor.



5.7. Absorbing overheads and support costs

Costing models at an agency level

Having described the relationship between cost drivers and unit costs, it's important to consider how overheads and other direct support costs can be absorbed into unit costs. This is critical if we are going to achieve a credible figure for cost methodologies.

Many of the conversations we had with informants seemed to confuse cost methodologies with how to absorb overheads. This report recommends the development of standard terminology and training to address this. For the purpose of this study, we have used the following definitions:²⁶

- **Cost Driver** - A cost driver is the main ‘cause’ of cost for each activity.²⁷ It could be the cost of staff or commodities and, for an HRP, it is likely to include cost of outputs, activities, services or outcomes.
- **Direct Costs** - Any costs that can be clearly identified with, or linked to, any activity, service or outcome.
- **Direct Support Costs** – These are costs that clearly support activities, services or outcomes. However, costs can sometimes be somewhat remote to direct costs and apportioned in some way: e.g. rent, electricity, etc. to support related work.
- **Indirect Costs** - Those costs that cannot be clearly identified with, or linked to, activities, services or outcomes. These are overheads, e.g. human resources, communications, etc.

Agency, INGO and NGO cost structures are typically centred around two models:

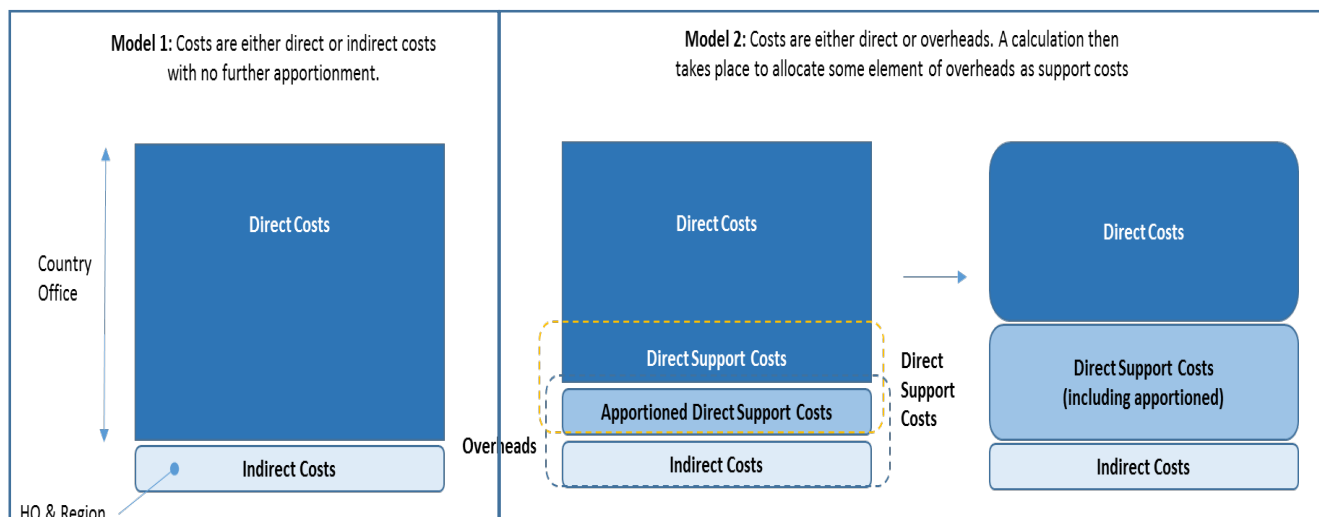
- **Model 1**: those organisations that have simply kept to two levels: a direct cost charge and an indirect cost, typically as an added percentage.
- **Model 2**: those organisations that use direct costs, and overhead costs and are able and willing to then separate out direct support costs from these.

²⁶ A glossary of terms is attached as an annex.

²⁷ Porter, M.E. (1985) *Competitive Advantage: Creating and sustaining Superior Performance*, New York: The Free Press

Model 1 appears simpler but provides limited transparency. Model 2 is better but often organisations and users of information lump together indirect costs and direct support costs and come to the false conclusion that overheads are expensive, as shown in the figure below.

Figure 8 - Different cost structures models for UN, INGOs and NGOs



UN agencies and donors²⁸ have mostly shifted away from Model 1 and aligned themselves around Model 2, something that should facilitate future comparability of costing structures and allow benchmarking. Our findings indicated that there is likely to be further alignment in future, driven by pressure from donors and from agencies themselves as they endeavour to meet their Grand Bargain commitments. A brief review of agency cost structures is included in Annex 7 to this report.

Comparability of costing models

At the same time, the humanitarian system is witnessing a trend towards greater diversity of actors, notably local actors, which raises challenges in comparing different types of organisations. Agencies have different rules around what is accounted for in terms of direct costs, direct support costs and indirect costs.²⁹ One example is how is a Country Director of an agency accounted for. In some UN agencies and NGOs this is a direct cost. In other UN agencies and NGOs this is an indirect cost and part of their business platform. In the UK, the largest NGOs came together to benchmark against each other at this level, a process that took two years to achieve comparable numbers, but the exercise was felt to be worthwhile as it yielded valuable learning. As described by a key informant, humanitarian agencies often account for different things in different ways:

“The movement of costs between categories (direct and indirect) is extremely fluid across the UN and one of the most difficult things to overcome.”

Indications are that many organisations are moving towards greater transparency, but at the same time are influenced by perceived overhead and support rates that are acceptable by donors. Studies by

²⁸ There is no standard approach, however. For example, DFID (NPAC) and USAID (NICRA) have some flexibility when negotiating overhead rates in emergency contexts whereas ECHO pays a flat rate of 7%.

²⁹ See annex 7 for illustrations of how cost structures differ between different agencies (and a selection of donors).

Bridgespan and InsideNGO in the USA have highlighted the lack of consistency in presenting of overheads and found this contributing to a ‘starvation cycle’ for overheads for NGOs.³⁰

This study has highlighted a particular issue around overheads paid to local NGOs. These tend to be funded by agencies in very different ways and are often categorized as ‘direct costs’ without further identification of overheads.

Overheads and support costs in the HRP cost model

It will be important to have a coherent approach on how overhead costs and support costs are absorbed into unit costs in the HRP. In the short-term each cluster should apply a standard percentage as an overhead and support cost contribution. These percentages again will depend heavily on context (e.g. security risks in Afghanistan) would mean that such costs would need to be suitably weighted.

This study found little evidence of standard definitions for direct support or overhead rates across agencies or interagency fora where finance staff could help to address these differences.

5.8 Transparency and benchmarking³¹

The proposed HRP costing methodology should aim to be consistent and transparent in terms of:

- ‘*Unit cost perspective*’, so that items can be compared against each other at a unit cost level (based on cost drivers);
- ‘*An activity based perspective*’ or outcomes-based perspective which link to cluster- and the inter-agency systems;
- ‘*A cost structure and overheads perspective*’ ensuring a fair proportion of overheads is allocated to HRPs;
- ‘*A common cost centre*’ perspective, to allow facilitative benchmarking across basic component costs such as staff and commodities.
- ‘*A language perspective*’, so that everyone understands terminology; and
- ‘*A communications and presentation perspective*’, so there is a consistent way of communicating, offering a credible way of comparing different projects and activities with each other.

A unit cost and activity cost perspective

Donors are increasingly applying pressure on agencies for comparisons of activity and outcome measurement. DFID, for example, moved to outcomes-based commissioning as its *de facto* standard in June 2014 and published a comparative table for unit costs as a reference when carrying out value for money assessments. In return they have allowed NGOs to claim Non-Programme Allocated Costs (NPAC) or appropriate overheads as part of a negotiated settlement. USAID-OFDA had already

³⁰ In the USA, the underfunding of governance, support and back-office functions of NGOs has been dubbed the “starvation cycle”. See Bridgespan Partners (2009), “The Non-Profit Starvation Cycle”,

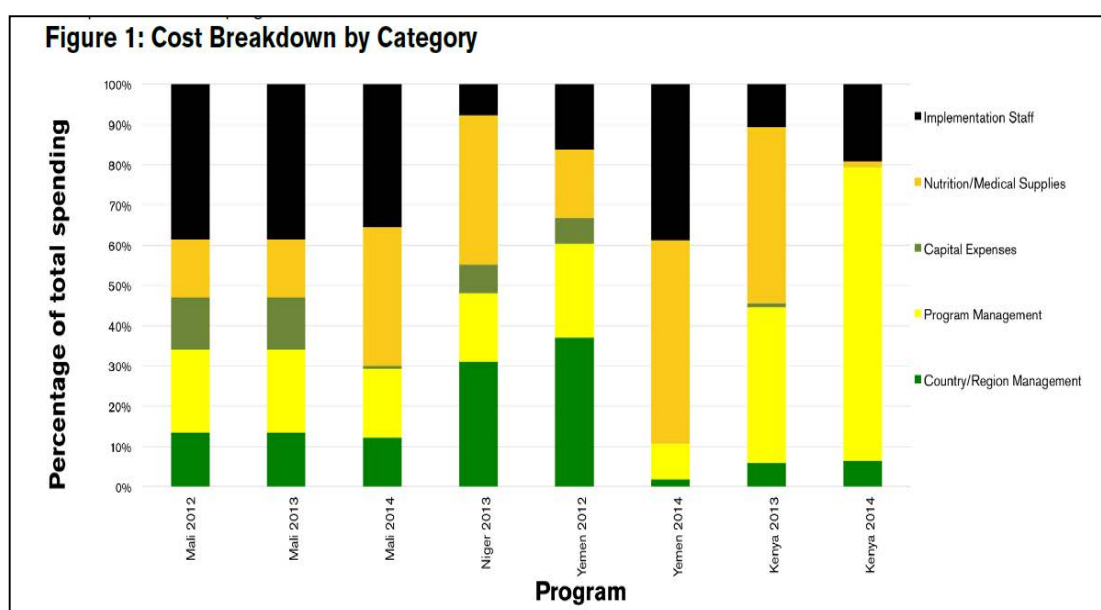
³¹ Benchmarking involves comparing the agency's own costs, performance, etc. with industry standards and/or with comparable peer agencies. It goes without saying that this methodology is only realistic if operations and finance staff are working closely together.

followed a similar direction with NICRA for many years.³² However, both require clear and transparent costing models.

An overheads perspective

As described above, there is a trend by UN agencies to move towards a cost model based on direct costs, direct support costs and indirect costs (section 5.5). The expectation is that humanitarian agencies can move to a more comparative basis, similar to IRC’s “Better Use of Resources” initiative.³³ As shown in Figure 8, IRC has delved into each area of costs with the aim of equipping decision-makers with comparative cross-country analyses as a management tool to inform their decision-making. IRC has developed software applications in collaboration with peer agencies to broaden the comparative analysis.

Figure 9 - Cost Breakdown for IRC Nutrition Projects



Experience has shown that when comparatives are worked out within the same agency, they can be compared, but when compared externally they become less useful. This leads to a “herd mentality” where external reporting will tend to follow peers. An example from an unpublished KPMG review from the late 1990s showed that, when benchmarking children’s charities, overhead levels ranged between 7% and 31% dependent on the level of quality, size and regional distribution of the charities. However, when they examined reports and accounts, all agencies were found to be reporting the same 12.5% overheads in line with specified standards.

Similar benchmarking within the humanitarian system would be a complex exercise but improved transparency and data management could help provide a basis for comparisons. It was clear from interviews that there is a perception that UN agencies are relatively expensive compared to other

³² USAID (2016) USAID/OFDA Guidelines for Proposals, Record of Change March 2016. https://www.usaid.gov/sites/default/files/documents/1866/guidelines_records_of_change.pdf

³³ IRC (2015) Focus on Cost Efficiency, Effectiveness and Results <https://www.rescue.org/sites/default/files/document/638/whsbur.pdf>

agencies, but justifications are often seen as anecdotal. There is also a suspicion that the movement of costs between direct and indirect cost categories is relatively fluid. There is an expectation that international organizations, both UN and NGOs, will need to be able to better demonstrate their added value if they are to retain donor confidence.

Some interviewees felt that International Aid Transparency Initiative (IATI) standards³⁴ should be implemented across the UN. This would allow external audiences to see where activities are taking place and what money is being spent. However, findings from this study suggest that considerable revisions will be needed to arrive at a financial reporting standard which would allow the cost comparison of projects using IATI.

Language, communications and presentation

It is evident that the international humanitarian system is struggling with terminology (and approaches) for cost methodologies, overhead recovery and unit costing. Based on findings from this study, there seems to be relatively few opportunities to address this through interagency technical discussions. For example, the IASC Costing Group is handicapped by the lack of a finance/budgeting perspective in its membership.

5.9 HRP costing process

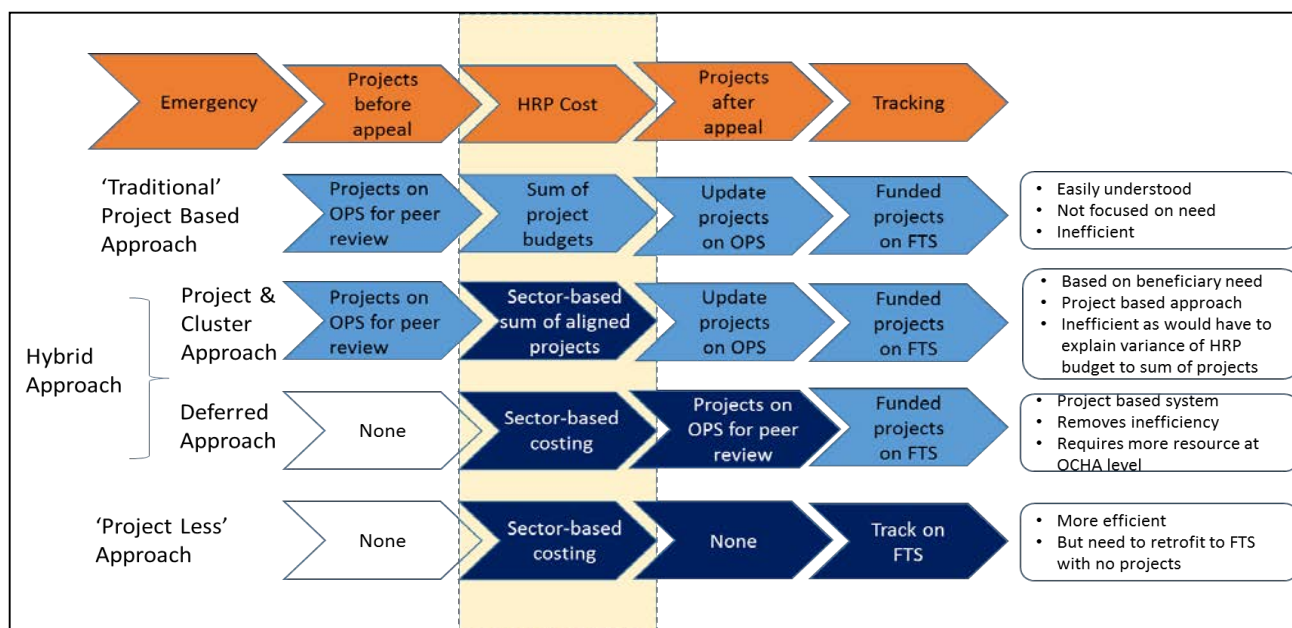
Many of our interviews rapidly moved from HRP cost methodologies to conversations about process, and how this fitted within the HPC. While this study focuses on methodology, it is important to the link between methodology and process and how these could evolve to help improve the utility of the HRP. In the *traditional project based approach*, HRP costs are the sum of projects. These need to be uploaded to OPS for peer review before we determine an HRP cost, which brings administrative effort and delays the production of an HRP cost. Projects are then updated and reviewed by the HC and clusters to come to a HRP cost which is then tracked by uploading projects to FTS as funding is received.

- The *project and cluster approach* is perhaps the easiest way to progress costing against activities, services and outcomes and aligning projects behind results. It is similar to the current approach but each projects budget is aligned against activities, services or outcomes (see 5.1.1).
- The *deferred approach* sees a quick calculation being completed to come to an HRP cost, which is then backfilled by OPS projects for peer review, which then informs FTS reporting. Projects are retained for monitoring and tracking purposes. This is perhaps the best model for the medium term.
- A ‘project-less’ approach may mean that projects are no longer submitted through OPS, and tracking of spend and results are entered directly onto FTS.

Some key informants had reservations about the loss of quality assurance and tracking systems if there was a shift to a project-less approach. It is clear that these systems would need to be fit-for-purpose to the new approach and Figure 9 illustrates how the HRP costing system could potentially evolve.

³⁴ <http://www.iata.org/publications/Pages/standards-manuals.aspx>

Figure 10 - Options for HRP Costing Models



Countries that have implemented different HRP costing approaches have including a “project and cluster” approach in the case of CAR, deferred appeals in the case of Haiti and Yemen and a project-less approach in Afghanistan and DRC.

6. Experience with ABC: a ‘project-less’ approach

Activity-based costing (‘ABC’) was first applied in 2007 and much of the experience with this approach was captured by a consultancy carried out 2014.³⁵ Activity based costing is inherently a similar methodology to what this paper is suggesting as a possible future cost methodology for HRPs, but was criticised in our interviews for lacking complexity and grounding in the reality that not every outcome focuses entirely on ‘people targeted’ as the main cost driver. This paper has addressed this in our proposed model focused on activities, services and outcomes as cost drivers for targeted population groups.

The 2014 review found little evidence that countries were able to use ABC to help improve the strategic value of the response, a finding that was confirmed by our own research. Countries mainly viewed this as a way to reduce administrative burdens. Given the apparent strategic potential of an ABC-type approach, this was viewed as a disappointing finding. At the same time, it is not surprising given that current HPC reporting systems focus on individual agency projects. Findings from a series of interagency evaluations³⁶ have highlighted a consistent lack of data about outcomes based on response plan targets as a serious weakness. In the absence of adequate measurement and accountability systems, an ABC approach will never be able to achieve its strategic potential as a basis for costing collective outcomes which, from the perspective of affected communities, are what actually counts in the end.

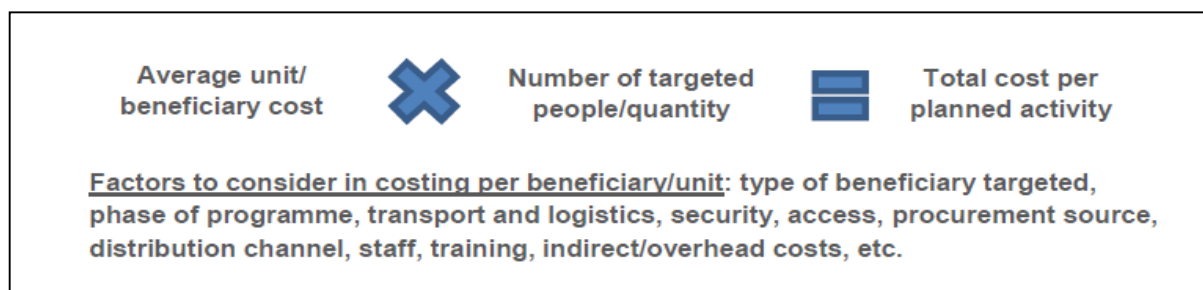
As shown in Figure 9 below, the half a dozen or so countries that have attempted ABC-type approaches developed budgets using simple calculations of average unit cost per beneficiary multiplied by the

³⁵ Stoddard, Abby and Willitts-King, Barnaby (2014) Activity-Based Costing for Humanitarian Appeals: A Review of Recent Practice, Prospects and Issues.

³⁶ Hanley *et al.* (2014), Clark *et al.* (2015), Lawday *et al.* (2016), Sida *et al.* (2016)

number of targeted people. This removed the need to develop projects for the HRP, although projects were still being used as the basis for funding contracts with agencies. Contributions reported via FTS were still monitored against donor contributions to projects or larger programmes. This not only streamlined costing processes, but also skipped the step of submitting individual projects for cluster review by OPS.

Figure 11 - Basis for Calculating Budgets based on Activity-Based Costing



The 2014 review³⁴ identified ABC as a potential way to move away from having projects towards much more effective ‘pooling’ arrangements for budgets. The report focused on the following countries: Afghanistan, CAR, DRC, Haiti, oPt, South Sudan, and Yemen. Each country had a different story to tell and reasons for choosing to try out ABC, for example:

Afghanistan – Confidence broke down in the HRP process, not least since a considerable amount of humanitarian funding was being channelled outside the HRP. Afghanistan has invested a considerable amount of time and energy in retrofitting their system so that it can interface with project-based reporting through OPS/FTS.

Central African Republic (CAR), Democratic Republic of Congo (DRC), Haiti – moved to an ABC process in an attempt to lighten the administrative burden of having to manage more than 1,000 individual projects. While the “project-less” process certainly reduced transaction costs when developing HRPs, it also created tracking and reporting challenges since these were designed for projects. Retrofitting the data by “translating” into standard project reporting systems required a senior international staff member to devote ¾ of their time.

Findings from this study indicate that, while ABC approaches have generally been seen as successful in reducing administrative loads when developing HRPs, there have been significant challenges with interfacing with reporting systems. The experience in the Central African Republic was also problematic. The Operational Peer Review³⁷ found that the shift to ABC had caused confusion amongst donors and the interagency evaluation of the CAR response found that response planning was seen as burdensome and did not provide a baseline for performance measurement. In some cases, use of an ABC approach appeared to be used mainly as a quick way of calculating budgets, without a clear narrative or basis to justify unit costs or account for the complexity of the context.

ABC continues to attract interest but has not been sustained in most of the countries that have tried it out due to a combination of factors. These include lack of compatibility with project-based systems, concerns (both real and imagined) by agencies and donors³⁸ along with an ad hoc application of approaches with a minimal amount of technical support or guidance.

³⁷ IASC (2014)

³⁸ Lawday *et al.* (2016)

In the absence of an agreed methodology for activity or outcomes-based costing, there is a lack of consistency in how the approach is being applied from one country to another. None of the countries that have tried ABC approaches appear to have documented lessons learned and findings in this study relied on a combination of interviews and analysis of trends over time to assess how systems had changed. Equally, in some of these ‘pilot’ countries, documented guidelines on the method are lacking, making it difficult to see how the costs were calculated.

Mirroring the findings of the 2014 review on ABC approaches, there appears to be considerable confusion about the term “Activity Based Costing” since most key informants associated “activities” as a component of projects and, given their unfamiliarity with the approach, there was a tendency to see it merely as a simplistic attempt to calculate a cost per beneficiary.

ABC is also widely used in the corporate sector, but is defined somewhat differently as an accounting approach that “...traces indirect costs (commonly called “overhead”) to products, services, and customers by identifying resource and their costs, the consumption of these resources by activities, and the performance of activities to produce output”.³⁹

7. Adapting the HRP to Different Emergency Types

There is an expectation that transaction costs should be minimized and administrative processes be relatively streamlined if the HRP is to fulfil its intended purpose. This is where ABC approaches and pooled funds⁴⁰ have certain advantages and indeed was the main driving force behind the decision by countries to opt for an ABC approach. A key consideration is that the HRP costing model needs to be adapted to the range of humanitarian operations including quick onset, slow onset natural disasters such as drought, chronic conflict, transitions and recovery. It cannot be a one-size-fits-all “blueprint” approach.

In a **quick onset emergency** such as an earthquake there is a need to work to a tight schedule. Coordinated planning processes are a collective ‘high level call to action’ for the humanitarian community and donors to identify a coordinated approach to supporting affected populations. The need for timeliness is recognized with a rapid “Flash Appeal”⁴¹ to allow time for a HRP to be put in place. Even so, as the quotes at the beginning of this section and below demonstrate that HRP processes are not necessarily sufficiently responsive.

*Many tools were not widely used for the purposes for which they were intended, and most interlocutors questioned whether the significant effort and opportunity cost invested in them were justified. The SRP, in particular, seems to be ill-suited to the realities and needs of a sudden onset natural disaster.*⁴²

³⁹ IMA (2006) Implementing Activity-Based Costing – page 3. Examples of resource expenses are salaries, operating supplies, equipment depreciation, and electrical power. They represent the capacity to perform work.

⁴⁰ Pooled funds are well-adapted to activity-based approaches since they are more flexible and do not require the same granularity of reporting.

⁴¹ Also known as a “Preliminary Response Plan” <https://www.humanitarianresponse.info/en/programme-cycle/space/document/2015-flash-appeal-guidance>

⁴² *ibid* (page 61)

Response planning quick onset disasters focuses much more on outputs (while at the same time establishing a baseline for measuring outcomes in later phases).

A *slow onset emergency, such as a drought*, offers the opportunity to be more rigorous with data collection, analysis and quality control. In this case, the responses are likely to be more complicated and a ‘project and sector/cluster approach’ more appropriate. In this environment, relatively more emphasis is given to cost efficiency and cost effectiveness.⁴³

A HRP that is a “credible reference” could have an important role either in providing an evidence base for multi-year planning or as a basis for *transition planning* where more rigorous cost benefit analysis is more appropriate. The change in terminology from a “Strategic Response Plan” to “Humanitarian Response Plan” helps to define a focus on humanitarian operations but, as the quote below indicates, this does not mean there is no overlap.

*The HRP and the Comprehensive Recovery and Reconstruction Plan (CRRP) focus on different ends of the relief to recovery spectrum, although there is an area of overlap in the middle, and that is precisely the transition zone that has caused some discomfort to both the national and international actors, with national actors feeling a strong sense of sovereignty, and international actors feeling a sense of responsibility towards the affected population.*⁴⁴

This also applies to many *conflict crises*, although these may start with as a rapid onset disaster if there are rapid large-scale population displacements although it may be a decade (or more) before recovery and reconstruction become feasible.

Regardless of which methodology is selected, it is critical that the humanitarian activities that are financed be well-coordinated with the process for recovery. As highlighted in evaluations,⁴⁵ decisions made during the relief phase are taken independently of the longer-term reconstruction needs and end up causing problems and closing off options for sound recovery.

8. Financial and Non-Financial Reporting

Financial reporting and tracking are some of the major reasons why ABC approaches to HRPs have proven difficult to implement. Afghanistan, for example, decided to move forward with an ABC model but has since spent a considerable amount of time and effort to then retrofit data to be able to provide inputs into FTS.

Any future system will need to ensure both reporting at outcome level, but also against agencies and sectors. This will require more advanced reporting systems than are available currently. We understand that clarity about required system enhancements are being discussed at the moment, and this will need to be multi-faceted; sector focused, results focused (against activities and outcomes), geographically focused and allowing clear tracking of actual versus budget figures broken down per agency and implementing partner (UN versus INGOs versus local NGOs versus Government for example).

⁴³ The Global Fund for Disaster Risk Reduction is developing a methodology for applying the post-disaster needs assessment (PDNA) to droughts in order to understand damages and losses. This would help to prioritize where sectoral and geographic investments are needed as well as how to invest in preparedness.

⁴⁴ Hanley et al. (2014) page 50

⁴⁵ See, for example, Hanley et al. (2014)

As described above, there is increasingly more emphasis on outcome measurement. For HRPs, this implies a shift towards collective outcomes that combine contributions of multiple agencies towards meeting humanitarian needs. Although the emphasis of this study is on costing approaches, unless costs can be linked to outcomes, the HRP is unlikely to be able to fulfil its role as a credible reference. Using a unit costs system based on cost drivers will probably contribute to more “cost awareness” amongst agency staff but a proper analysis may require substantial revisions to tracking and monitoring systems. Currently, financial reporting is largely centrally managed whereas reporting on operations (outputs, outcomes) is done at the field level. Ensuring systems continue to meet local country office needs will be critical. This process of better data capture and improved reporting is needed to meet the Grand Bargain agreements to harmonize and simplify reporting and improve transparency.

It is evident that individual projects will continue to exist for the foreseeable future. A move towards ABC approaches will require a transitional period during which project-type data is uploaded to FTS. This includes aspects such as tracking of cross-cutting issues (e.g. gender marker) which provides data on cross-cutting themes. Funding streams that sit both inside and outside of a HRP will also need to be captured.

OCHA is currently looking at different options to not only improve capture of financial information, but also improve outcome reporting. It is likely to be difficult to centralize the input of all project data and therefore any reporting will need to reflect this decentralized tool. Interfaces to the management information systems will need to be developed both for budgeting and subsequent tracking based on manual inputs at all levels of the system.

An area of focus of the Grand Bargain is on meeting IATI standards, which will require improvements to tracking and reporting systems. In addition, it will be important to capture non-financial data as outputs, activities and outcomes to facilitate appropriate reporting on HRPs.

9. Identifying and Managing Risks

There are multiple risks to the adoption of a new HRP approach and this section highlights some of the major risks along with some mitigation options.

- **Incentives** – The HRP will continue to be pushed and pulled by its dual role as both a needs based document for affected populations, and a fundraising tool for agencies. The risk is that it is seen primarily as a fundraising tool in future, which undermines its credibility and objectivity. It is evident that the HRP should be seen as a ‘credible reference’ around which agencies can rally with a focus on accountability to affected populations in order to achieve this. Another angle to this is that donors continue to fund outside the HRP system, which again undermines its credibility. To mitigate this, donors can be involved in relevant into the HRP processes where appropriate.
- **Comparability of costing approaches** – the discussions and commitments relating to the Grand Bargain have provided a common vision for the future and the research and interviews during the current study have shown that agencies are at different points in terms of meeting these commitments. Some agencies, such as WFP⁴⁶ and IRC, have invested resources in significantly revising their systems to achieve a relatively high level of transparency and cost comparability.

⁴⁶ One of the main drivers of WFP’s change process has been the recognition that the current system that was developed based on food aid, whereas WFP’s 2014-2017 Strategic Plan a collaborative approach and comprehensive approach to improving food security, including through cash transfers, along with a commitment to improve cost effectiveness and measurement of results.

These systems appear to align well with the proposed HRP costing model, but this could only work if there is adequate alignment in a critical mass of agencies.

- **Complexity** – the HRP approach presented could be seen as either too complex, or lacking context and complexity. Either end of the spectrum is a bad thing. Equally ‘drivers’ as defined in our proposed model could be seen as too difficult to define and calculate. This could lead to push back and only minor tweaking of the HRP costing approach. A systematic roll out will be needed if this is to be a successful along with ongoing support and capacity building for stakeholders, including at a national level.
- **The HRP is part of the HPC “Ecosystem”** - the HRP is only one component of the HPC and it is clear that there is a significant amount of interdependence between the component parts. Even with the ideal costing model, the HRP can only fulfil its role as a useful management tool if it is informed by a needs assessment of sufficient quality and if agencies (or consortia) are held accountable for their commitments in the HRP.
- **Humanitarian leadership** – In practice, the quality of the resulting HRP depends to a large extent on the leadership and process management by the HC, the HCT, cluster lead agencies and facilitation skills of whomever is designated to lead the HRP process. Cluster coordinators and the inter-cluster coordination group need to closely work together to ensure buy in from participating agencies. Cluster coordinators and the inter-cluster coordination group need to closely work together to ensure buy in from participating agencies.
- **Imbalance between streamlining versus quality** - as described above, the main motivation for countries to experiment with ABC was to streamline processes, not to take advantage of its strategic potential. This can be seen an example of a general phenomenon where efforts to reduce transaction costs have been found to have a negative effect on effectiveness and diversity which has, for example, manifested itself as a tendency amongst donors to mainly support larger “more capable” agencies rather than smaller, emerging civil society actors.⁴⁷ This concentration of resources has not only affected access of these smaller actors to funding, but also to capacity building opportunities and their participation in policy dialogues. It will be important to ensure that moves towards greater cost efficiency are balanced with quality and diversity considerations.
- **Reporting** – tracking and reporting systems could continue to lack the ability to handle ABC effectively, which forces countries such as Afghanistan to revert back to standard ‘project based’ HRP models. Reporting systems to not sufficiently capture relevant information about activities going on outside the HRP that are targeting relevant needs.
- **Alignment of processes** – The HRP process continues to be undermined by a lack of alignment in agency planning cycles. Different planning cycles do not necessarily need to be an obstacle to a credible HRP, as long as these are taken account of during HRP processes.

⁴⁷ INTRAC, Tana and Indevelop (2013)

10. Conclusions

Despite some difference of opinions, there was an overall consensus that the approach to HRP costing needs to change to be able to contribute to an overall objective of improving accountability for meeting targets, improving transparency and cost-effectiveness. This view was particularly notable amongst field-based staff interviewed. Findings indicate that HRPs have not yet realised their strategic potential as a “credible reference” around which agencies can rally with a focus on accountability to affected populations. Instead, the HRP continues to be seen by stakeholders primarily as a fundraising tool. In the future the HRP costing methodology will need focus on the coordinated funding of need, such as activities, services and outcomes to become a ‘credible reference’.

Despite this consensus, there have been a number of obstacles preventing needed improvements in costing response plans, which is a critical step in ensuring that HRPs are able to fulfil their potential. Staff in the international humanitarian system struggle with costing terminology to understand how systems work in different agencies and the lack of standardisation will not make this any easier. Secondly, a prior attempt to introduce an ABC approach without adequate consultation and communication resulted in widespread confusion and suspicion. There continues to be a lack of transparency of costing methodologies and comparability between agencies, something that was highlighted during the Grand Bargain discussions. Tasked with improving costing approaches, the IASC Costing Group has been handicapped by the lack of relevant technical advice and operational perspectives from staff who have had hands-on experience of developing response plans.

This has contributed to a situation where debates around costing of HRPs have often revolved around agency mandates and resistance to revising systems and processes of individual agencies instead of focusing on that better meet the needs of affected populations. As one key informant noted, agencies often seem to get bogged down in detailed debates of questionable relevance due to “...*deeply ingrained institutional battles*”.

At the same time there are nevertheless reasonable grounds for optimism regarding the feasibility of making concrete improvements to response plan costing approaches thanks to a number of enabling factors. Awareness and follow up on the Grand Bargain discussions is one such factor. In addition, several agencies are in the process of revising and improving their own budgeting and monitoring systems that should result in greater transparency, comparability and increased accountability for setting targets and measuring results. The current HRP costing study, managed jointly as an independent research effort by an interagency group established by the IASC Principals, should be viewed as an indicator of a willingness of agencies to work collectively on an issue recognised as a priority.

It will be important to apply learning from previous attempts to promote new systems and the IASC Costing Group will play a key role in communicating and facilitating a process of testing, consultation and roll out involving country level stakeholders. Prominent among these key lessons are that the design of reporting and tracking systems is a critical element in helping, or hindering, HRPs to achieve their strategic potential and that the credibility of HRP will depend to a large extent on accountability for implementing against targets and tracking these effectively.

11. Recommendations

11.1. IASC Principals – Immediate Term (within the next 6 months)

Findings	Priority	Recommendation
<p>There was an overall consensus that the approach to response planning needs to change to be able to contribute to an overall objective of improving cost-effectiveness, transparency and accountability. Findings from the study indicated that one of the main shortfalls of the current project-based system results in a “summing up” of different projects with the result that the HRP is often seen more as an expression of agency requirements rather than reflecting needs of affected populations. HRPs have not yet realised their strategic potential as a “credible reference” and are still often seen by stakeholders as primarily a fundraising tool.</p>	Yes	<p>Reach a consensus on proposed HRP costing approach or models for subsequent field testing/piloting and further refinement using the following criteria:</p> <ul style="list-style-type: none"> • Feasibility of the proposed HRP costing approaches. Including matching this to Section 4 and the components of an appropriate HRP cost methodology. • Allow for a phased approach. Recognise the limitations and diversity of current agency systems while at the same time need for a model and process that favour those systems that will help to meet relevant commitments in, for example, the Grand Bargain. • Potential to provide a credible reference for a better understanding of priority needs, solutions based on good practice and cost effectiveness and a baseline for expected results. • Create incentives for involvement in HRP processes (including for actors outside the traditional humanitarian system). • Integrate learning and performance assessments to ensure continuous improvement and accountability.
<p>The IASC Costing Group has been handicapped during their deliberations by a lack of technical inputs (e.g. finance, economics) and operational perspectives from staff who have hands-on experience of putting together response plans. This has contributed to a situation where debates have tended to focus around agency mandates, systems, processes rather than finding solutions that better meet the needs of affected populations.</p>	Yes	<p>Ensure that the IASC Costing Group benefits from relevant technical advice and inputs to include relevant perspectives (notably budgeting/finance, economics and perspectives of staff with hands-on experience of developing response plans at country level).</p>
<p>Key informants for this study have mainly provided a global level perspective, which underlines the importance of field testing and piloting when developing a HRP costing approach.</p>	Yes	<p>Commission a series of simulations, testing and pilots over the next year based on the following considerations:</p> <ul style="list-style-type: none"> • Cost approach to be peer reviewed by selected country offices who have been involved in ABC, facilitating discussions

Findings	Priority	Recommendation
		with external stakeholders (donors, governments, national civil society) <ul style="list-style-type: none"> • Pilot version with TOR that systematically captures feedback and learning • Revise and roll out
Reporting and tracking are some of the major reasons why ABC approaches to HRP have proven difficult to implement.	Yes	Allow for the fact that reporting systems should be able handle future requirements (activity and outcome level reporting, systems of diverse national actors) or are at least aligned with a needs-based approach.

11.2. IASC Principals – Longer Term (within 1-3 years)

Findings	Priority	Recommendation
The HRP should be seen as a ‘credible reference’ around which agencies can rally with a focus on accountability to affected populations. The credibility of HRP will depend on links with other HPC components, including reviews and evaluations.	Yes	Review progress on bi-annual or an annual basis using peer review processes and secondary data from reviews and evaluations to track progress. Strengthen the link with periodic reviews and evaluations (OPR, IHEA, CERF reviews, etc.).
The international humanitarian system is struggling with terminology relating to cost methodologies and unit costing.	Yes	Reach consensus on terminology and reporting standards for HRP costing to facilitate benchmarking and communications.

11.3. IASC Costing Group – Immediate Term (within the next 6 months)

Findings	Priority	Recommendation
A systematic roll out will be needed if this is to be a successful along with ongoing support and capacity building for stakeholders, including at a national level.	Yes	Develop a work plan for pilots based on the IASC Principal’s decision with clear milestones for capturing learning, revision and eventual roll-out of the revised costing model.
The IASC Costing Group has been handicapped during their deliberations by a lack of technical inputs and operational perspectives from staff with hands-on experience of developing response	Yes	Ensure that the IASC Costing Group benefits from relevant technical advice and inputs from to include relevant perspectives from budgeting/finance, economics in addition to staff with hands-on experience of developing response plans at country level.

Findings	Priority	Recommendation
plans. Debates have often focused around agency mandates, systems, processes rather than finding solutions that better meet the needs of affected populations.		
There is a considerable amount of confusion about the term “Activity Based Costing” since “activities” is most often understood as a component of a project there is a tendency to see the approach merely as a simplistic attempt to calculate a cost per beneficiary.		Ensure consistent messaging so that the concept of the “ABC” approach communicates more accurately the approach. A term such as “Unit Cost Approach” could be one alternative, provided it is understood that unit costs do not only refer to cost per beneficiary, but also to cost drivers.
The international humanitarian system is struggling with terminology (and approaches) for cost methodologies and unit costing.	Yes	The IASC should agree on a common language for cost methodologies and costing levels within agencies. This should be consistent with work streams working on similar issues (such as the Grand Bargain).
Lack of transparency of agency costing methodologies.		Define standard methodologies and approaches to facilitate benchmarking inter, as well as intra, agency.

11.4. IASC Costing Group – Longer Term (within 1-3 years)

Findings	Priority	Recommendation
There seems to be relatively few opportunities for relevant interagency technical discussions.		Use the HRP change process to catalyse inter-agency consensus on cost models and benchmarking. Academic institutions could be a useful resource in the form of an independent technical authority to facilitate benchmarking.

11.5. OCHA – Immediate Term (within the next 6 months)

Findings	Priority	Recommendation
It is likely to be difficult to centralize the input of all project data and therefore any reporting will need to reflect this decentralized tool.	Yes	Based on the proposed HRP costing model and outside institutional experience, develop and test information management systems that are adapted to the same phasing; i.e. initially focusing on capturing relevant information generated by existing agency systems (outputs and outcomes from individual agencies) while leaving the door open to facilitating measurement of collective outcomes based on an ABC system.
The HRP can only fulfil its role as a useful management tool if it is informed by a needs assessment of sufficient quality and if agencies (or consortia) are held accountable for their commitments in the HRP.	Yes	Identify synergies between relevant HPC component processes (assessment, OPR, IAHE) and try to integrate pilots as much as possible, notably improving accountability in terms of meeting outcome targets set by the HCT in HRPs, that will result in greater accountability to affected populations.
HRP targets provide a baseline for subsequent monitoring and evaluation.		Determine how learning from reviews and evaluations pooled funds (CHF, CERF, etc.) can help contribute learning from piloting cost models.
There is a mismatch between the planning cycle for a HRP with those of different agencies.		Map and communicate existing agency planning processes so these can be compensated for when developing HRPs.

11.6. OCHA – Longer Term (within 1-3 years)

Findings	Priority	Recommendation
Boundaries for capturing HRP financial contribution data will need to be determined, as will the extent to which data related to needs are captured that are related to, though lie outside, the HRP.		Ensure that reporting systems can handle future requirements or, at a minimum, that these capture data relevant to HRPs in a way to provide a “credible reference” of the extent to which needs are being met.

12. ANNEXES

Annex 1- Glossary of Terms

Results Based Management

Terminology for results are drawn from UNDG results-based management (RBM).⁴⁸

Results

Results are changes in a state or condition which derive from a cause-and- effect relationship. There are three types of such changes (intended or unintended, positive and/or negative) which can be set in motion by a development intervention – its output, outcome and impact.

Outcome

The intended or achieved short-term and medium-term effects of an intervention’s outputs, usually requiring the collective effort of partners. Outcomes represent changes in development conditions which occur between the completion of outputs and the achievement of impact. They are, by definition, not attributable to a particular agency but rather a “contribution” to an outcome.

Outputs

The products and services which result from the completion of activities within a development intervention.

Inputs

The financial, human, material, technological and information resources used for the development intervention.

Activity

Actions taken or work performed through which inputs, such as funds, technical assistance and other types of resources are mobilised to produce specific outputs.

Cost Models⁴⁹

Direct Costs

Direct costs are defined as all costs incurred for, and that can be traced in full to an organisation’s activities, projects and programmes in fulfilment of its mandate. This include the costs of project personnel, equipment, project premises, travel and any other input necessary to achieve the results and objectives set out in programmes and projects.

Direct Support Costs

These are costs that support activities, services or outcomes and that *can* be identified with and linked to these. However, these costs are typically remote to direct costs and apportioned in some way e.g. rent, floor space for staff, electricity to support work.

⁴⁸ <https://undg.org/home/guidance-policies/country-programming-principles/results-based-management-rbm/>

⁴⁹ www.un.org

Indirect Costs

Indirect costs are defined as costs incurred by the organization as a function of and in support of its activities, projects and programmes and cannot be traced unequivocally to specific activities, projects and programmes. These costs typically include services and administrative units as well as their related system and operating costs. Such costs typically include HR, IT and Finance.

Costing Terminology

Activity-Based Costing

In a review carried out in 2014,⁵⁰ Activity-Based Costing applied to a HRP was defined as “...a method of estimating overall resource needs using average costs per sectoral activity, per person served. Sometimes referred to as a 'project-less' plan, this approach represents a major departure from the way price tags for humanitarian responses have been calculated in the former consolidated appeals (summing the budgets of individual projects proposed by agencies).”

Project-Based Costing

The methodology by which a HRP cost is determined by adding together project budgets to come to an overall figure.

Cost Drivers

A cost driver is the main ‘cause’ of cost for each activity⁵¹. At its simple level it could be the cost of staff or commodities. At an HRP level this will be the cost of outputs, activities, services or outcomes.

Unit Costs

A unit cost is the total cost to deliver one unit of output, activity, service or outcome. Unit costs typically include all costs including risk and contingency costs, support costs and overheads.

⁵⁰ Stoddard and Willitts-King (2014) Activity-Based Costing for Humanitarian Appeals: A Review of Recent Practice, Prospects and Issues. (page 3)

⁵¹ Porter, M.E. (1985) *Competitive Advantage: Creating and sustaining Superior Performance*, New York: The Free Press

Annex 2- Standard eight UNOG/IPSAS cost codes

- Staff and other personnel expense (international, national and administrative)
- Travel
- Contractual services
- Meetings and trainings
- Project equipment / Hardware / IT
- Advocacy outreach
- Fellowship, grants and others
- Miscellaneous

Annex 3 - HRP Cost Methodology Workshop Summary

21 September 2016 UNHCR, Geneva

Background

The IASC Principals asked the IASC Costing Group to review the Humanitarian Response Plan (HRP), one of the key components of the Humanitarian Planning Cycle (HPC). Most HRP budget are currently developed by compiling project budgets submitted by individual agencies, NGOs and other actors, and summing these to come to an aggregate budget that is reviewed by clusters, the Humanitarian Country Team and OCHA. This is subsequently presented to donors and other humanitarian stakeholders. While a central coordinating mechanism is perceived as necessary, the current system has been criticised as it does not lead to a credible result.

The workshop was co-facilitated by the consultancy team. It is timed so that participants had the opportunity to review an earlier draft of this report. Working groups were given the opportunity to have a dialogue about the main findings, the proposed approach and recommendations in the draft report.

Workshop Objectives

The workshop provided an opportunity to consult with stakeholders to give high level feedback on the draft report, suggest improvements to the proposed costing approaches and how to roll it out.

Agenda

Time	Topic	Format
09:00 – 09:30	Welcome and Introduction of Participants	Plenary
09:30 – 10:30	Introductory Session: <ul style="list-style-type: none">• Objectives of the study• Overview of provisional findings, revised approach and recommendations• Questions of clarification• Instructions for working group session	Plenary
10:30 – 11:00	<i>Break</i>	
11:00 – 12:15	Working groups will discuss key results and recommendations of the study, including the different costing options.	Working Groups
12:15 – 13:00	Plenary review of working group outputs	Plenary
13:00 – 13:45	<i>Lunch</i>	
13:45 – 14:00	Introduction to Group Work	Plenary
14:00 – 15:30	Working groups discuss the proposed costing methodologies and make suggestions on how a revised costing methodology could be put into practice and what could help in rolling it out.	Working Groups
15:30 – 16:00	<i>Break</i>	
16:00 – 17:00	Next steps, workshop evaluation and close	Plenary

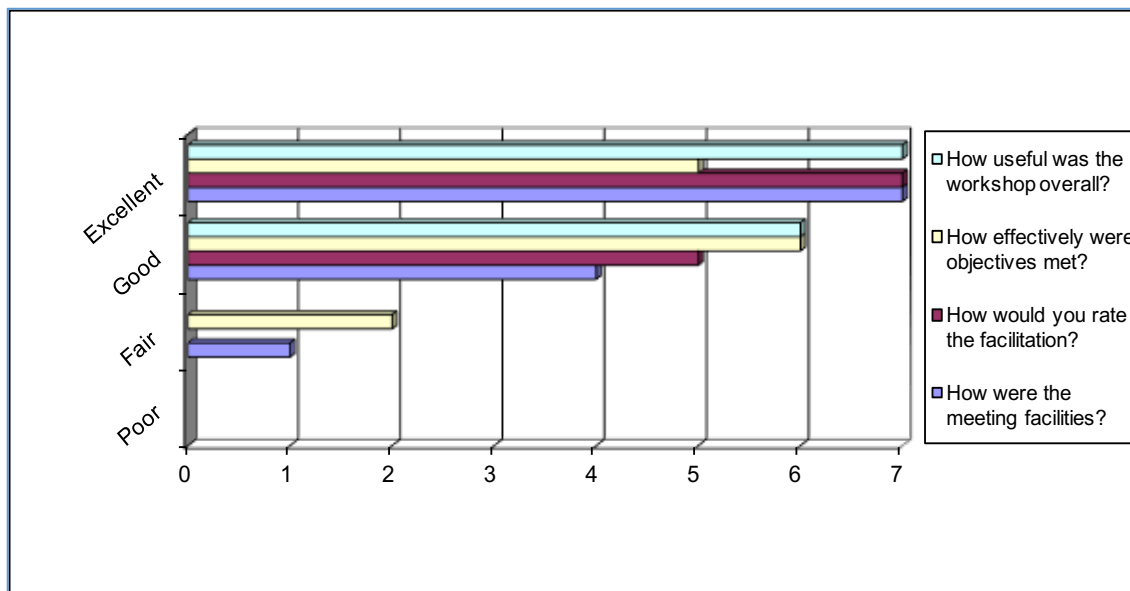
Workshop Participation

A total of 24 individuals participated in the workshop. It had been envisaged that participation would include equal representation from programme policy, external relations, budgeting/finance and coordination (OCHA and global clusters) field level perspective and NGOs. However, due to various constraints, there were very few participants with a budget/finance or field perspective.

Participant feedback

As can be seen from the results of the participant evaluation, the majority felt the workshop was useful. There was a general consensus that the HRP should be seen as a 'credible reference' of overall humanitarian need and risks to guide the response through a coordinated and collective response. There was also a consensus that the IASC Costing Group membership should be reconfigured so as to include perspectives from the field and from budget/finance. However, there was not a clear consensus about the future costing approach of HRPs, with some agreeing with the recommendations to move towards activity-based costing system and others feeling that improving the existing project-based system could suffice. It was nevertheless evident that, whatever new approach was decided upon, that there needed to be clear roadmap to help guide changes and minimise disruptions.

Results of Participant Evaluations



Annex 4 - List of Interviewees

UN Key Informants - Global Level

Name	Org. and function	♂	♀	Date	Interviewee Location	Interviewer
Sandra Aviles	Senior Adviser, FAO, Geneva		1	19-Jul-16	Rome	JB & MS
Dominique Burgeon, Luco Russo, Patrick Jacqueson, Rosanne Marchesich	Director, Emergency and Rehabilitation Division & Rosanne, Strategic Programme Adviser, Programming TL, Deputy for Response Programme	3	1	19-Jul-16	Rome	JB & MS
Cyril Ferrand	Global Food Security Cluster Coordinator	1		17-Jul-16	Rome	JB
Ally-Raza Qureshi	Chief of Project Budget and Programming Service, WFP HQ	1		18-Jul-16	Rome	JB & MS
Chris Kaye	Head of Donor Relations (formerly Head of RBM Division)	1		18-Jul-16	Rome	JB & MS
Bahar Zorofi	Government Partnerships Officer (handling inter-agency issues)		1	18-Jul-16	Rome	JB & MS
James Lattimer	Chief of Monitoring Unit, WFP	1		18-Jul-16	Rome	JB
Panos Moutziz	Director, IASC - Senior Transformative Agenda Implementation Team (STAIT)	1		17-Jul-16	Geneva (phone)	JB
Bilal Sougou, Gavin Wood, Ahmed Zouiten, Dominique Portaud, Reuben McCarthy, Josephine Ippe, Maria Agnese Giordiano	Deputy Coordinator - Child Protection AOR, GCCU - UNICEF, Global Health Cluster - WHO, GCC WASH, GCCU UNICEF, GCC Nutrition, GCC Education Cluster	4	3	4-Aug-16	Geneva	JB & MS
Sikander Khan	Director, Geneva Office of Emergency Programme, UNICEF	1		4-Aug-16	Geneva	JB
Sophie De Dobbhaere	Emergency Specialist, UNICEF		1	4-Aug-16	Geneva	JB
Gwyn Lewis	former UNICEF		1	26-Jul-16	Geneva (phone)	JB
Faisal Yousaf	External Relations Officer, WHO	1		5-Aug-16	Geneva	JB
Andre Griekspoor	Sr. Humanitarian Policy Adviser, WHO	1		5-Aug-16	Geneva	JB & MS
Adelheid Marschanga	Coordinator Surge and Crisis Support Unit, WHO		1	5-Aug-16	Geneva	JB
Daniel Kull	Humanitarian Development Attache, World Bank	1		5-Aug-16	Geneva (phone)	JB & MS
Ignacio Leon	Chief Planning and Monitoring Section, Programme Support Branch, OCHA	1		24-Jun-16	Geneva	JB
Agnes Dhur	Chief, Coordinated Assessment Support Section, OCHA		1	27-Jun-16	Geneva	JB
Andrew Wylie	Chief, Programme Support Branch	1		23-Aug-16	Geneva (phone)	JB & MS
Nick Imboden, Laura Calvio	Head of Humanitarian Programme Cycle Information Services and Humanitarian Affairs Officer, OCHA	1	1	25-Aug-16	Geneva (phone)	JB & MS

Name	Org. and function	♂	♀	Date	Interviewee Location	Interviewer
Dona Tarpey; Marina Konovalova; Henrik Nordentoft; Paloma Vora; Karoline Gerber; Axel Bisschop	Donor Relations Resource Mobilisation at UNHCR, Division of Programme Support and Management	2	3	8-Aug-16	Geneva	JB & MS
Brian Lander	Deputy Director, WFP	1		27-Jun-16	Geneva (phone)	JB
Urban Reichhold	Strategic Planning Expert, Programme Support Branch, OCHA	1		27-Jul-16 28-Jul-16 29-Jul-16	Geneva (skype)	MS
Henrik Nordentoft	Deputy Director of the Division of Programme Support & Management, UNHCR	1		10-Aug-16	Geneva (skype)	MS
Tasleem Hemani-Tuan	Planning specialist, EMOPS New York, UNICEF		1	18-Aug-16	New York (skype)	MS
Scott Pendergast	Manager Outbreak and Emergency Response at World Health Organization	1		30-Aug-16	Geneva (call)	MS
Pauline Fresneau	Senior Programme Officer, UNHCR		1	31-Aug-16	Geneva (call)	MS
Verity Rushton, Akiko Yoshida	Emergency Specialist, Emergency / DRR Section, UNICEF, Philippine Office & OCHA, Philippines		2	7-Sep-16	Philippines (Call)	MS
Tom Chow	WFP, Accounts Section	1		18-Jul-16	Rome	MS
Patrick Jacqueson	Programme Team Leader, Emergency and Rehabilitation Division, FAO	1		19-Jul-16	Rome	MS
David Goetghebuer	Senior Programme Officer (Monitoring), UNHCR (former OCHA, DRC)	1		22-Sep-16	Geneva (phone)	JB
Karin Buhren, Camilo Cataldo and Giorgia Brignone	Programme Office (M&E) and External Relations Officer Humanitarian Action Unit, Emergency Response Section	1	2	22-Sep-16	Geneva	JB

Other Key Informants – Global Level

<i>Name</i>	<i>Org. and function</i>	♂	♀	<i>Date</i>	<i>Interviewee Location</i>	<i>Interviewer</i>
Abby Stoddard	Consultant		1	25-Jul-16	UK (phone)	JB
Rachel Scott	Team Leader: Conflict, Fragility, Resilience at OECD - OCDE		1	5-Sep-16	Paris (e-mail exchange)	JB
Peter Aardema	Previous Head of the External Audit Sector of DG Humanitarian Aid & Civil Protection – ECHO	1		23-Aug-16	Brussels	MS
Martin Sinclair	Fmr Assistant Auditor General, UK National Audit Office (responsibility for audit of UN agencies)	1		16-Aug-16	London	MS
Melissa Pitotti and Caitlan Tulloch	Head of Policy ICVA and Head of Better Use of Resources Unit IRC		2	22-Jul-16	Geneva	JB
Gareth Price-Jones	Senior Humanitarian Policy Coordinator, CARE International	1		5-Aug-16	Geneva (phone)	JB & MS
Russ Bublely	START network	1		23-Aug-16	London	MS
Lars Peter Nissen	Director, ACAPS	1		24-Jun-16	Geneva	JB
Heather Van Sice	Assistant Country Director, Zimbabwe, UNICEF	1		10-Aug-16	Geneva (skype)	MS
Michael Fanning	Global Account Manager, Shell	1		26-Aug-16	London	MS
Wayne Kennedy	Director, Data Insight Services, KPMG	1		18-Aug-16	London	MS
Pawel Bilinski, Mez Lasifer	Both Professor of Faculty of Finance, Cass Business School, London	2		19-Aug-16	London	MS
Sophia Swithern	Head of Research and Analysis at Development Initiatives		1	22-Sep-16	London (Skype)	JB

UN Key Informants – Country Level

<i>Name</i>	<i>Org. and function</i>	♂	♀	<i>Date</i>	<i>Interviewee Location</i>	<i>Interviewer</i>
Jamie McGoldrick	HC for Yemen (previously HC in Nepal during the earthquake).	1		17-Jul-16	Sana'a (phone)	JB
David Throp	Head of Humanitarian Financing Unit, OCHA, South Sudan	1		1-Sep-16	Nairobi (phone)	JB & MS
Dan Schreiber	Chef de la coordination operationnelle OCHA	1		1-Sep-16	Kinshasa (phone)	JB
Dominic Parker & Charlotte Ashley	Head of Office and Deputy HO, OCHA Afghanistan	1	1	22-Sep-16	Kabul (Skype)	JB

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Annex 6 – Key Characteristics of the HRP Costing Framework

Based on interviews, document research and a review of trends and current agency systems (both current and planned), the key characteristics of an HRP costing framework can be summarized as follows.

The HRP should fulfil the following functions:

- A planning framework with specific predefined characteristics,
- Focused on humanitarian needs,
- Positively influence agency and inter-agency planning, budgeting and associated processes.

The HRP and associated cost methodology should provide:

- A credible resource for understanding humanitarian needs, operating context and response strategy that can easily be communicated in a way that can be understood by donors and other external stakeholders;
- Facilitate transparency and comparability;
- Guide prioritization of funding;
- Not be overly labor intensive;
- Understands the complexity of aid and both short-term and long-term investment approaches;
- Focuses on the capacity available to deliver;
- Recognizes the importance of a coordinated response strategy;
- Facilitates positive change within the international humanitarian system.

The HRP should facilitate transparency and comparability through:

- allowing clear cost comparisons,
- facilitating benchmarking; both inter-agency and externally to the UN system,
- Defining what are the ‘drivers’ of budgets,
- Defining affected populations and explaining cost differentials for hard to help,
- Providing a comprehensive costing methodology which is both clear and transparent,
- Enabling the added value of agencies to be appreciated and understood,
- Using standard UN accounting methodologies.

The HRP and associated cost methodology will deliver clarity on costs and costing methodology:

- With clear understanding of levels of costs: direct, direct support and indirect costs,
- Clearly demonstrating programme support and overhead levels,
- Clearly defining unit costs,
- Helping to define common standards for costing an operational ‘platform’,
- Providing clear and commonly understood terminology.

The HRP should help improve cost effectiveness through:

- Facilitating decision-making based on cost effectiveness,
- Understanding value for money in all its components (Economy, Efficiency, Effectiveness and Equity), and linking this to the costing methodology
- Improving inter-agency working,
- Improving governance over the coordination of emergencies.

The HRP costing methodology will help meet donor needs through:

- Perception that HRPs represent a reasonable picture of humanitarian need,
- Help to ensure that financial requirements are not over-inflated,
- Reducing ‘double counting’ and ‘double dipping’,
- Moving towards cash and local NGO agenda (in line with Grand Bargain commitments),
- Promote alignment with host government planning,

- Supporting national civil society and NGO consortia,
- Creating incentives for greater use of HRP systems due to its increased credibility.

The HRP also needs to deliver facilitate good quality reporting on both financial and non-financial data that:

- Allows collection and presentation of data so that collective outcomes are demonstrated,
- Provides agencies with user-friendly ways to share data to, for example, FTS,
- Allows the disaggregation of data for decision-making purposes,
- Tracks relevant markers (e.g. gender marker),
- Demonstrate progress towards meeting policy-level commitments (e.g. Grand Bargain).

By way of comparison, guidance from the Chartered Institute of Public Financial Accountants (CIPFA) which is responsible for government accounting in the UK states that agencies should be funded on the basis of both direct project costs and a fair proportion of overheads.⁵² Their recommended cost model includes the following principles:

- Transparency – being clear and transparent how it handles costs;
- Flexibility – being flexible to cover different scenarios;
- Reality – grounded in the reality of costs within an organization;
- Predictability – will come up with the same treatment of costs in a consistent way;
- Materiality – not attempting to account for every single penny;
- Correct recipient – allocating costs to the right project; and
- Allows complete recharging of overheads – allocating all overheads to projects

⁵² <http://www.cipfa.org/>

Annex 7 – Examples of Unit Costs from Nutrition, WASH and Protection Interventions

The workshop highlighted the need for worked examples to enable agencies and NGOs to see what recommendations from this report mean in practice. While this is a basic example, it will hopefully give the reader a good understanding of how the costing model could work, linked to outcomes and providing greater credibility, transparency, and cost focus but above all linking to the needs of affected populations.

The worked example shows three components of an HRP coming together (nutrition, WASH and protection) to form a ‘credible reference’ figure that can be used in planning. At the end of the example notes are provided to help the reader interpret the detail.

Steps of the costing cascade are as follows as illustrated in the table below:

- Step 1: Compile data
- Step 2: Define cost drivers (Outputs, Services, Outcomes)
- Step 3: Achieve consensus on associated unit costs
- Step 4: Decide on any risk and contingency to be applied
- Step 5: Complete the HRP costing table and costing summary
- In each example in the above tables, we include all costs in unit rates apart from overhead costs which are added separately at the summary level

In each example, unit rates come from cluster rates or from comparable in-country costs.

- Cost driver 1: The nutrition costing is based on outcomes, and has different costs of distribution for different towns. In addition, difficulty of distribution and associated security costs mean that we need a further risk and contingency figure to be included.
- Cost driver 2: The WASH figures are driven from the activities and cost of installing water or toilet points. The outcome, while more general, still links clearly to the needs of targeted affected population.
- Cost driver 3: The figures link to the activities of providing case management and legal assistance, but link clearly to outcomes. The legal assistance has a very wide range of costs explained in the narrative column. We choose the average of these to take forward to the HRP costing.

Cost driver 1 Example: Nutrition

Cost Drivers (1): Outputs Services Outcomes	Activities (2)	HRP Cost				Source of data (7)	Narrative justification for cost levels, comparators, risk & contingency (8)
		Affected Population Groups (3)	Cost per Affected Population Group (4)	Risk and Contingency (5)	Total cost of delivery (6)		
Average per person daily energy supply (DES) is at 100% Energy from cereals, roots and tubers as percent of DES meets 40%	Cost of malnutrition feeding kit per person in:	520,000 adults	\$15 per kit (including distribution)	100% 200% 167%	\$3,000,000 \$3,600,000 \$5,001,000	Nutrition cluster rates based on existing experience and comparable country costs. Nutrition cluster rates based on existing experience and comparable country costs.	Additional quantitative adjustments or narrative justification of risk & contingency are based on assessment of difficulty of distribution and security provisions.
	- Town A	200,000					
	- Town B	120,000					
	- Town C	200,000					
	Cost of malnutrition feeding kit per child in:	156,000 children	\$18 per kit (including distribution)	100% 200% 167%	\$320,000 \$288,000 \$133,600		
	- Town A	60,000					
- Town B	36,000						
- Town C	60,000						

Cost Driver Example 2: WASH Outcomes

Cost Drivers (1): Outputs Services Outcomes	Activities (2)	HRP Cost				Source of data (7)	Narrative justification for cost levels, comparators, risk & contingency (8)
		Affected Population Groups (3)	Cost per Affected Population Group (4)	Risk and Contingency (5)	Total cost of delivery (6)		
Affected population have sustained availability of clean water and basic sanitation facilities	1. Install 400 temporary water points to improve access to sufficient quantities of water and reduce distance people have to travel to get water.	1,370,000 individuals	\$1.25 per beneficiary	No additional risk or contingency	\$1,712,500	WASH Cluster rates based on existing experience and comparable country costs.	Implementation at a small scale, but in harder to help communities, therefore cost is roughly 60% higher than current similar WASH activities in larger camps. Other variations justified by qualitative narratives.
	2. Install 250 temporary toilet points	1,370,000 individuals requiring 250 toilet points	\$12,000 per toilet point	No additional risk or contingency	\$3,000,000	Based on standard unit costs per toilet point from WASH cluster rates.	

Cost Driver Example 3: Protection Outcomes

Cost Drivers (1): Outputs Services Outcomes	Activities (2)	HRP Cost				Source of data (7)	Narrative justification for cost levels, comparators, risk & contingency (8)
		Affected Population Groups (3)	Cost per Affected Population Group (4)	Risk and Contingency (5)	Total cost of delivery (6)		
At risk population have access to legal representation	1. Case management for at risk and separated children	1,000 children	\$750 per child	No additional risk or contingency	\$750,000	Protection Cluster and in-country standard rates.	Case management per child cost 13% higher in Sahel due to higher numbers of int'l staff deployed to deal with influx.
	2. Legal assistance for families needing documentation or legal representation	5,000 families	\$400 per family	Depending on legal needs can go up to \$1,000 per family	\$2,000,000 - \$5,000,000 (for HRP we take the average figure)	Protection Cluster and in- country standard rates.	Cost per case in Iraq ranged between \$98– \$1,900 per case, with an average of \$400. Costs influenced by complexity and freedom of movement.

Summary HRP table

Cost Drivers (1): Outputs Services Outcomes	Activities (2)	HRP Cost			Total cost of delivery (6)	Source of data (7)	Narrative justification for cost levels, comparators, risk & contingency (8)
		Affected Population Groups (3)	Cost per Affected Population Group (4)	Risk and Contingency (5)			
Cost driver 1 Nutrition Outcomes					\$12,342,600		
Cost Driver 2: WASH Outcomes					\$4,712,500		
Cost Driver 3: Protection Outcomes					\$4,250,000		
Total Direct Costs (inc direct support costs)					\$21,305,100		
Indirect Costs (as applicable)		Total Indirect Costs at 10% nominal			\$ 2,130,510		
Total HRP Costs					\$23,435,610		

A nominal 10% overhead cost has been used for a HRP process. This could be higher in many circumstances such as complex environments or those with more challenging security issues.

Annex 8 - Costing Models across the UN Agencies

Appendix: Costing Models across the UN

General model of apportionment

It is always difficult to make generalizations in such a complex and diverse system as the UN, but this study has highlighted that these differences have reduced in the last few years as the UN has invested in financial skills and systems, and as a result the UN entities have reconsidered their costing structures and financial frameworks. This has come from a general move towards focusing work on non-financial measures such as results, outcomes and activities, and as a result of donor pressure and general pressure on the UN system to improve accountability to affected populations. Initiatives as the Grand Bargain and IATI as driving this change.

Changes are taking place in almost every agency studied, from WFP's new financial framework focused on activities, to FAO's new costing model and how they treat overheads, to UNICEF's increased focus on results. Equally the clusters and UN system across the Board are considering how the Grand Bargain changes the landscape and environment.

The general costing methodology across the UN sees costs broken down roughly into three distinct levels: direct costs, direct support costs and indirect costs. These cost levels are called different things by different agencies. It equally sees a different layer of HQ costs, which often sits as indirect costs or a fixed percentage admin charge.

The general move across the system seems to be to focus on 'Activities' at country level and project level, and link these to 'Results' or 'Outcomes' at a corporate level.

There are various ways that overheads and different cost categories are treated in the UN system and many said that they lacked definitions of overhead levels and cost categories. This made comparability difficult, and mirrors general findings across the NGO world and with global governments; this is certainly not unique to the UN. This also extends down to local NGOs and each agency treats their relationship with local agencies differently⁵³.

In addition, there are differences as to how costs such as Country Director costs are apportioned and dealt with – either as direct costs, direct support costs or in some cases indirect costs. Conversations revolved around how the UN agencies provide an operational platform at Country level and what should be considered as part of this. Differences were also observed in the complexity of assessed contribution, voluntary contributions and other donor funding which allows only certain funding to be used for overheads.

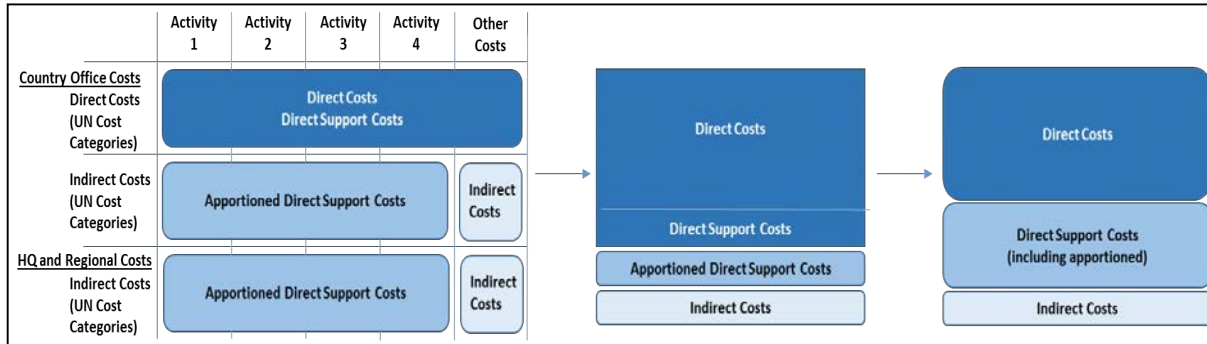
Conversations often highlighted the lack of a forum for technical costing staff to come together and talk (finance to finance, finance to operations as well as finance to fundraisers), and in line with practice across the non-profit world, agencies lacked simple definitions of overheads to ensure direct comparability of cost levels and categories.

The Figure below shows the general ways that cost is categorised across the UN, either as per activity, or against the three levels of costs category.

⁵³ We found that some agencies treat all local NGO costs as direct expenditure and paid limited attention to comparative levels of overheads, while others gave a fixed percentage uplift. Good practice was UNICEF who has an agreed range of costs with their cash transfer programming; this gives a range of costs including overheads which can then be negotiated around.

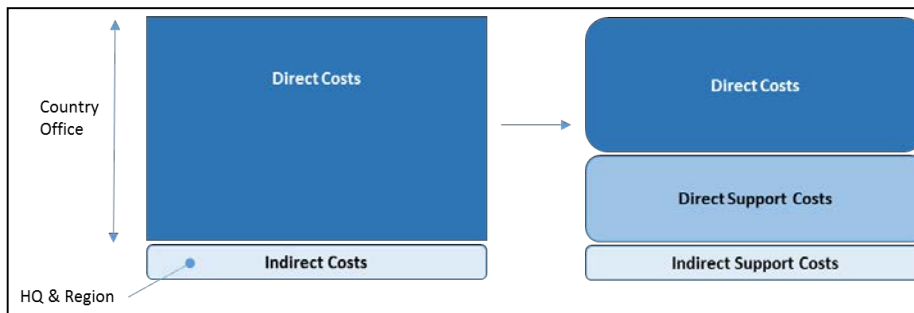
The figures below illustrated how costs are categorised across the UN, either as per activity, or against the three levels of costs category. In the figure below, the middle graph shows the difference of how some agencies split direct versus direct support costs. Most agencies seem to focus on the far right model.

Figure 12 – Categorisation of costs across UN agencies



Our work clearly highlights the need for a forum where standards and definitions around costing methodologies can be explored intra-agency. Even benchmarking within each agency and country office is often difficult. Difference systems are illustrated below.

Figure 13 - FAO



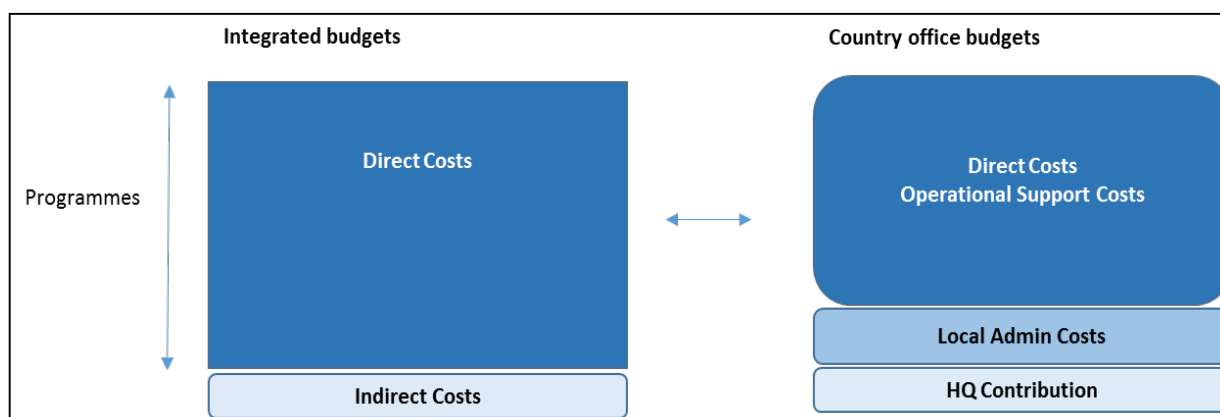
Previously FAO had a cost structure based on direct costs in country office with indirect costs at HQ and regional level. This saw a split of costs as 90% Direct Costs: 10% Project Support Costs.

A new system was placed before the governing body in May focused on direct costs, direct support costs and indirect costs. FAO have been working with UNICEF and the food clusters on this new model. FAO have an ambition to focus on ‘outcomes’.

FAO’s concern is that much of the work they do is much more transitional and longer-term. It is multi-year recovery work which does not fit well with the one year HRP cycle.

Investment appraisal and cost-benefit analysis is therefore an important concept for FAO, and for example one project saw food aid in Bangladesh being given year on year. Once livelihood training was given this removed the need for food aid the next year, thereby reducing the longer-term costs. FAO sees their work as much more evidence based, long-term and less homogeneous than other agencies.

Figure 14 - UNICEF



Corporately UNICEF’s reporting and integrated budget is focused around direct costs and indirect costs (left) with a roughly 90:10 split of direct to indirect costs. However, this hides a much more sophisticated budget process at country level.

UNICEF have a hierarchy of planning from Outcomes at the highest level, to results, to outputs and then activities at the bottom. At project level they focus on activities, but similar to WFP then link these corporately to higher level objectives, in this case ‘Results’ and ‘Outcomes’.

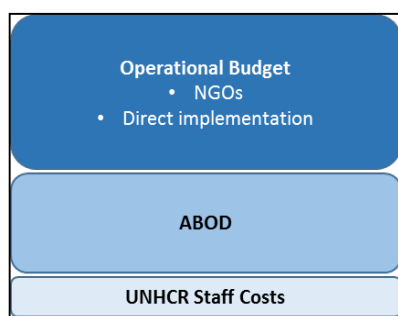
UNICEF has an agreement with UNDP and UNFPA to harmonise approaches to cash transfers at local level. This sees pre-agreed unit rates to local agencies, and they have overhead caps which can be applied to local NGOs pre-agreed. UNICEF also have supplier catalogues to allow the easier costing of project budgets.

Our interviews indicated that both WFP and FAO had been guided by UNICEF’s cost model. *One interviewee identified that UNICEF’s cost model was both transparent and easy to explain partly because of their focus on fundraising and the way they work with donors.* It is interesting to reflect that each costing methodology across agencies could be driven by similar, or different, motivation.

UNICEF were careful to communicate that they have moved away from a ‘cookie cutter’ approach. A simple example shows that UNICEF could do a calculation and find they need an enormous number of tents based on numbers alone, having thought about the context and refining what they need they may come up with a significantly smaller level of other materials or a different solution; they are not guided by numbers alone and are keen to stress this.

Underneath activity costs sit the UN cost categories (staff, travel etc.) and UNICEF takes 8% funding for HQ.

Figure 15 - UNHCR



UNHCR cost structure is focused very much on their country offices. Their budget has to both work flexibly and with some ideas of ongoing projects starting the financial year. In our interviews UNHCR were the agency that talked much more about continuity of essential work and protection than other agencies. They live within a one year HRP cycle but are not constrained by it.

The current cost structure emerged from a much simpler structure which only had two levels of costs as operational and project support costs. The cost structure that UNHCR uses is similar to others and has three levels of cost:

- **Operational budgets** focused either through partners or as direct implementation
- **ABOD** (Administrative Budget and Obligation Document) which essentially provides the country support role; and
- **UNHCR staff costs** which are top level staff, admin and operations that cut across planning groups.

7% overheads are seen as appropriate in the system for HQ funding.

UNHCR base their planning around population planning groups as the driver of their model, and link this to relevant objectives as their corporate level indicators. Equally, UNHCR can report from UN accounting codes all the way to what they call ‘Objectives’.

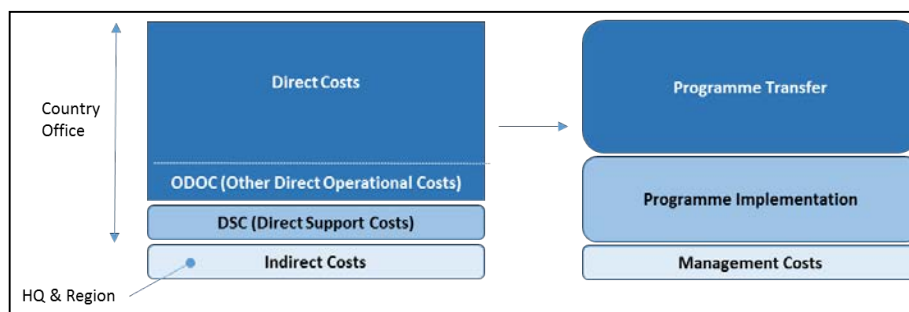
UNHCR talked about the planning cycles not aligning with the HRP cycles and the difficulty in stopping budgets once started; however, they also confirmed that their systems had been built with this flexibility in mind, given the variability of affected population need. Each CO submits their budgets in March / April for review and agreement by Excom in October. The country budgets then form the basis of costs which go into the HRP.

Initial authority to spend at an ‘operating level’ is given once the operational plan and budget is signed off, then updated as a result of the HRP process.

UNHCR’s budgets are based on prior expenditure, which contributes to certain lack of flexibility in budgets and a certain resistance to change. Equally because of the decentralisation and the great range of countries and contexts in which UNHCR works, they lack a standardised organisational approach to budgeting.

The diversity of partners is a challenge, and UNHCR lack consistency of challenge over overhead recovery rates.

Figure 16 - WFP



WFP are implementing a new financial framework (FFR) which is critical for their future direction, as it will allow the business model to evolve to meet the demands of a changing aid system. For example, the model has moved away from logistics and food distribution to considering cash transfer. This is a five year roll out of plans.

WFP aim to cost most of their work around activities in the new FFR and link these country activities to corporate activities which in turn link to the SDGs.

WFP’s previous cost model focused on four levels of cost: Direct Costs, Other direct operational costs (ODOC), direct support costs and indirect costs. However, the way WFP accounted for their cost categories made them look out of line and expensive against other agencies and so they have now changed to a three tier model in line with UNICEF, UNHCR and others, namely:

- Programme transfer
- Programme implementation; and
- Management Costs (Indirect costs)

HQ and regions sit in indirect costs, while country administration sits as direct support costs (DSC).

As part of the process of implementation of the new financial framework WFP reached out to other agencies and our interviewees commented that WFP are now aligned with UNDP, UNICEF, UNHCR and mostly aligned with FAO. They also asked Oxfam, CARE and World Vision to learn. They plan to roll out 16 country offices in 2016 and to all country offices by end 2018.

The costing model is now based around activities at country level, being free-form, which in turn link into corporate country office activities and ultimately global activities. WFP used to focus on outputs and now can measure outcomes at a strategic level, so they are making progress. One interviewee commented that *“we are working on outcomes measures but are not quite there yet.”*

The new financial framework will also link strategic frameworks and results framework, also country strategic plan and financial cycles.

WFP are using SAP and this is extremely configurable, including new reporting systems. Although, the information for the UN cost categories is hard to extract and must be done manually. One interview said *“this takes extreme systems – SAP is moving us that way.”*

WFP are harmonising systems across outputs, and moving to a cost per meal per beneficiary system. WFP are also aiming towards three categories of beneficiaries: 1. recipients of cash or commodity, 2. those that benefit and 3. those that benefit from policy work

The new system has been piloted in countries such as Zimbabwe.

Figure 17 - World Bank

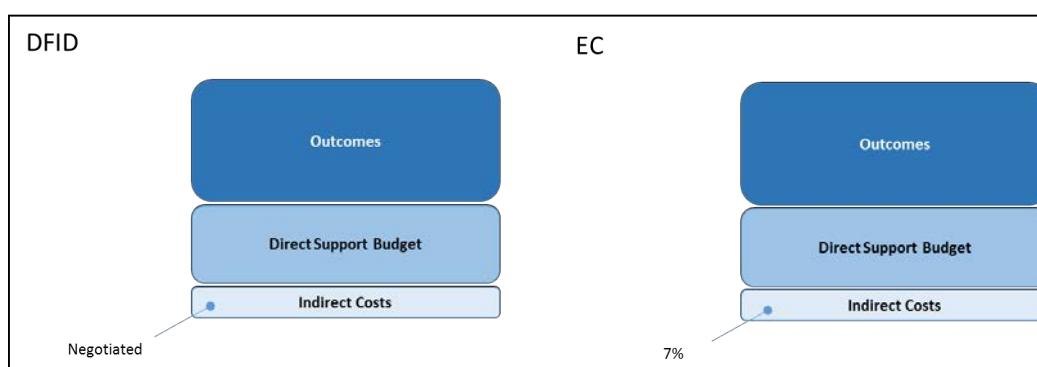


The World Bank has a very different project costing model that reflects the different nature of its business compared with other agencies, particularly the fact that most major World Bank investments are “recipient” (government) executed and are therefore implemented through government systems. Specific budget is set aside for project identification, preparation and implementation support, delinked from the core project operational budget. Often trust fund resources are used to augment the supporting roles of Bank staff, particularly for Bank-executed operations. For trust funds implementation support is set at 10% of the total budget.

Costs are assessed using sophisticated monitoring and evaluation techniques, with robust quantitative analysis and integrating government systems. Under the Global Crisis Response Platform, the World Bank is trying to improve the effectiveness of its existing crisis management tools, strengthen complementarity between them, and fill gaps across risk management for natural disasters, conflicts and their regional spillovers, public health emergencies and economic crises. They have a good understanding of response and recovery costing through government risk financing and insurance mechanisms, using full risk modelling and probabilistic assessment not only for relief but also livelihoods support, reconstruction and long-term impacts on economic production.

The World Bank is also involved in scaling up cash programming through adaptive safety nets under government social protection systems.

Figure 18 - Selected Donors



DFID announced in June 2014 that its de facto mechanism of doing business is now payments by results contracts. Specifically they are looking towards outcomes-based commissioning for the future and the Cabinet Office is promulgating this new way of thinking, with such new initiatives as the Outcomes-Based Commissioning Centre at the Oxford University, Blavatnik School of Governance. DFID allows a negotiated settlement on overheads in humanitarian aid called NPAC (Non-programme attributable costs). USAID has a similar project budget structure to DFID with NICRA (negotiated indirect cost recovery agreement). ECHO has similar project costing structure, but with a fixed overhead percentage.

Table 4 – Cost methodology comparison across agencies and donors

	FAO	UNICEF	UNHCR	WFP	World Bank	WHO	Donors
Performance metric ...	Outcomes	Results (‘Outcomes’ and Activities)	Objectives	Activities		Service levels	Outcomes
Cost levels	Direct Costs Dir Support Costs Indirect Costs	Direct Costs Op Support Costs Local admin costs HQ Contribution	Operational Bdgt ABOD UNHCR Staff Costs	Prog Transfer Prog Implementation Management costs	Operational Budget Implemnt Support		Direct Costs Dir Support Costs Indirect Costs
Consistent with other agencies	New model – Yes	Yes	Yes	New Model - Yes	No		
Overhead levels (for HQ)	7%	8%	7%		10%		DFID - Negotiated ECHO – 7% USAID – Negotiatd
Costing methodologies	Outcomes Cost-Benefit UN cost categories	Activities Results UN cost categories	Population planning groups Objectives UN cost categories	Activities UN cost categories WFP cost categories	Risk finance and insurance, using full risk modelling and probabilistic assessment.	Services Outcomes	Activities Outcomes

Annex 9 - Consultant Profiles

Jock Baker, Team Leader, began working as an independent consultant in 1999 following a career of over two decades working in various field- based and HQ program management and senior technical advisory positions with two international NGOs and four different United Nations agencies during a series of short and long-term assignments in Asia, Central America, the Middle East, Africa, eastern Europe and the Pacific. He holds a Master's degree in Economics from the London School of Economics and Political Science and is currently based near Geneva in Switzerland. Jock is a native English speaker with a professional level of French acquired over a number of years while living and working in francophone countries in Africa, the Caribbean and Europe. He has had a number of assignments related to humanitarian financing, pooled funding and interagency response including global, regional and country-level evaluations, reviews and studies for UN agencies, NGOs, bilateral donors, IFRC and the ICRC.

Mark Salway, Budgeting and Financial Specialist, is currently Director of Social Finance at Cass Business School, London.⁵⁴ Mark spent eight years at KPMG, of which five of these were spent developing business strategy and finance models for service companies, telecommunication companies and non-profits. He lectured for twelve years on cost recovery and costing models and has developed the ACEVO model – the de facto cost model standard in the UK for charities. He has also published research studies on costing models and developed guidance on costing models and finance strategies. Mark was Finance Director for CARE International UK 2007-2014 where he was a member of their steering group to refine their costing methodology. He has also worked on humanitarian funding models for the CARE Secretariat, and in a steering group for the MANGO cost recovery project together with Save the Children, Oxfam and World Vision.

⁵⁴ Cass is accredited by AMBA, EQUIS and AACSB <http://www.cass.city.ac.uk/>

Annex 10 - Terms of Reference

Costing Specialist (consultancy position)

Terms of Reference

Duration: 3 months (May-July 2016)

Organizational setting

The position is home-based with frequent meetings in Geneva with member organisations of the Inter Agency Standing Committee, including the Food and Agricultural Organisation, the UN Office for the Coordination of Humanitarian Affairs (OCHA), the UN High Commissioner for Refugees, the World Bank and the World Food Programme. The Consultant reports to the Head of the Planning and Monitoring Section (PAMS) located in OCHA'S Programme Support Branch. Joint applications by a team of consultants (maximum three) or by a consultancy company are accepted.

Background

Humanitarian Response Plans or Flash Appeals are the main documents for collective planning and budgeting of humanitarian operations in situations of armed conflict and natural disaster. Both UN entities and non-governmental organisations contribute to the development of Humanitarian Response Plans and Flash Appeals, referred to hereafter as joint response plans (for additional details see www.humanitarianresponse.info). The existing approach to cost joint response plans is to add together the financial budgets of different projects developed by implementing organizations that are part of the collective planning cycle. In December 2015, the Inter-Agency Standing Committee Principals tasked its member organisations to provide a “more accurate and credible costing methodology ahead of the 2017 humanitarian appeals”. The Consultant will support the Inter-Agency Standing Committee in this task by providing external expertise and advice on innovative budgeting approaches.

Responsibilities

Taking into account the particularities of humanitarian operations (time-constraints, volatility etc.), the Consultant develops proposals for methodologies to cost inter-agency humanitarian response plans. This could include a combination of two or several methodologies for different planning contexts. The Consultant is expected to conduct the following core tasks:

- Assess current approaches used to cost inter-agency humanitarian response plans and document the main strengths and weaknesses of existing practice.
- Document innovative approaches to costing and budget forecasting used in the private sector (including insurance companies), by government entities and any other relevant actor (e.g. charities and the non-profit sector in general).
- Identify external practices that are relevant and transferable to the particular context of humanitarian planning.
- Based on the review of both humanitarian and external approaches to budget forecasting, develop technical proposals on how to cost inter-agency response plans.
- The technical proposal should include the following two elements:
 - Procedural implications: What are the different work steps required to conduct the proposed budgeting approach?
 - Practical implications in terms of financial tracking procedures. To do so, the Consultant needs to acquire a solid understanding of the Financial Tracking Service (see <https://fts.unocha.org/>)

Deliverables and timetable

- May-June 2016: Elaborate a first draft for a new costing approach in close collaboration with IASC partners and other stakeholders (e.g. donors).
- End of June 2016: Present the proposal in Geneva
- July 2016: Incorporate feedback and finalize new costing approach.

Required experience

- 10+ years professional experience in consulting, including in the field of humanitarian affairs.
- Demonstrated technical competence in financial planning and budget forecasting in the context of multi-stakeholder planning processes.
- Experience in governmental or private sector budgeting reforms.
- Direct experience in the development and execution of aid projects or programmes is an advantage.

Language

Fluency in English is required. Knowledge of another UN language (French, Spanish, Arabic, Russian and Chinese) is an asset.

Contract type, level and duration

Initial contract duration of 3 months, subject to extension depending on performance and availability of funds.