

INTER-AGENCY STANDING COMMITTEE
IASC PRINCIPALS MEETING

Development of a methodology to cost inter-agency Humanitarian Response Plans (HRPs)

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I Background

Humanitarian actors agree that there is need to improve the current costing approach so that HRPs will be viewed as a ‘*credible reference*’ and fulfil their purpose of facilitating a needs-based response and providing an effective interagency management tool.

In December 2015, the IASC Principals tasked an IASC Costing Sub-Group, composed of representatives from FAO, UNHCR, OCHA, the World Bank and WFP, to review existing approaches to costing Humanitarian Response Plans (HRPs). The Costing Sub-Group developed two technical notes on project-based and activity-based costing. These informed the work of an external consultancy which analysed current approaches used to cost HRPs and document strengths and weaknesses. Costing methodologies applied in the private and non-profit sector were also reviewed, identifying what might be useful learning to inform future humanitarian response planning.

The long-term goal of a costing approach should help HRPs to be seen as a ‘credible reference’ of how overall humanitarian need can be met through a coordinated and accountable response and what its price tag will be. At the same time, findings from the commissioned study indicate that the humanitarian system is not yet ready for the leap to a full needs-based interagency costing system.

In this context, a ‘Roadmap’ has been proposed, outlining steps in that direction and IASC Principals are asked to agree, as outlined below, the next steps in implementing this Roadmap.

II Costing Study Findings

While it is recognised that there are certain advantages with the current project-based costing system, including compatibility with donor grant systems and interagency information management systems, a number of disadvantages are also acknowledged. One of the main shortfalls is that, as the current project-based cost system is a “summing up” of different projects, HRPs are often perceived more as an expression of agency requirements, rather than a coordinated and credible reflection of the response to the needs of affected populations.

In addition:

- 1) Staff awareness of linkages between budget components and results, in the form of outputs and outcomes, is largely insufficient.
- 2) Current interagency HRP reporting systems do not adequately reflect these links, nor are fund-tracking systems able to track against outcomes.

- 3) The reliance on HQ-based external relations staff providing a communications channel has sometimes meant that interagency dialogues on costing have been limited and have not fully benefited from technical and practitioner perspectives. Future interagency dialogues on these issues should have the necessary technical inputs and benefit of practitioners to inform a constructive dialogue.

Required qualities of the proposed costing methodology framework

An improved costing approach needs to be flexible enough to adapt to different emergency types. Most of the current response plans have been developed for chronic emergencies, which provides the time and opportunity for in-depth analysis and prioritisation during development of budgets. In sudden-onset natural disasters, however, operating environments often change rapidly and recovery planning begins within a matter of days.

The costing methodology would need to allow comparability, specifically focused on improving cost effectiveness. A user-friendly framework should provide a useful facilitation and data management tool to help reduce the administrative burden. In particular, the testing and piloting stages of the implementation of the new methodology should be documented consistently.

Finally, the new methodology should be easy to understand and use, in order to simplify and streamline the HPC process as much as possible.

The proposed HRP costing methodology

The simple methodology proposed, which some clusters have already adopted, uses a framework based on common activities, services or outcomes. These are the ‘drivers’ of cost against which cost calculations can be completed. The drivers would need to be sufficiently flexible so that they can be adapted to different contexts and levels of uncertainty.

The Annex 1 illustrates some basic steps envisaged in future HRP costing, with examples provided in Annex 2. Basic steps include to:

- Compile available data (outcome targets, priorities, population groups for unit cost calculation, etc)
- Define the ‘cost drivers’, which can be activities, services or outcomes, with sector experts playing a key quality assurance role
- Identify unit costs
- Decide on risk and contingency
- Ensure that the humanitarian response is costed against these
- In cases that where the HCT has decided to keep projects as a unit, the HRP can be costed as the sum of project budgets aligned against cost drivers

Using these steps, moving to a project-less HRP system, based mainly on needs and results targets, can be feasible. However, this still depends on several other factors, including improvements to other components of the HPC and the progress by organisations in aligning their systems. Furthermore, some HCTs may wish to maintain the project level after the costing, for coordination or fundraising purposes, for example.

III A ‘Roadmap’ to an improved costing approach

To achieve these improvements, a “roadmap” has been developed to guide incremental improvement of the costing approach. The ‘Roadmap’ includes the following components:

1. After a detailed modelling by each individual global cluster, undertake a period of testing and piloting per cluster/sector to ensure that the approach is both fit for purpose and widely owned.
2. In the initial phase, for 2018 HRPs, undertake hands-on activities, such as a simulation exercise, and cluster/sector-level testing and guidance development (to be conducted by interested clusters/sectors).
3. Subsequent refinement during consultative reviews to ensure that the model is fit-for-purpose and can be adapted to different humanitarian contexts.
4. In the second phase, undertake country-wide testing in a few selected pilot countries for the 2019 HRPs.
5. Seek final endorsement of the country-wide testing results by the IASC Principals, following which – if endorsed - roll out could start the subsequent year.

It should be noted that one size does not fit all and that HCTs are expected to contextualise and use the best methodology available to them at all stages. For countries currently using activity-based costing, the new methodology is proposed as a blueprint to improve and fine-tune their existing practices.

The Road Map should be designed and implemented in such a way so as to sensitise staff and to create incentives to move towards more accountable costing approaches. Two positive changes from its implementation should be a) an improved understanding amongst staff on how cost drivers link to results, and b) increased comfort with collective budgeting and tracking systems.

IV Next Steps

Costing processes and financial requirements for Humanitarian Response Plans play a critical strategic role in improving accountability to donors and to affected populations. They provide a credible description of how resources can be used efficiently and effectively to help meet priority humanitarian needs through collective outcomes. The current context presents several obstacles to response plans being seen as a credible picture of resource requirements and basis for a collective response, and an improved costing approach for response plans can only realise its potential advantages in line with the other Grand Bargain work streams.

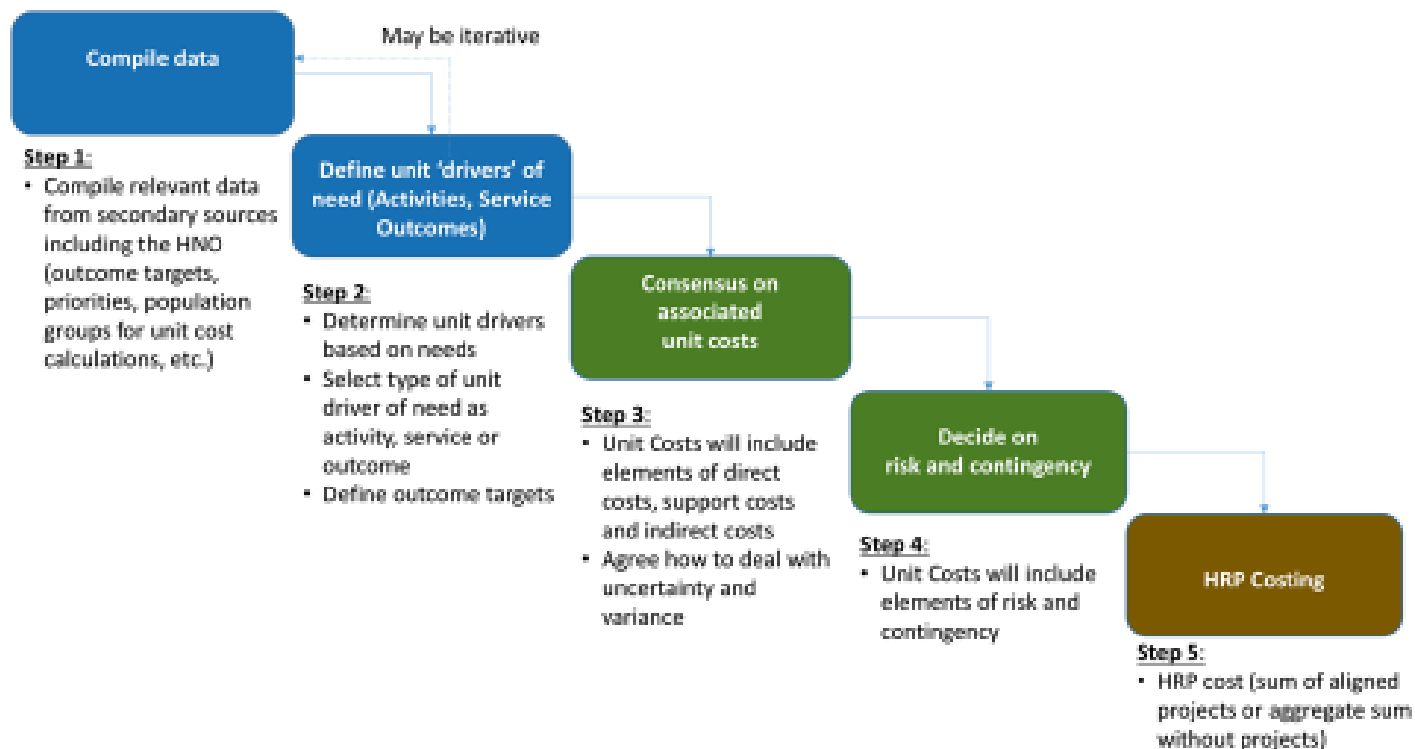
The IASC Principals are asked to:

1. **Commit** their organisations to the Roadmap, as described above.
2. **Commission** the Costing group to guide the implementation of the Roadmap, and to define a detailed timeline including milestones. All steps of the Roadmap should be fully documented and reviewed by the Costing Group.
3. **Expand** the Costing Group to include global clusters, NGOs and the necessary technical expertise on budget and finance.
4. **Inform** HCTs using activity-based costing, or similar methodologies, of the new approach, so as to avoid having multiple methodologies in the end. HCTs could also, if they desire, be considered as priority countries for the piloting phase.

Prepared by the Costing Sub-Group, November 2016

Annex 1

Steps in the Costing Methodology



Annex 2(Content of frameworks is purely illustrative)

Costing Methodology – Nutrition (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)		
Cost driver 1 Nutrition Outcomes • 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: - Town A - Town B - Town C	520,000 adults 200,000 120,000 200,000	\$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.	Additional quantitative adjustments or narrative justification of risk & contingency are based on difficulty of distribution and security provisions.
	Cost of malnutrition feeding kit per child in: - Town A - Town B - Town C	156,000 children 60,000 36,000 60,000	\$18 per kit (including distribution)	100% 200% 167%	\$320,000 \$288,000 \$133,600	Nutrition cluster rates based on existing experience and comparable country costs.	