

# HRP COSTING METHODOLOGY OPTIONS

This guidance/tip sheet is elaborated as a follow up to the Principal's decision on improving HRP costing in July 2017. This is a living document that will be updated as more knowledge and experience of costing is gathered. In particular, the cluster-specific guidance part will be updated whenever relevant information is provided by the GCCs.

## 1. INTRODUCTION

Costing Methodologies are methods that can be used to calculate the financial requirements to fulfil the objectives of an annual or multiyear HRP. An improved costing approach for HRPs should contribute to an overall objective of better responding to the needs of affected populations, through increasing transparency, credibility and cost-effectiveness.

The methodology for costing most HRPs is **Project based costing**. This costing methodology relies primarily on summing funding requirements for projects submitted by different agencies. Project budgets are either based on standard UN/ NGO cost categories or are based on activities, outputs or outcomes developed by clusters. Sectors/clusters ensure costs are appropriate and are aligned with activities and outcomes.

An alternative methodology - **Unit based costing** - relies on identifying a unit cost 'driver'. This could be an activity, an outcome or a standard service being delivered at a certain cost. 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.

A combination of both methodologies - **the hybrid method** - establishes financial requirements using Unit based costing and follows with detailed project planning at a later stage to provide more detail to the initial calculations or to give visibility to participating organisations.

### 1.1 General recommendation for choosing costing methodologies

- The agreed-upon methodology should reflect consensus, so that the preferred methodology is actively supported by all clusters/agencies.
- Humanitarian Country Teams (HCTs) should prepare well before the planning and costing processes start and define the timeline and costing methodology beforehand, as part of the HNO/HRP planning discussion.
- Once the methodology has been agreed, based on existing country capacity and expertise, key stakeholders should be briefed on the process and request for support as needed.
- As some categories of intervention lend themselves more readily to applying unit-based costing than others – e.g. shelter vs. protection – estimating the unit cost of some activities, such as case management or protection monitoring, might require additional time and/or resources from Humanitarian Country Teams.
- Areas of work such as strengthening protection systems are more complicated to cost using unit based costing methodologies. However, to not include such costs in humanitarian response plans would be to overlook such critical work and the resource implications, also potentially reinforcing divides between humanitarian and development fields, which need to better converge to build systems.
- The process must be clear, and no unexpected changes (such as setting a requirements ceiling at a late stage) should be accepted.
- Humanitarian Country Teams should not envision changing their costing methodology unless there is a strong rationale to do so.
- Throughout the year, OCHA and partners should actively participate in ensuring that FTS is updated. This could include regular verification of FTS information through the clusters, facilitated by OCHA

## 1.2 Costing methodologies compared

In brief	Project based costing	Unit based costing	Mixed approach
	<p>The clusters/sectors consolidate an overview of humanitarian activities, with indicators and targets in line with the strategic objectives and present them in the respective cluster/sector sections of the HRP. Subsequently, responding organizations may submit their projects, including project budgets, via the online project system (OPS) database. Cluster Coordinators review submitted projects according to an agreed timeline and selection criteria<sup>1</sup>, and projects/budget envelopes are subsequently submitted to the HC for final approval.</p> <p>The total financial requirements for each sector are calculated as the sum of the approved project budgets. The total financial requirement for the response plan, as listed in the HRP and Financial Tracking Service (FTS), is the sum of all sector requirements. The main responsibility for costing lies with Agencies and (I) NGOs submitting project budgets, while review and approval for inclusion in the HRP lies with the Clusters and the HC.</p>	<p>Unit based costing for humanitarian appeals refers to a method of estimating overall resource needs for a Humanitarian Response Plan (HRP), using data about the average costs per sectoral intervention, per person served, or per item delivered. This average unit cost can then be multiplied times the anticipated set target for each intervention area, to arrive at an expected total. The process links the key humanitarian activities, with indicators and targets to the financial requirements of the cluster/sector response plans.</p>	<p>The mixed approach combines both unit based and project based costing. Typically, HCTs would establish the overall financial requirement by using unit based costing, and then complement this planning step by either replacing these requirements by project based requirements (most common in sudden onset crises/Flash Appeals), or by setting up a market place system for projects, in which partners register projects as an expression of interest and reflection of agency/partner plans at country level.</p>

<sup>1</sup> Can be found here: [https://docs.unocha.org/sites/dms/CAP/2014\\_SRP\\_guidance-27\\_Sep\\_2013\\_EN.pdf](https://docs.unocha.org/sites/dms/CAP/2014_SRP_guidance-27_Sep_2013_EN.pdf)

	<b>Project based costing</b>	<b>Unit based costing</b>	<b>Mixed approach</b>
<b>Pre-conditions</b>	<ul style="list-style-type: none"> <li>• Agreement by all partners for full public disclosure of their project on OPS / FTS</li> <li>• OCHA in country is able to support in OPS usage - including OPS introductions, training and user support and is able to manage and communicate on the overall process of project submission and vetting. This is usually the case in HRP countries but could be a challenge in sudden onset situations, in which OCHA -HQ support will be available to mitigate this challenge.</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding within each sector on key principles of unit cost methodologies, and agreement to a coherent approach within and across sectors for costing key activities/services and common cost drivers (for more, see below) and/or investment in bringing in technical expertise to bring all cluster coordination teams to a similar capacity to lead cluster/sector process.</li> <li>• Strong HCT and IC leadership and buy-in from a agencies across all sectors going into the planning process.</li> <li>• Strong, functioning sectors to ensure a sound, well-informed costing methodology and inclusive coordination in the absence of a closed list of projects and partners.</li> <li>• Agreement by partners and sectors to share minimum information, on the unit cost, needs assessments and targeting criteria used as the basis for the HRP framework with OCHA in order to enable response monitoring and financial tracking. This would also include agreement on where/how this information is stored/managed, and if made publicly available in some form.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as project and unit based costing. For Flash Appeals, or in contexts with limited operational capacity, less detailed information to establish cost ranges is expected</li> <li>• For the marketplace based approach, sufficient capacity in OCHA is needed to ensure due follow up with FTS throughout the year</li> </ul>

	<b>Project based costing</b>	<b>Unit based costing</b>	<b>Mixed approach</b>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Already familiar to UN agencies and NGOs.</li> <li>• Peer-review of projects strengthens sector-internal dynamics and allows for quality check of submissions, and for coherence with sector response plans.</li> <li>• This process provides an overview of response capacity. Looking at planned projects, sector coordinators have a vision of who is intending to do what where, allowing identification of potential gaps and duplications in the response.</li> <li>• When well-coordinated, project-based costing produces a solid picture of financial needs. Also, it provides visibility to participating organisations vis-à-vis donors. Donors have easy access to information about organisations on the ground to facilitate their funding decisions.</li> <li>• Financial tracking is simplified with projects registered in the OPS database, clearly indicating which organisations are participating in the HRP, in which sector and for which activities.</li> <li>• Prevents duplication and ensures a proper division of labor amongst partners</li> <li>• Gender, and other key concerns are already incorporated in the projects through specific tools (gender and age marker, etc)</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed project information by organizations can be kept offline easily if needed.</li> <li>• The planning and budgeting process of the HRP is less influenced by organisations' concerns about projects and their own respective funding requirements, encouraging more cohesive planning and prioritisation.</li> <li>• The methodology promotes improved strategic coordination and coherence of appeal documents, which clearly relate the amount of funding to the populations in need and the anticipated cost of delivery of set targets in a transparent calculation.</li> <li>• If the HCT has the right capacities and data in place, rapid application is possible in sudden onset crises. Allows for easier revisions should the needs increase/decrease over the lifespan of the plan</li> <li>• Organisations and sectors are under less time pressure during the HRP process because they do not have to develop and review full project plans to inform the HRP total cost estimate.</li> <li>• This approach can help to harmonize the response across agencies of the same sector and meet minimum quality requirements (such as staffing, supervision structure, logistics, etc.) and quality standards are systematically accounted for in the average unit-cost calculation.</li> <li>• Allows donors to be more aware of the hidden costs linked to relevant contextual factors.<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Delayed project planning allows partners to focus on the strategic decisions of the planning process, while the work on detailed projects can take place at a later stage</li> <li>• Especially in sudden-onset disasters, this approach allows partners to generate more detailed information to inform project planning after the initial publication of the Flash Appeal/HRP</li> <li>• Marketplace based approach gives visibility to all partners willing to implement</li> </ul>

<sup>2</sup> DFID emphasises that unit costing would not be used to withhold funds from “more expensive” activities. If the cluster can provide the necessary detail to cost activities in remote locations, the activity would be attractive for funding given the transparency involved in explaining why it costs more in certain locations.

	<b>Project based costing</b>	<b>Unit based costing</b>	<b>Mixed approach</b>
Disadvantages	<ul style="list-style-type: none"> <li>● Resulting financial requirements are an aggregate of project budgets (total proposed capacity) rather than a costing based on numbers of population targeted, as the current system only aggregates funding requests but not target figures</li> <li>● Lacks a degree of transparency within, and limits cost comparability between projects making it difficult to facilitate improved cost effectiveness</li> <li>● Revising projects can be seen as cumbersome, thereby discouraging humanitarian country teams from updating the financial requirements if the situation changes.</li> <li>● The process can be difficult to implement for sudden onset emergencies or very dynamic environments.</li> <li>● Less transparency among applying agencies in relation to cost-breakdowns, with significant implications from the financial and technical perspective (including making sure that each programmatic component has been planned and budgeted for in line with sectoral minimum requirements).</li> </ul>	<ul style="list-style-type: none"> <li>● It can be difficult to estimate unit costs for some sectors/areas such as protection, coordination, or multi-sector activities. This may slow down the planning process or decrease the precision of the final budget.</li> <li>● It can be difficult to estimate an average unit-cost that applies equally to different service providers, as support and direct costs may vary significantly for different organizations (for instance UN/INGO versus a national NGO).</li> <li>● The reduced incentive to use OPS and FTS systems to submit projects for inclusion in the initial HRP estimate may decrease the reporting of funding received and the accuracy of FTS data. However, unit-based costing does not preclude the possibility to require project-level data later in the process.</li> <li>● Difficulties related to financial and activity tracking, and the absence of a clear overview of participating organisations may make sector coordination more challenging.</li> <li>● Security/access and other contextual risks and their implication on the costing of activities are complicated.</li> <li>● Lack of visibility of which agencies or organizations are participating in the appeal, potentially impacting access to donor funding.</li> <li>● Costing for refugees is likely to be different due to a variety of specific factors including their status as non-nationals and consequent unequal access to services. UNHCR, as coordinator of the refugee response, will lead on establishing the cost for activities contributing to the refugee response.</li> </ul>	<ul style="list-style-type: none"> <li>● Requires a 2-step planning process, and partners have to be mobilized accordingly</li> <li>● Partners might have limited incentive to upload projects to OPS if funding has already been received, so the project list on OPS only partially serves for coordination purposes (marketplace based approach)</li> <li>● Regular follow up with FTS will be necessary to ensure funding is correctly reflected</li> </ul>

## 2. EXISTING COSTING METHODOLOGIES: PROJECT-BASED COSTING

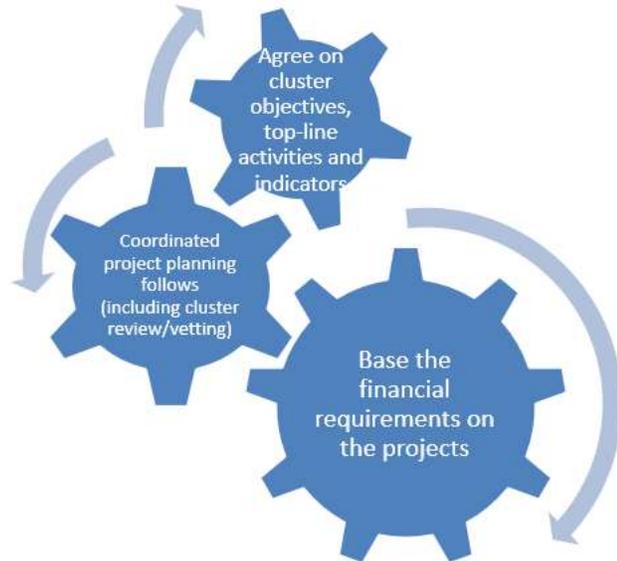
### 2.1 Methodology

Project-based requirements from an HRP are simply the sum of the requirements of all projects collected through the coordinated project planning process. This process takes place after the strategy and the cluster response plans have been developed. Clusters first determine their cluster objectives and key activities, linked to the strategic objectives; these then serve as the basis for project development.

A coordinated approach to project planning limits duplication, promotes a proper division of labor amongst partners, and can facilitate agreements on criteria for project selection within the clusters.

### 2.2 Possible stages of the process *(to be defined in-country at the onset of the process)*

1. **The cluster agrees to an internal division of labour** to coordinate implementation and ensure coverage of main needs. Take into account those humanitarian actors that do not register their planned actions on the Online Projects System (OPS), as well as the Government's response, to minimise duplication.
2. **The cluster establishes criteria for the selection** (and possibly classification) of projects, with guidance provided by the HC/HCT as needed. Establish these criteria in advance to set the direction of the process, including concerns expressed by the affected population. Setting categories—such as [now vs later], [east vs west], [before planting season vs after] can enable the HCT to programme for prioritising the response to the most urgent (or time-sensitive) requirements.
3. **Organizations design projects** based on the assessed needs, response boundaries, strategic objectives and cluster objectives/activities. The projects should be designed according to the expressed needs and concerns of the affected population.<sup>3</sup>
4. **Allow sufficient time for partners** to submit well-designed projects via OPS. Ensure all participants get the required time and guidance, particularly if they are new to the process.



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5. **Clusters peer-review the projects** using the established selection criteria as a basis for vetting. Ensure fair and transparent representation in the peer review panel. Projects are endorsed only if they address the identified needs, correspond to the agreed division of labour, are realistically costed and can be implemented. The HC gives final approval on overall financial envelope.
6. **OCHA publishes the approved projects** electronically on the FTS website, where everyone can view all details alongside the HRP document.

Projects can have any start or end date within the period covered by the plan. The HCT decides how to group or sort projects (different countries have different clusters, but projects can also be sorted according to other criteria such as inter-cluster groupings or themes if these are more convenient).

Projects can be revised on OPS at any time to react to situations evolving and shifts in the division of labour.

### 2.3 Multiyear, multi sector or multi agencies projects

For multi-agency projects, each organization should separate out their component and related budget requirements and upload these onto OPS as one project with several appealing agencies.

For multisector/cluster projects, the HCT and IC should decide, at the onset of the process, what the peer review process should look like. Refugee multisector projects must be tagged as such and should be reviewed by UNHCR.

Multi-year projects should split their requirements into the (approximate) amount per year.

### 2.4 Simplifying the project-based costing process in certain contexts

In specific contexts, in particular for Flash Appeals, it can be interesting to only upload basic information such as Agency, cluster, title of project and requirements. This means, though, that clusters have to vet projects with a minimal level of information, which works well in sudden onset situations. If the Flash Appeal is revised, it is common that Agencies will then add more information as part of their project sheets on OPS.

### 2.5 Ongoing improvements to project-based costing - the new OPS

The project module – the upgrade from the OPS system – was piloted in Libya and Chad for the 2018 cycle, and should be used for all countries for the upcoming cycle. Some of the features include:

- More flexibility, allowing for custom fields on the project sheet.
- Better navigation, visualisation for projects and mapping features
- Integrated with other HPC tools (components) such as the Response Planning and Monitoring Module (RPM), Financial Tracking Service (FTS), 3Ws etc.
- Supports linking projects to caseloads or activities as defined in the strategy.
- Enhanced breakdown of requirements and caseloads in multi-cluster, multi-organisation and multi-year projects
- Supports market place approach (projects outside HRPs) and acknowledges activities outside of the HRP that contribute to the coverage of needs

It should be noted that at time of writing this tip sheet, the development of the projects module is still under way – therefore, due to customers' feedback the features might vary.

## 3. EXISTING COSTING METHODOLOGIES: UNIT-BASED COSTING

### 3.1 Overview

Rather than taking individual projects as a starting point of the collective budgeting exercise, in unit-based costing the clusters develop average costs for the delivery of different units of humanitarian goods or services. The result is not a definitive price tag for a set of projects, but an initial estimation of how much a joint response will cost based on the volume of need and agreed scope of the response. The unit-based costing of the refugee response within an HRP will be developed separately by UNHCR and refugee response partners.

### 3.2 Methodology: step-by-step guidance for unit-based costing

This section describes the process for applying unit based costing to establish the financial requirements for an HRP. The accuracy of the estimate resulting from this process depends heavily on the quality of the data that goes into it, about population needs and average unit costs of providing goods and services in the respective context.

#### **The main steps to follow are:**

*Step 1: Describe the cost driver*

*Step 2: Define your units of measurement*

*Step 3: Provide a cost range*

*Step 4: Indicate average unit costs*

*Step 5: Calculate overall costs per activity*

#### **Step 1: Describe and define the main cost drivers, by cluster**

Clusters/sectors are recommended to provide a short description of the predominant cost drivers—i.e. the particular features of the operating environment, target population, needs, or appropriate response modalities which will drive the average cost of providing services higher or lower. This is an essential element of the budgeting process, making it possible to understand different price tags per activity and link them to operational realities on the ground.

Common examples of cost drivers in the context of humanitarian operations are wage levels for key positions necessary for that sector, prices of inputs such as medical supplies or construction materials which make up the majority of program costs, the geographic distribution of the population being served, or the intensity of services required by the target population. Cost per unit will almost always be calculated with reference to past interventions under comparable conditions. It is important to identify where analyses of cost drivers vary significantly within a given humanitarian operation. Where there are likely to be variations in the cost to deliver within a response, it may be valuable to break out the average cost for different sub-populations, based on the identified difference in cost drivers. Differences within a context may be related to:

- Security context (e.g. hard security measures, mandatory use of armoured vehicles, necessity of in-country flights instead of overland travel to reduce security risks). This is often a critical cost driver for the logistics cluster;
- Plan physical access (geography and climatic conditions);

- Different levels of local capacity pre-crisis (e.g. delivery of health consultations will cost more in areas where government clinics, or CHW network, had no coverage in pre-crisis times).

It will be impossible to find a perfectly comparable environment from which to draw data, but it is important to identify the main cost drivers that affect the kinds of activities required in this response.

***Example: Identifying cost drivers for legal aid programs in the Middle East***

In Iraq, both refugee and internally displaced populations require a variety of legal services, from acquiring documentation to legal representation in court for wrongful detention cases. These services are often provided through a case management model, where legal case workers assess the legal needs of their clients and connect them to the right services. This structure means that (1) much of the costs of the program are the personnel salaries associated with direct services, and (2) the exact services provided may vary a great deal from case to case, and there is no single package provided.

A study of six legal assistance programs in Iraq by the International Rescue Committee found that the cost per case served had a median of \$400, but actually varied between \$98 and \$1900 per case. This wide variation in cost per case could be explained by three main cost drivers:

- Local wages for qualified legal staff: Across the six programs studied in Iraq, the costs of legal staff comprised at least 30 percent and in some cases, up to 80 percent of total costs. As such, the local cost of trained and certified lawyers will be a major driver of the unit cost of legal case services.
- The intensity of legal needs in the targeted population: One of the major factors that drove variation in the unit cost of legal assistance services within Iraq was the kind of services needed. In governorates where the legal needs of most IDPs was confined mostly to missing documentation, the unit cost of legal services was dramatically lower. However, in governorates where wrongful detention or eviction was common, more hours of legal expertise was required per case, driving the unit cost up.
- The scale at which services are offered: The programs with dramatically higher cost per case were those that operated at very small scale, serving 300 or fewer cases. Smaller programs tend to cost more per unit, because “fixed” costs like office rent, grant management, etc. are spread over fewer units of output. Once programs reached 300 or more cases, however, the unit cost seemed to level out.

In order to prepare the budget, it is hence essential to identify which of these programs provided the most comparable basis for estimating unit costs. Given the cost drivers identified in the IRC study, it is recommended to focus on finding a program which had:

- Similar wage levels for trained legal staff. This can be addressed by requesting a Supply Chain study of prevailing wages for this job set in the context in which you are operating.
- Similar kinds of legal needs among the target population. You would want to assess whether most members of the target population had complex legal needs requiring court representation, or simpler needs centred around documentation. This could be explored during the needs assessment.
- What number of people will be served with a particular programme. If the population in need is relatively small, or pockets of need are spread out in different areas which will be served by different NGOs, the unit cost of legal services can be assumed to be higher.

**Step 2: Define units of measurement**

The common approach to cost activities in countries using unit-based costing is to multiply expenditures for delivering one unit of a good, service, or activity by the number of beneficiaries or end-users. The “unit of measurement” refers to the unit at which the cost of this activity is measured. The cost of the cluster activity is calculated by multiplying the cost per unit with the number of units targeted.

While the unit of measurement is often per person or per household, this is not the only unit of measurement for all types of activities. In the health sector, for instance, the projected number of medical consultations may provide a more accurate and more relevant unit of measurement than the number of beneficiaries targeted.

For some interventions, the number of people targeted does not affect the cost of service delivery as much as the number of communities covered, or discrete services provided. This tends to be the case for efforts which are targeted at the community level, such as protection monitoring or piped water services. Take the example of documenting and reporting patterns of indiscriminate violence against civilians, which is a core protection activity. The target population of protection reports and other advocacy products can be government entities or members of non-state armed groups. Whether a protection report is shared with one or twenty individuals, or whether it is simply posted on the web has little if any impact on the cost of producing that report. Rather, the number of periodic reports or the number of staff required to document violations of international humanitarian law constitute more appropriate units of measurement.

Finally, there are certain cluster or sectoral activities, which cannot be sub-divided easily into smaller units. The establishment of an IDP monitoring mechanism is a case in point. If the monitoring mechanism is established in several geographic locations, then the region or district can be used as a meaningful unit of measurement. In case a disaggregation into different geographic units is not feasible, the activity (i.e. the monitoring mechanism) becomes the unit of measurement.

Ultimately, only the clusters/sectors can decide what is the most useful and relevant unit of measurement for different activities. A good rule of thumb is to consider how costs add up as more people are served—do the costs scale with the number of individuals covered within each household? With the number of households being served, within each community? With the number of communities that being covered?

**Example Units of Measurement Table:**

Cluster	Intervention Type	Unit of Measurement
Education	School-Based Education Delivery	Per Class
Education	Infrastructure Rehabilitation	Per School
Education	Refugee Mainstreaming in Schools	Per State/Province
Food Security	Cash-For-Work Programs	Per Participant
Food Security	Agricultural Input Distribution	Per Family/Household
Health	Primary Health Services	Per Consultation
Logistics	Common Storage Services	Per Facility
Logistics	Common Transport Services	Per State/Province
Nutrition	SAM Treatment	Per Child Served
Protection	Case Management	Per Case
Protection	Protection Monitoring	Per Community
Shelter	Emergency shelter material	Per Family
WASH	Water Treatment	Per Person
WASH	Latrine Construction	Per Person
CCCM	Site Improvement	Per sq.m. inhabited

### **Step 3: Provide a cost range**

The resources required to reach out to remote locations and inaccessible target populations are greater than those needed to provide services in more accessible areas. In war-torn places where service delivery requires an initial phase of physical capacity (re)construction (e.g. to rebuild war-damaged hospitals, schools or roads), unit costs can be several times higher than the national average. To account for within-country variations, HRP's should provide a unit cost range – that is, a price scale with maximum and minimum costs per unit, based on the range of values for key cost drivers in that country.

Moreover, costs will inevitably vary across different organisations. Smaller, national organisations can sometimes deliver services at a lower price than larger, international ones. At the same time, national capacities are not always sufficient to cover all humanitarian needs. Certain service delivery functions and coordination roles can only be performed and scaled up by international organisations. For activities that involve the delivery of material assistance, such as emergency food aid, large international organisations may be more cost-efficient, due to economies of scale and their ability to purchase inputs at a lower cost per unit.

Given that these unit costs are the basis for budget projections, it is crucial that they include all support and indirect costs which will be necessary to ensure delivery of services. Support costs can comprise a considerable proportion of the total average cost of delivering services, especially for procurement-heavy services like health consultations, or personnel-heavy services like case management. In collecting data from past programming or projects, it is important to determine if average unit costs are inclusive of all support and indirect costs or not; where this is not the case, it is necessary to establish clear assumptions in adjusting costs upwards to account for support and indirect spending. There is no one blanket “rate” which can be applied across all clusters and outputs, as some outputs require much more back-office support than others.

In constructing these ranges, the information gathered about past responses in different contexts may be helpful. If the country or operation includes both high-density and low-density areas of population, the partner/cluster could use average unit costs from countries which match those characteristics to come up with the high and low end of the cost range.

### **Step 4: Indicate average unit costs**

Average unit costs are the main reference for the calculation of overall costs per activity (see step 5, below). Note that the average unit cost is not always the mean of the cost range. The idea of providing a cost range is to indicate how much or how little the delivery of a particular good or service may cost across different geographic locations/population groups/time frames. If the cost for the delivery of food supplies ranges between 60 and 100 USD per unit, based on the remoteness of the population being served, then the average unit cost could be closer to one extreme than the other. For example, in a country where the vast majority of the population lives in densely settled peri-urban areas, one would expect the average cost per unit to be closer to 60 USD than 100 USD. There is no generic formula to average unit costs, this can only be done at the cluster or sector-level, taking into account geographic variation as well as other parameters, such as coordination costs.

### **Step 5: Calculate overall costs per activity**

To calculate overall costs, clusters multiply average unit costs with the total number of units per activity. The budget of sectoral response plans included in HRP's is the sum of the costs of the different activities.

### 3.3 Particular Challenges in Unit-Based Costing

#### **A. Multi-sector and Transversal Activities**

In the project-based method of costing HRPs, activities which support delivery of services across multiple clusters may sometimes be incorporated as specific projects—for instance, a protection monitoring system that ensures access to Health, Education, and WASH services for the most disadvantaged, or projects requiring a substantive logistical component. With project-based costing, the resources necessary to ensure that this “transversal” activity is in place are obvious as they are costed separately from the cluster-based costs of the supported services. In unit-based costing, however, ensuring adequate funding for these transversal activities means ensuring that those activities are included in the unit cost for different clusters.

Take, for example, the activity of community health promotion which supports people to access both WASH, Health, and Nutrition services. When conducting a unit-based costing, each Cluster lead would need to ensure that the unit cost for health services, or WASH services, or Nutrition services, was inclusive of the per-unit cost of that community health promotion. Taking latrine construction as an example, it is rare to implement latrine construction programs without a hygiene promotion campaign to accompany them. In this case, the “unit cost” for a latrine program ought to be inclusive of the costs of the hygiene promotion campaign—that is how the costs of this transversal activity figure into the final budget estimate.

The need to include the costs of transversal activities in unit cost estimates has two major implications for conducting unit-based costings of HRPs. Firstly, exactly which transversal activities are included should be defined during Step 2 and Step 3. Secondly, when documenting the calculations for unit-based costing, clusters/partners should be transparent in exactly which transversal activities were included in the unit costs, so that this is obvious to people accessing this data in the future.

Commonly during HRP planning processes, partners will design projects that include multi-sectoral services targeting specific population groups or locations. If having estimates of the costs for multi-sectoral services to specific populations (e.g. refugees, the disabled, those affected by a specific regional crisis within a country) is important for the response, then the unit-based costing exercise would need to specifically track those groups as components of the wider unit-based costing exercise.

#### **B. Documenting All Calculations**

Countries using unit based costing should be transparent concerning the reasoning and metrics behind sectoral requirements to explain an increase or decrease in financial requirement per country from one planning cycle to the next.

At a minimum, it should be documented:

- Estimates of the unit cost of serving individuals by sector, broken down by the specific activities that may be provided. Unit costs should include weighting for different contexts to estimate the effect of contextual factors, contingencies and risks. For instance, a cost per person for WASH services would be broken down into separate estimates of the cost per person for clean water delivery, latrine provision, and hygiene promotion.
- A clear framework for combining figures from needs assessments and targeting criteria with projected unit costs to come up with a total budget envelope by sector.
- Guidance on how to adjust unit cost estimates based on anticipated risks in that response (e.g. security concerns, political risk, exchange rate risk).

This documentation can also serve another important function—helping future planners to determine whether the unit costs budgeted for were sufficient to deliver quality programming to the population in need

in that context. If budgeted unit costs were insufficient to provide quality services, this is an opportunity to adjust financial requirements that will allow to deliver services in future responses.

***Example: DRC Unit-Based Costing***

In 2017, the Humanitarian Country Team (HCT) in the Democratic Republic of Congo (DRC) adopted a multi-year planning and budgeting strategy which used a unit based costing methodology to develop budget estimates for each year between 2017 and 2019. The rapidly shifting situation, including new eruptions of violence in Kasai and the Kivus, meant that the multi-year plan had to be revised at the start of 2018, but it nonetheless provides a valuable example of the mechanics of unit based costing in practice. In 2018, there were a total of 13.1 million people in need, of whom 10.5 million were directly targeted by the HRP. This total targeted population included a large number of IDPs, as well as a smaller population of refugees fleeing from South Sudan.

***Describing main cost drivers***

One primary cost driver in the DRC was whether beneficiaries were refugees or IDPs, and the nature and length of their displacement. For refugees, their needs in terms of WASH and Health were likely to be more intensive than IDP populations.

***Defining the units of measurement***

In the 2018 revision, the DRC team chose to use the beneficiary as the unit of measurement across all sectors. This simplified their calculations, as they did not have to track and incorporate different unit counts--e.g. number of households, number of districts, number of schools--into their budget projections. However, it relied on having reliable information on the average cost per that unit of measurement available to them. In this case, because of the multi-year use of unit based costing as part of the HRP, average unit costs for this unit of measurement were available from prior years. For some clusters, these average unit cost estimates were updated between 2017 and 2018 to reflect the increased intensity of needs in that sector witnessed in 2017. This reinforces the importance of documenting the factors influencing the calculation during the process of unit-based costing.

***Indicating average unit costs***

The clusters determined that average unit costs were likely to be different for refugee vs. non-refugee beneficiaries, and so they chose to define average unit costs differently for these two populations. This fits nicely with the description of transversal activities above, allowing UNHCR to separate out the unique costs of serving the refugee sub-population. UNHCR also determined that there were particular, non-sectoral costs associated with serving refugee beneficiaries, and included this as its own unit of service, with an associated average unit cost. Because these activities were only relevant for refugee beneficiaries, the average unit cost applies for refugees only.

<b>Cluster</b>	<b>Average Unit Cost, Non-Refugees</b>	<b>Average Unit Cost, Refugees</b>
Education	\$65.00	\$33.87
Food Security	\$77.70	n/a
Health	\$18.00	\$20.67
NFI/Shelter	\$38.40	\$31.72
Nutrition	\$99.30	\$25.49
Protection	\$8.30	\$27.33
WASH	\$11.40	\$26.34
Non-Sectoral Refugee Response	n/a	\$39.53

**Calculating overall costs per activity.**

Pulling information about the targeted beneficiary population from needs assessments and agreed targeting criteria, and using the average unit cost information they defined, the Humanitarian Country Team was then able to assemble an estimated budget for 2018.<sup>4</sup>

<b>Cluster</b>	<b>People Targeted, not Refugees (Millions)</b>	<b>Average Unit Cost</b>	<b>Budget, not Refugees (Millions)</b>
Education	1.7	\$65.00	\$110.5
Food Security	8.2	\$77.70	\$637.1
Health	10.5	\$18.00	\$189.0
NFI/Shelter	3.7	\$38.40	\$142.1
Nutrition	2.1	\$99.30	\$208.5
Protection	13.1	\$8.30	\$108.7
WASH	8.2	\$11.40	\$93.5

At the end of this process, the HCT had an estimate of the budget needs for the 2018 response, which could be tied specifically to the population target numbers and the estimated cost per beneficiary of addressing key needs.

<sup>4</sup> For simplicity's sake we have excluded several other clusters from this table, and so the total budget from these two tables is slightly different than the total 2018 HRP budget for DRC.

## 4. EXISTING COSTING METHODOLOGIES: THE HYBRID METHOD

**There have been a few attempts to combine unit- and project-based costing.**

- **Delayed project planning**, mainly used in the case of sudden onset emergencies. This method means first establishing costs through a very rough unit based costing, and at a later stage following up with a coordinated project planning process. This method is useful for sudden-onset crises as in the first days of an emergency it is unreasonable to expect actors to spend time on registering projects, and vetting them, as partners are occupied with setting up the response. Once the project planning process is complete, the new project-based requirements replace the initial unit-based requirements. This process can be complemented by a revised appeal document.
- **The Marketplace approach** – tested in CAR and in Burundi. In this approach, the requirements are unit based. Once these have been established, agencies present projects through the OPS. Cluster coordinators vet projects for complementarity with the cluster strategy, but do not exclude/reject project submissions in case there are duplications between several projects. Projects are considered as plans, or expressions of interest at the stage of project submission. The total requirements remain unit based. The sum of the project requirements is irrelevant since there might be gaps and overlaps (two agencies can present similar projects for the same groups or locations, if they wish so). This allows for a more “open” competition among projects and shifts the responsibility of selecting projects from the clusters to the donors, and allows all interested partners to compete for funding on this marketplace. There is no fixed timeline for the uploading of projects, which gives more flexibility to partners and does not add to the heavy workload during HRP production.

This approach requires follow-up from all partners involved throughout the year, including harmonization between OPS and FTS, as initial funding information comes in. Discrepancies between planned projects, cluster requirements and funding information also need to be addressed – i.e. clusters need to review their needs analysis, strategy and targeting in case funding levels exceed the requested amounts of funds.

As this has only been tested once (2018 - Burundi is ongoing) it is difficult to assess this approach – HCT members in CAR felt the method added a burden on both agencies and cluster coordinators, and did not yield the expected simplification of the process, while in terms of planning, monitoring and accountability this seems to be a strong method.

## ANNEX 1: CLUSTER-SPECIFIC GUIDANCE

### Protection

UBC field cases:

The **Yemen Protection Cluster** coordinator acknowledged that the cluster coordinators in Yemen did not receive any guidance on how to do unit costing for their clusters. Nevertheless, the experience from a protection perspective had some positive aspects. One potential advantage is that the unit costing approach provides flexibility and room for scale-up which was advantageous in the Yemen context where there were not enough international partners in place to undertake the required protection activities. The inclusion of the priority activities in the plan allowed new protection actors who intended to undertake some of the priority activities, to gain access to funding. In addition, given the large amount of un-earmarked funding provided to the response in Yemen, the unit costing approach which provided a range or average allowed for a lot of flexibility.

The **Child Protection Coordinator in Iraq** presented some examples of unit costing methodologies employed by the cluster in Iraq:

**Case management:** the sub-cluster agreed on the average monthly salary for a case-worker (\$1,200) followed by the average caseload of children covered over a three-month period (20-25). In one year a caseworker should roughly cover 100 children or at a unit cost of \$400 per child. Another example provided was under PSS and child friendly spaces where the monthly rental for the location divided by the number of children benefiting led to unit cost per month.

Some observations on the Iraq example:

- The coordinator identified the coordination benefits of engaging partners in a discussion on quality and standards in relation to each activity. For example, average monthly salary for case workers and linking it to ensure the Child Protection minimum standards were being applied by case workers.
- As an advocacy tool it allows the coordinator to push back on donors who propose not to meet the funding requirement but expect the same number of affected people to benefit.
- Mine action Iraq also noted concern that the range used for their activity/tasks on clearance was very broad (\$13,000-500,000). This placed them at a disadvantage they felt when it came to funding.

The **Somalia coordinator** described how the cluster and sub-clusters used a common risk analysis on violations of IHL and human rights to identify a set of responsive actions (advocacy, case management, PSS) from which they identified 5-6 common response categories across the cluster and sub-clusters and developed unit costing linked to these.

Some of the challenges of the unit costing approach for the Protection cluster:

- Concern around the calculation of unit costs and the lack of experience, guidance or good practice to assist protection and sub-cluster coordinators in this task.
- Concern around how to cost the coordination function (a challenge faced by all cluster coordinators and OCHA).
- The problem of aggregating unit costs for the cluster with an example given of psycho-social support (PSS) for child protection and GBV potentially carrying very different costs.
- The additional burden on coordinators to rationalize activity/unit aggregation to support prioritization process.

- Mine action identified the complexity of specific tasks depending on the context would lead to a large differentiation in unit costs for what could be perceived by actors not familiar with the technical details, as similar activities. Example given of the cost of removing an IED from an urban environment versus removing a mine from a field in a rural area.
- Defining a unit without guidance could lead to huge variations from one country to another. For example, UXO removal could be measured by m2, by number of people assisted, or by device.

### Next steps for the global protection cluster

- The GPC will work on a typology of common activity sets which would help set some framework to support unit costing in the field. There was also a suggestion that this work should include tips on the steps needed to assist in prioritization of activities.
- Iraq sub-cluster coordinator to share a brief on the approach taken to develop unit costing in Iraq which could be shared with other contexts and potentially annexed to the draft guidance being developed. Further examples received from other clusters and partners will be integrated into this note on a continuous basis.

\*Other clusters to provide inputs as soon as available\*