Review of FAO Cash for Work Programme in Somalia

Volume III: Financial costing (draft)

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A study commissioned by FAO from Oxford Policy Management

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This study was commissioned by the Food and Agriculture Organization of the United Nations (FAO) from Oxford Policy Management (OPM) for the review of FAO's multi-donor Cash for Work Programme in Somalia. The study was made possible through the financial support from USAID office of Food for Peace.

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Executive summary

Objective of this study

This report (Volume III) reviews the financial costs of FAO Somalia's Cash for Work (CFW) Programme, implemented by its Cash Based Intervention (CBI) unit. It is a part of a three-part study that provides a 'Review of FAO Cash For Work (CFW) Programme in Somalia'. The other two parts cover qualitative impact assessment of CFW (Volume I) and process review (Volume II) of the same programme. In this report, we discuss the findings from a retrospective financial costing exercise of the CFW Programme, looking at the following phases of the CFW Programme:

- **Phase IB** from October 2011 to March 2012; and
- **Phase II** from April 2012 to January 2013, which consisted of:
  - *Phase IIA* from April 2012 to May 2013[1]; and
  - *Phase IIB* from June 2013 to January 2014

The objective of this costing study is to understand the absolute and relative magnitudes of various drivers of programme costs and to assess the cost-efficiency of the CFW Programme's operations, using the total cost-to-transfer ratio (TCTR) for the programme which represents the total cost incurred by the programme in order to disburse one dollar of cash transfer to the programme beneficiaries.

It is important to note that the scope of this study, as well as the information available, did not allow us to go beyond a financial cost-efficiency analysis to estimate the impact of the programme on relevant development outcomes. In order to do this, we would have had to carry out a cost-effectiveness or cost-benefit analysis, which would have required us to implement a quantitative survey to estimate the impact of various interventions on local communities. This option was not selected due to the insufficient timeframe of the evaluation, and the difficulty of conducting survey work in Somalia. In the case of a cost-benefit analysis, further data collection may have been required to accurately estimate the value of primary and secondary benefits resulting from the various interventions (e.g. increased productivity, or reduced transport costs), as well as potential costs incurred as a result of negative externalities generated by the interventions (e.g. environmental degradation or congestion) (for a detailed explanation of the difference between cost-effectiveness, cost-efficiency and cost-benefit analyses, please see Annex C below).

Methodology

The general approach adopted for this costing exercise has been a combination of top-down and bottom-up costing. The primary source of cost data used for this study is FAO Somalia's internal accounting system, which is designed to record all costs incurred by the programme. All expenditures listed therein were reviewed and categorised so as to enable an analysis of the data based on the research questions set out in the ToRs and inception report.

The methodology took into account that several CFW Programme characteristics changed at the beginning of Phase IIA, most of them pertaining to investment in risk mitigation and compliance processes to assist with remote management of the programme from Nairobi. Another change in the programme's characteristics pertained to infrastructure rehabilitation activities, which were scaled up in phases II A and B, as the programme gradually shifted its focus from famine relief to

[1] It should be noted that, between April and October 2012, cash disbursements were halted temporarily to put into place the various risk mitigation and compliance strategies. Cash disbursements resumed again in November 2012.

resilience. This resulted in an expansion of the daily labour requirement from 3 to 6 hours, as beneficiaries' nutritional condition improved, and an increased investment in tools.

Our methodology has its limitations. These pertain to practical limitations due to data quality issues and conceptual limitations due to the nature of the programme and the uniqueness of implementing an extensive intervention such as the CFW Programme in a context like present-day Somalia. As a result, any phase-wise findings listed below will need to be understood in view of its characteristics in that phase. Similarly, comparison of CFW programme's TCTR with other social protection programmes in Somalia will require circumspection of the respective programme's key features.

Key findings

Our key findings are summarised in the table below:

Headline cost findings (US$ '000)	Phase IB	Phase II	Total
Total (US$/ year) programme cost	**18,691**	**25,826**	**44,517**
Pure cash transfer to beneficiaries	14,177	15,274	29,451
Beneficiary transport allowance	0	1,996	1,996
Tools for public works	78	232	310
Like-for-like TCTR (standard overheads + cash + transport) / (cash + transport)	**1.28**	**1.38**	**1.34**
Context-specific overheads	+0.00	+0.06	+0.03
Mandate-specific overheads*	+0.04	+0.05	+0.04
Actual TCTR* (Total programme cost) / (cash + transport + tools)	**1.32**	**1.48**	**1.41**
Alternative TCTR* (total programme cost - transport) / (cash + tools)	1.32	1.67	1.50

*Note that the denominators for mandate specific overhead costs and related TCTRs include tools, which are considered a mandate-specific benefit.

Budget categories with some of the largest shares of total administrative costs included: operating costs[2] (US$ .5 million); personnel (US$ 2.9 million); and NGOs' running costs (US$ 2.8 million). In addition, the programme component which showed the sharpest change between phases IB and II is expenditure on beneficiaries' transport costs, due to the introduction of a reimbursement policy aimed at reducing leakage to non-beneficiaries and lifting access barriers for poor beneficiaries.
For each US$ transferred to a beneficiary, FAO incurred 41 cents of overhead costs across the two phases, if one includes the transport allowance among the benefits (50 cents otherwise). However, this cost rose sharply from period IB (32 cents per US$) to period II (48 cents per US$). Context and mandate specific overheads accounted for 10 cents for every US$ disbursed to beneficiaries

Concluding remarks

In studying these results, we noted that following final comments. First, in Phase II, the total volume of cash payments to beneficiaries increased by 8% (of total programme cost) and the number of beneficiaries by 13% vis-à-vis Phase IB. The non-transfer and administrative costs over this same period increased by 84%. Our analysis of available financial data suggests that most of the increased costs were being incurred to cover recurrent costs, not one-off costs, and are

[2] This term 'operating costs' is a composite term coined to include *Mgmt. fee to HQ/'Direct operating costs'*; *Money vendors' fees (for NGO payments and cash for beneficiaries)*; *Rental of premises*; and *Other operating costs*.

unlikely to subside over time. However, the analysis was limited by the quality of available financial data.

Second, NGOs' overhead costs have decreased by five percentage points between phases, from 23% of non-transfer costs in Phase IB to 17% in Phase II. Thus, while the beneficiary caseload, volume of transfer and reporting requirements through bi-weekly reports and other compliance activities have increased substantially between Phase IB and II, their overheads costs have flattened.

Third, the cost of activities related to rehabilitation of infrastructure, including tools given to beneficiaries, increase from 3.2% to 4.3% of total programme costs between phases I and II.

However, there are yet more interdependencies between infrastructure rehabilitation and costs incurred for risk mitigation, FMT training, and other programme components which should be apportioned to infrastructure rehabilitation if more detailed data become available.

While the specificities of this programme make it difficult to compare its cost-efficiency with other cash transfer programmes, our like-for-like TCTR attempts to isolate the costs that are directly attributable to the cash transfer component of the programme, excluding unavoidable security and risk mitigation costs that are specific to the Somali context, as well as mandate-specific costs related to the public works component. This is summarised in the table below.

Programme name	Years of operation	Nb. of direct beneficiaries	TCTR
Mexico PROGRESA/ Oportunidades	16	6,500,000	1.05
Kenya HSNP, 2011/12	4	68,611	1.21
Kenya CT-OVC, 2008/09	3	15,000	1.34
FAO Somalia CFW (like-for-like)	**3***	**75,000**	**1.38**
Ethiopia PSNP, 2010-11	7	7,535,451	1.38
FAO Somalia CFW (actual)	3*	75,000	1.48
Bangladesh CLP, 2011-12	8	17,485	1.59
FAO Somalia CFW (actual, excluding transport)	3*	75,000	1.67
Zambia Child Grant, 2011	2	32,643	1.79
Ghana LEAP, 2010	3	26,079	2.11

*Since the famine scale-up

Source: Philip White, Anthony Hodges, and Matthew Greenslade, (April 2013), Guidance on measuring and maximising value for money in social transfer programmes – second edition, Department for International Development.

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List of abbreviations

CBI	Cash Based Intervention
CFW	Cash for Work
TCTR	Total cost to Transfer Ratio
FAO	Food and Agriculture Organization
FMT	Form Management Tool
ICT	Information and Communication Technology
IP	Implementing Partner
LOA	Letter of Agreement
M&E	Monitoring and Evaluation
MV	Money Vendor
NGO	Non-Governmental Organisation
OPM	Oxford Policy Management
UNDP	Unite Nations Development Programme
UNON	United Nations Office at Nairobi
USAID	US Agency for International Development

1 Introduction

Oxford Policy Management (OPM) was contracted to undertake the study 'Review of FAO Cash for Work (CFW) Programme in Somalia' on behalf of the Food and Agriculture Organization (FAO). As per the contract for this study, the overall objective was to 'assess programme impact in terms of cash use, targeting, community level impact and an evaluation of the effectiveness of programme mechanisms'.

The three main components of this study were:

I. **Impact assessment** of the cash transfers, which looks at uses of transfers and their impact on food security, risk coping behaviour and the wider community;
II. **Process and operations review**, which assesses the internal functioning of the programme including targeting, registration, payment delivery systems, etc. and whether they can be improved; and
III. **Cost analysis**, which assesses financial costs, to examine whether the cash transfer programme offered value for money in terms of the cost to transfer one US$ of benefit.

1.1 Objectives of this assessment

This report (Volume III) discusses findings from a retrospective financial costing exercise of FAO Somalia's CFW Programme, implemented by its Cash Based Intervention (CBI) unit. We cover the costs incurred to implement the CFW Programme over approximately 2 ½ years of its operations from October 2011 when the famine was declared till the end of 2013. In particular, we look at the following phases of the CFW Programme:

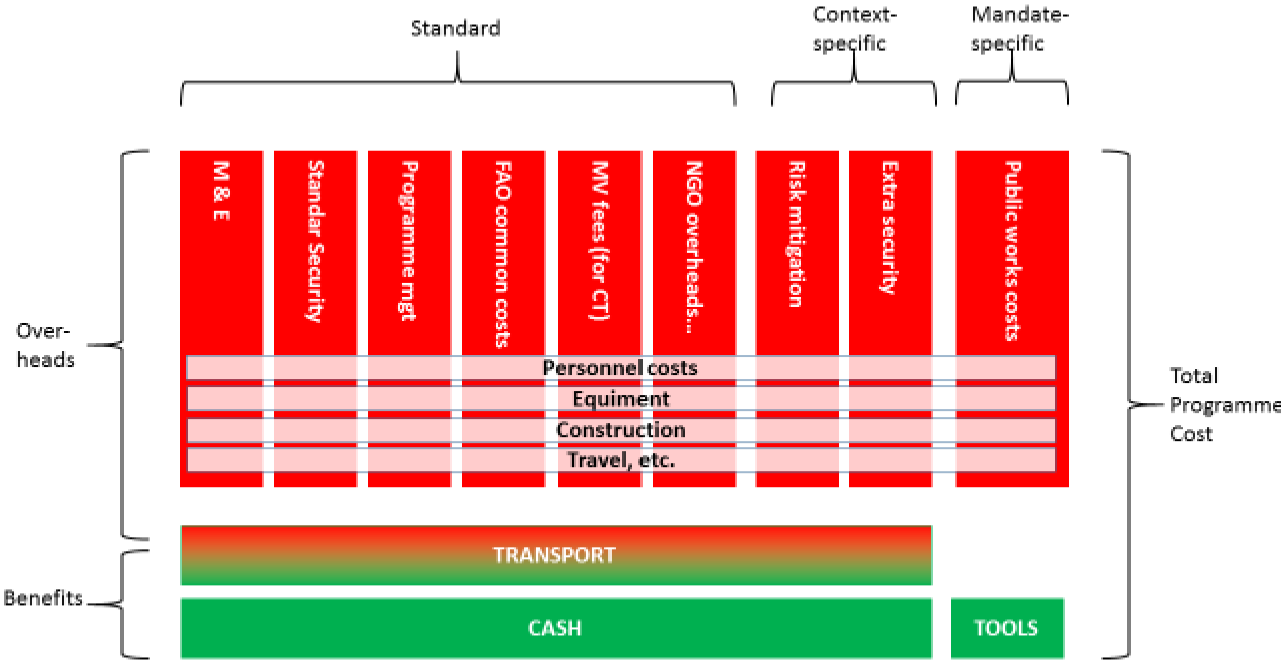
- **Phase IB** from October 2011 to March 2012; and
- **Phase II** from April 2012 to January 2013, which consisted of:
  - *Phase IIA* from April 2012 to May 2013[3]; and
  - *Phase IIB* from June 2013 to January 2014

The objective of this cost assessment is two-fold. First, we aim to understand the absolute relative magnitudes of various drivers of programme costs, both in terms of categories (such as personnel, training and travel, among others) as well as in set of programme components[4] (such as public works costs, risk mitigation, management, monitoring and evaluation, and costs attributable to the security etc.), which have been identified to address the specific research questions set out in this report.

Figure 1 below explains how these various cost groups relate to each other.

[3] It should be noted that, between April and October 2012, cash disbursements were halted temporarily to put into place the various risk mitigation and compliance strategies. Cash disbursements resumed again in November 2012.
[4] As explained in Section 3.3 below, this set of programme components was finalised during discussions with the CBI unit to provide greater context and understanding of the budget lines that constitute the main cost drivers of the CFW Programme. It should be noted that this list of programme components is entirely bespoke and is not a standard categorisation in the programme's accounting system.

Figure 1: Description of cost classification



Second, in order to assess the cost-efficiency of the CFW Programme's operations, we also calculate the total cost-to-transfer ratio (TCTR) for the programme. The TCTR, put represents the total amount spent by the programme (including overheads and disburse one dollar of cash transfer to the programme beneficiaries. What we and a benefit depends on the specific research question being asked. For interested in analysing the cost surplus incurred by the programme as a result of activities undertaken, we will consider tools given to beneficiaries as a benefit, for engineers, and material costs for road construction as overheads (see

Figure 1 above)[5].

Ultimately, the aim is to provide good quality enumeration of costs so as to, along with the qualitative impact assessment (Volume I) and the process review (Volume II), provide informed recommendations to FAO Somalia and particularly the CBI unit on improving the effectiveness and efficiency of the programme.

1.2 Report structure

The rest of this report is arranged as follows:

- Section 2 provides more detail on the CFW Programme, particularly in regard to the evolution of its characteristics across phases and their purported effect on the programme's cost structure;
- Section 3 then explains the approach, methodology, data and limitations of this study;

[5] Note that transport of beneficiaries is considered as an ambiguous cost item here, since it is provided to beneficiaries in the form of a cash allowance similar to a regular benefit. However, it is intended to be used to cover transport costs to the money vendor. For this reason, we exclude transport costs from the calculation of benefits in some of our TCTRs.

- Section 4 goes through the results in detail, exploring the breakdown of total programme costs by budget categories and a bespoke set of core programme components, and the TCTR; and
- Section 5 concludes with a discussion of findings.

2 Evolution of the CFW Programme

In this section, we highlight changes in the characteristics of the programme between Phase IB and phases IIA and B. For a more detailed discussion of the programme under Phase IIB, please refer to Volume I and Volume II of this report.

Several CFW Programme characteristics changed at the beginning of Phase IIA, most of them pertaining to investment in risk mitigation and compliance processes to assist with remote management of the programme from Nairobi. Table 1 below summarises these changes. To avoid misinterpretation of costing results (particularly erroneous comparisons of TCTR between each phase), these and other changes in programme characteristics are important to bear in mind before delving into the results.

Table 1 CFW Programme characteristics

Characteristics	Phase IB	Phase II (A+B)
Years	Oct 2011 – Mar 2012	April 2012 – Jan 2013
Donors	World Bank; AusAID; USAID; EU (Spain, Belgium)	Mainly USAID (through the 'Food for Peace' project OSRO/SOM/124)
Coverage	66,161	74,823[6]
Payments (per month, per household)	USD 72	USD72 (Phase IIA); USD96 (Phase IIB – South Central); USD120 (Phase IIB – SomalilandPuntland)
Infrastructure rehabilitation activities	A combination of unconditional cash payments and infrastructure rehabilitation activities	Cash payments for infrastructure rehabilitation (i.e. no unconditional payments)
NGOs (i.e. in-country implementing partners (IPs))[7]	Local NGOs (+/- 34) + few international NGOs	Local NGOs + few international NGOs: total 12 (Phase IIA); 17 (Phase IIB)
Money vendors	Amana Express (charging commission at 4% on all payments)	Dahabshiil (charging commission at 4.5% for cash transfers and 1.5% for NGO payments)
Monitoring through remote-sensing	✗	✓
Monitoring through phone calls to beneficiaries ('Call centres')	✗	✓
Biometric fingerprinting of beneficiaries	✗	✓
Field monitors	✓	✓

Source: Authors (based on programme timeline and key-informant interviews)

[6] The exact coverage for phase IIA amounted to 35,000, whereas 44,000 individuals were covered in phase IIB. It is estimated that approximately 4,000 beneficiaries were covered in both phases, leading to an aggregate coverage figure of 75,000 for the whole of phase II.
[7] Please refer to Volume II: Process Evaluation Report for a detailed discussion of the role of NGOs in the CFW Programme.

Table 1 above lists a number of changes in the CFW Programme that could potentially have a bearing on total programme costs. Evidently, Phase II (A and B) was a more expansive programme in terms of its coverage, the household payments per month and, most importantly, in terms of its investment in systems and processes for monitoring and supervision of the CFW Programme remotely from Nairobi.

In particular, the beginning of Phase IIA saw renewed emphasis on investment in **risk mitigation, compliance and monitoring systems**, including investment in remote-sensing satellites to monitor the progress of infrastructure rehabilitation, biometric fingerprinting to ensure receipt of cash by beneficiaries, and phone calls from Nairobi to beneficiaries to ensure receipt of cash payments and discuss their overall experience of the CFW Programme. These risk mitigation and compliance systems were brought in afresh and employed to ensure the effectiveness of programme implementation alongside the existing cadre of field monitors. Evidently, the need for these new systems and processes was mainly dictated by the lack of access to large parts of Somalia (particularly South Central regions) due to insurgency and the threat against aid agencies from *Al Shabaab.*

Another change in the programme's characteristics pertained to **infrastructure rehabilitation** activities, which were scaled up in phases IIA and B when the unconditional component of cash payments was discontinued. One would expect this to imply increased expenditure on agricultural tools and equipment. Alongside this, it would also imply increased expenditure on monitoring and supervision, as well as on the salaries of field technical staff (such as field engineers, agronomists, etc.).

In summary, with the renewed emphasis on risk mitigation and compliance systems as well as augmented infrastructure rehabilitation activities, phases IIA and B were a more extensive programme vis-à-vis Phase IB, and thus these shifts in programme characteristics would have to be borne in mind when interpreting the shares of various activities in the total programme cost.

3 Costing methodology

3.1 Approach

The general approach adopted for this costing exercise has been a combination of top-down and bottom-up costing, varying by research question as discussed below in Section 3.3. Broadly speaking, when using bottom-up costing we have arrived at the overall costs of the programme by adding together the individual costs of various budget codes and the constituent line items that comprise them, as reported by FAO Somalia's internal accounting system. This method was used in calculating the key drivers of programme costs by budget codes and core programme activities. Top-down costing, on the other hand, involved the process of decomposing the headline programme costs into constituent parts. As such, this method's use for the present study was in a limited sense, and mainly for the calculation of the TCTR only, where we decomposed the total CFW Programme cost to inform us of the cost of transferring each dollar of cash to beneficiaries.

A second point to note regarding the approach used for this study is that the costing process did not distinguish between phases IIA and IIB, and thus looked as Phase II as a single phase vis-à-vis Phase IB. This was done for two reasons. First, the date of a cost transaction, as recorded in FAO's internal accounting system, does not always correspond with the phase for which the cost was incurred and, thus, it is practically infeasible to segregate items by phases beyond broad categorisations of Phase IB and Phase II. It was, however, easier to distinguish phase I from phase II costs, due to the temporary suspension of the programme, which meant that no activities were carried out (and thus no activity-related costs incurred) between March and September 2012. Second, as discussed in relation to Table 2 above, the main transformation of programme characteristics took place between phases IB and IIA and, as such, no significant changes in costs (by phases) would be missed if IIA and B were combined into a single phase for the purposes of this study. In the remainder of this report we therefore generally refer to phases IIA and IIB as Phase II.

3.2 Data

The primary source of cost data used for this study is FAO Somalia's internal accounting system, which is designed to record all costs incurred by a programme. For each transaction, these records ('expenditure listings') report the following relevant details:

- standard budget code and description;
- name of project (within a programme) for which the cost was incurred;
- name of the recipient(s);
- month and year when the transaction was processed (as opposed to the time period when the goods or services procured were actually used);
- free-text description of the purpose of the transaction (which often contains a helpful description of why and for which phase a certain cost was incurred); and
- the actual cost incurred.

As such, we received transaction records for the CFW Programme from the beginning of Phase IB (in October 2011) till the end of Phase IIB (in January 2014), comprising more than 7,000 individual expenditure line items incurred for the different projects that comprised the programme.

In addition, we also received other supporting cost data from the CBI unit. These included data for categorisation of various budgeted expenditures by the activities they were incurred for. For example, a staff member from the CBI unit helped to sort various travel-related line items according to the various activities or purposes for which the trips were undertaken. In addition, the CBI unit supplied the headline costs of the programme by phases, such as: total cash disbursed to beneficiaries; total cost paid for purchase of tools for infrastructure rehabilitation; total transport costs for beneficiaries; and total amounts paid to NGOs (i.e. CFW IPs) to cover their wages and other costs. While these cost data were all present in the general transaction record (discussed above), these same data were requested from the CBI unit as a means to triangulate data sources and sense-check preliminary findings. In addition, this costing study drew heavily from CFW Programme documentation, particularly letters of agreement (LOA) for NGOs.

3.3 Methodology

As mentioned above in Section 1.1, the objective of this costing exercise is two-fold: (a) to assess key drivers of programme cost (in terms of budget categories and core programme components); and (b) to assess the cost-efficiency of CFW Programme operations using the TCTR. The methodology used for each research question is discussed below.

The expenditure listing provided by FAO provided a conventional classification of expenditures by economic category (e.g. personnel, equipment, etc.). As such, it did not allow us to take into account the specificities of this programme and of the Somali context in which it is being implemented. In particular, we felt that in order to provide relevant answers to the research questions posed, we need to account for the following two factors:

1. The security and political context of Somalia imposes an unavoidable additional cost on the programme in terms of security and risk mitigation that need to be taken into account when analysing the cost-efficiency of the programme. This means that the programme cannot be compared like for like with a similar programme being implemented in a safer environment.
2. FAO's mandate imposes specific restrictions on the programme design, which means that this programme cannot be compared like-for-like with a conventional cash-transfer programme. In particular, FAO puts emphasis on the transfer of skills and enhancement of agricultural productivity through cash-for-work programmes oriented towards addressing structural bottlenecks in agricultural production.

In order to take into account these specificities of the programme, we had to review every single expenditure provided in the expenditure listing and re-categorise them into categories that allowed us to answer our research questions. The final result of this exercise was a matrix table similar to the one shown in

Figure 1 above, in which on the vertical axis, all expenditures had been aggregated into the conventional budget categories listed in

Table 2 below, and on the horizontal axis, expenditures had been aggregated into the programme components listed in Table 3 below.

To understand the absolute and relative magnitudes of various drivers of programme costs in terms of aggregated budget categories (such as personnel, training and travel, among others), we first mapped more than 70 budget codes listed in the transaction records into sub-categories, and finally mapped them to broader, aggregated budget categories, such as the standard classifications of personnel, travel, training, utilities, equipment, etc.

Table 2 Mapping of aggregated budget categories with their constituent budget codes

Aggregated budget categories	Sub-categories	FAO Somalia budget codes
Payment to NGOs	*NGO payments*	5014, 5574, 5579-80
	Cost of tools	
Personnel	*Staff*	5101-5, 5128, 5138, 5155, 5298
	Non-staff (consultants)	5542-3, 5551, 5555, 6116
	Non-staff (other)	5571-2, 5652, 6120
Travel	*Various including duty travel and danger pay*	5021, 5661, -72, 5684-6, 5694, -96, -98, 5700
Training	*Various including in-service training*	5902, -05
Supplies – various	*Various including supplies for office, field, data processing*	5927, -29, -30, -32, -33, -41, 6111
Communication	*Various including post, courier, data lines*	6187, -90, 6251-3, 6303-4, 6255
Operating costs	*Mgmt. fee repatriated to HQ*	6118
	Money Vendor (MV) fees (NGO payments)	n/a
	MV fees (Cash for beneficiaries)	n/a
	Rental of premises	6172
	Other operating costs	6177
	Security services	6207
Operations & maintenance (O&M)	*Premises O&M*	6010
	Vehicles O&M	6175
	Other O&M	6173-4, -6, 6183
	Various including water, power	6178, 6181-2
Utilities		6011
Vehicles	*Building maintenance equip.*	6001
Equipment	*Data processing equip.*	6003-5
	Other expendable	5924
	Other non-expendable	6012
	Other	6002

Based on this mapping, we summed up the amounts in budget codes under each aggregated budget category, which gave us the total cost of the programme (as well as by phase) and the shares of each constituent budget category.

What are the shares of various core programme components in total costs?

Apart from reporting a breakdown of total costs by aggregated budget codes, we also sliced total costs by the shares of various core programme components. To understand the context of the CFW Programme's operations in Somalia, as well as the share of various programme features in total costs, we split total programme costs by a bespoke set of programme components of interest to the programme implementers, namely FAO Somalia, the CBI unit and various in-country IPs. This is not a standardised set of categories generated through FAO's internal accounting system, and thus decisions regarding which budget codes to attribute to which programme component were made by the authors discretionarily based on their understanding of the programme's features and in consultation with the CBI unit at FAO Somalia.

Practically, this entailed using the information provided by the transaction records to categorise each line item into one or more of the categories listed in Table 3 below. When a certain budget category covered more than one activity, a suitable apportioning criterion was discerned. For instance, payments made to implementing NGOs to cover their costs included salaries for field staff such as field engineers, agronomists, livestock specialists, etc. Going through the various LOA between FAO and NGOs, it was recognised that approximately 45% of NGO budgets were attributable to public works components, while the remaining 55% can be categorised as general CFW Programme overheads.

After completing the categorisation, the amounts from individual line items were simply aggregated by their respective categories to give us the shares of various components in total programme cost.

Table 3 Description of core programme activities

Programme activities	Description	Example
Monitoring & Evaluation (M&E)	M&E items standard to any programme irrespective of context, country or design. For our purposes, only external evaluators/reviewers hired to assess the effectiveness of the programme or conduct similar review studies were included	Expenditure on OPM's services for this study
Risk mitigation	Expenditure on all monitoring and remote-management systems and processes dictated by the security and country context of operating in Somalia	Various expenditures on field monitors, biometric fingerprinting, remote-sensing, call centres, etc.
Security	Segregated into standard security services as well as additional security due to the high/extreme-risk nature of operating in Somalia	Standard security: services of office guards Context-specific security: bullet-proof vests, hazard pay, etc.
Infrastructure rehabilitation	Any expenditure relating to the infrastructure rehabilitation component of the CFW Programme. In other words, an expenditure which could be omitted if this was a pure cash transfer programme	Cost of tools; 45% of the value of all payments to cover NGO costs
Programme management	Mainly personnel, travel, training, etc. costs of those involved in overall management and oversight of the CFW Programme	Salaries of CBI unit staff
FAO common cost	Costs of items goods/services shared with one or more of FAO Somalia's other units	Share of salaries[8] of individuals in central services like Finance
CFW operating costs	Direct operating costs of the project, as well as any transaction not categorised in any of the components above	55% of NGO payments; office supplies, rental for premises, maintenance of buildings and vehicles.

[8] Most of these were already apportioned and attributed to the CFW Programme in the transaction records.

What is the non-transfer (i.e. administrative) cost of transferring one dollar of cash to programme beneficiaries?

Finally, to comment on the cost-efficiency of the CFW Programme's operations, we also calculated the TCTR for the programme. As is outlined in

Equation 1 below, the TCTR, put simply, is the total amount of money spent by the programme in order to disburse one dollar of cash transfer to programme beneficiaries. For this study, we calculated the TCTR as shown below, for the overall programme and separately for phases IB and II.

Equation 1 Total cost to transfer ratio (TCTR)

$$\boldsymbol{TCTR} = \frac{Total\ programme\ cost}{Total\ benefits\ disbursed\ to\ beneficiaries}$$

Source: Authors

Because of the above mentioned specificities of this programme, we decided to divide the TCTR into three components as follows:

1. A like-for-like CTR comprising the overhead costs that we could expect to find in similar programmes implemented in non-conflict countries. This includes programme management costs, M&E, FAO common costs and general CFW overheads (e.g. money vendor fees, etc.)

2. A context-specific CTR comprising elements that are deemed specific to and unavoidable in a complex emergency situation, like the one encountered in Somalia. While some of these costs may be country-specific, many of the programme features will be similar in other conflict contexts (e.g. extra security, remote management, etc.), given the fluid political and security situation. This includes security costs, other than regular security guards, as well as all costs related to risk mitigation (e.g. satellite imagery, call centres, etc.).

3. A mandate-specific CTR including the overhead costs specifically attributable to the public works component of the programme. In this calculation, tools provided to beneficiaries were considered as a benefit as these were kept by beneficiaries after the end of the project.

Following discussions with FAO, we decided to exclude transport costs for beneficiaries from the calculation of overhead costs. The reason for this is that the transport cost was included in the cash transfer amount received by the beneficiary as a flat top-up rate, and was not paid as a reimbursable against receipts. As such, it is likely that many beneficiaries may have kept much or all of the transport allowance by walking to the money vendor point or by finding other ways of saving on transport costs. Nonetheless, in recognition of the fact that many beneficiaries will have had to use their transport allowance to pay for transport costs to the Money Vendor's office, we have excluded the transport allowance from the benefit calculations in one of the TCTRs reported at the end of Table 7 (labelled "alternative TCTR").

3.4 Limitations

Before discussing the findings in the next section, it is important to briefly outline certain limitations in the methodology described above. We list below two practical limitations due to data quality issues and two conceptual limitations due to the nature of the programme and the uniqueness of implementing an extensive intervention such as the CFW Programme in a context like present-day Somalia.

Conceptual limitations

The first conceptual limitation to note is that the scope of our costing study is restricted to the financial costs incurred by FAO, either directly for its overhead costs or indirectly through payments made to NGOs or the actual transfer of cash to beneficiaries through MVs. In other words, in this study we are not entering the domain of what NGOs perhaps contribute towards implementation of the programme (outside their budgeted amounts received from FAO) or the costs beneficiaries themselves might be incurring in order to partake in various activities related to the programme or even the opportunity cost of their time while participating in the infrastructure rehabilitation activities or while travelling to collect their cash amounts.

As discussed in Section 2 above, at the beginning of Phase IIA in April 2012 substantial expenditures were undertaken to strengthen the risk mitigation and programme monitoring systems, meaning Phase II has distinct programme and cost characteristics vis-à-vis Phase IB. As a consequence, the TCTR cannot aid inter-phase comparisons of cost-efficiency without limitations. Usually when TCTRs are available across the phases of an intervention, an interesting trend to spot, if it exists, is the plateauing of the TCTR as the initial fixed costs for programme set-up are not incurred in subsequent rounds and TCTRs for later years mainly reflect recurrent costs of day-to-day operations. As mentioned above, due to the vastly different cost structures of both phases such a comparison is not possible at this stage.

Our costing study is restricted to Phase IB and Phase II. We have also not looked at any fixed costs incurred during Phase IA (i.e. pre-famine), the goods and services of which may have been used in subsequent rounds. Similarly, any cost incurred in Phase IIB which is now being used for Phase IIC is beyond the purview of our study.

Moreover, a comparison of the CFW Programme's TCTR with similar programmes in other countries or even within Somalia would run the risk of being a misguided comparator analysis. The challenging context of political instability and insurgency prevalent in many parts of Somalia, particularly the South Central districts, render the CFW Programme unique—particularly for its extensive risk mitigation and compliance apparatus. In the absence of another programme with roughly matching characteristics in Somalia, the TCTR figures discussed in the next section have limited applicability. We discuss this further in the results and discussions sections below.

Practical limitations

First, the accuracy of classification of line items into phases was weakened by the fact that dates entered against each transaction in the accounting system at FAO Somalia represent the date when the transaction was processed through the system, rather than when the good or service was actually used. We used the following time cut-off to classify a transaction by its phase:

- **Phase IB** from October 2011 to March 2012
- **Phase II** from April 2012 to January 2013

However, using these months as guidance would only give a fuzzy cut-off time for classification by phase. For instance, say person X working in the CBI unit was paid USD 4,000 for the month of February 2012. If there is a delay in recording this entry in the accounting system and thus the entry is noted only in April 2012, the transaction listing provided to us for this study will show this entry as a personnel cost for Phase IIA (which started in April 2012) rather than the correct Phase IB. By eye-scanning some of the entries, we noticed there was no uniform lag in recording entries (thus meaning it is not reasonable to uniformly correct the dates by a few months) and lags of up to six months were present. Given the vast number of line items (7,000), we did not correct each line item but rather only corrected exceptional and obvious deviations from time. Therefore, it is important for readers to bear this limitation in mind when comparing costs by phases, particularly the absolute costs.

The second caveat is also data-related. This refers to the apportionment of FAO Somalia-wide shared costs attributed to CFW. Generally, in costing studies such as this, a suitable apportioning criterion is sought to attribute certain common overheads to the intervention being costed. For instance, one would ask: how much of the salary of the head of the Compliance unit[9] should we apportion to the CFW Programme? This usually, but not always, takes the form of a staff time-use survey to see, for instance, what percentage of the unit head's time is spent on activities pertaining to the CFW Programme, with a corresponding apportioning of his or her salary then being attributed to the programme.

In the transaction listing, we noticed that most shared overhead items were already apportioned to the CFW Programme, including common personnel costs for staff from, say, the Finance or Programme Management or Information Management units. However, the apportionment criterion or rules for these attributions are clearly not from the listings. In this version of the costing, we have proceeded with these attributions as supplied to us in the transaction listing. However, to triangulate these, we have undertaken an alternative mini costing exercise for personnel costs only by conducting time-use surveys for a list of staff (provided by the CBI unit) who spend at least some portion of their time on the CFW Programme. In short, we found that the difference between personnel costs reported by the two sources mismatched by US$600,000 over the entire period of this costing study. Compared to the staff time use figures, the expenditure listing over-reported personnel costs by US$72,000 in phase IB and underreported by US$655,000 in phase II. In the ultimate analysis, it is difficult to draw out clear conclusions from this triangulation exercise and comment on which data source could be more credible. See full discussion in Annex B below.

[9] Solely for purposes of illustration.

4 Results

4.1 Summary of key findings

Applying the costing methodology described above in Section 3.3, we arrived at the following broad findings:

Table 4 Summary of key findings (US$ '000), single financial year

Headline cost findings (US$ '000)	Phase IB	Phase II	Total
Total (US$/ year) programme cost	**18,691**	**25,826**	**44,517**
Pure cash transfer to beneficiaries	14,177	15,274	29,451
Beneficiary transport allowance	0	1,996	1,996
Tools for public works	78	232	310
Like-for-like TCTR (standard overheads + cash + transport) / (cash + transport)	**1.28**	**1.38**	**1.34**
Context-specific overheads	+0.00	+0.06	+0.03
Mandate-specific overheads*	+0.04	+0.05	+0.04
Actual TCTR* (Total programme cost) / (cash + transport + tools)	**1.32**	**1.48**	**1.41**
Alternative TCTR* (total programme cost - transport) / (cash + tools)	1.32	1.67	1.50

*Note that the denominators for mandate specific overhead costs and related TCTRs include tools, which are considered a mandate-specific benefit.

Delving into the details of these numbers, we arrived at the following broad findings, which are also set out in numerical form in Table 5 below:

- **The total programme cost** of FAO Somalia's CFW intervention including both transfer payments and non-transfer administrative costs, has been approximately US$ 44.5 million since its famine response programme started in October 2011. Decomposing this, in Phase IB the total cost was just over US$ 18.7 million, while in Phase II this was US$ 25.5 million.

- **Cash disbursed to beneficiaries** represented 66% (almost US$ 29.5 million) of total programme expenditure over the entire period of this study, reaching more than 140,000 beneficiaries[10]. The cash payments disbursed varied according to the phases: US$ 14 million in phase IB and US$ 15 million in Phase II.

- **Overhead costs** (excluding beneficiary transport costs and tools) constituted 29% (US$ 13 million) of the total programme expenditure over the entire period of this study: US$ 4.4 million in Phase IB and US$ 8.3 million in Phase II. A detailed breakdown of these costs can be found in Table 5 below.

- Budget categories with some of the largest shares of total programme costs included: **operating costs**[11] (US$ .5 million); **personnel** (US$ 2.9 million); and **NGOs' running costs** (US$ 2.8 million).

[10] While some new districts were added in successive rounds, some districts from previous rounds continued to be beneficiaries of the programme. Thus, 140,000 beneficiaries need not necessarily be referring to as many different individuals benefitting from the programme, as some beneficiaries are likely to be enrolled in more than one round.
[11] This term 'operating costs' is a composite term coined to include *Mgmt. fee to HQ/'Direct operating costs'*; *Money vendors' fees (for NGO payments and cash for beneficiaries)*; *Rental of premises*; and *Other operating costs*.

- Finally, the **TCTR** for the entire programme was around 1.41 USD for every dollar of cash paid to beneficiaries. However, this overall figure veils the fact that, between Phase IB and II, the overhead costs increased from 32c to 48c per US$ 1 disbursed to beneficiaries. If we exclude the transport allowance from the benefits benefit, the TCTR increases to around 1.67 per US$ disbursed in phase II, but remains unchanged in phase IB.

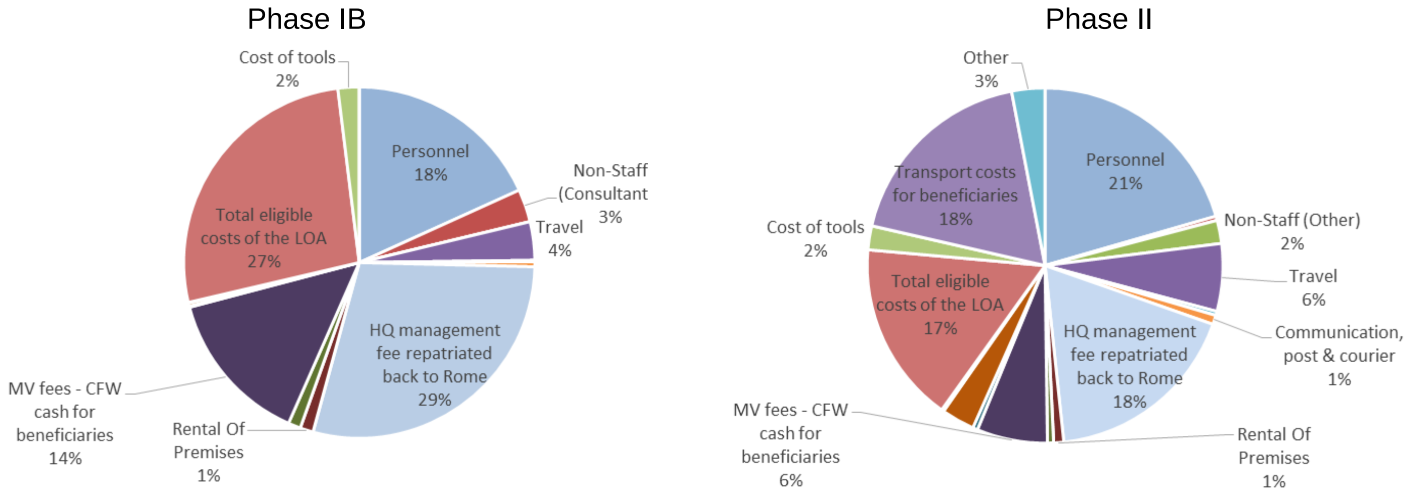
Table 5 Detailed breakdown of CFW Programme costs by budget categories, by phases (in US$ '000)

Items	Phase IB	Phase II	Total	As a % (excl. transfer)	As a % (incl. transfer)
No. of beneficiaries	**66,000**	**75,000**	**141,000**	**n/a**	**n/a**
Cash to beneficiaries (through MVs)	**14,177**	**17,240**	**31,417**	**n/a**	**70%**
Cash benefit	*14,177*	*15,274*	*29,451*	n/a	66%
Transport top-up	*0*	*1,966*	*1,966*	13%	4%
Amounts spent by NGOs	**1,136**	**2,000**	**3,136**	**21%**	**7%**
NGO running costs ('LOA payments')	*1,058*	*1,768*	*2,826*	19%	6%
Cost of tools	*78*	*232*	*310*	2%	1%
Amounts spent by FAO	**3,498**	**6,628**	**10,126**	**66%**	**23%**
Personnel	843	2,234	3,077	20%	7%
FAO staff (all contract types)	723	2,193	2,916	19%	7%
External consultants	120	41	161	1%	0%
Service contracts	669	225	894	6%	2%
Travel	140	658	798	5%	2%
International consultants	*9*	*187*	*196*	1%	0%
National project personnel	*120*	*330*	*450*	3%	1%
NGO staff and others	*11*	*141*	*152*	1%	0%
Training	0	17	17	0%	0%
Supplies – various	5	39	44	0%	0%
Communication	18	90	108	1%	0%
Operating costs	1,809	2,714	4,523	30%	10%
Mgmt. fee to HQ/ 'Direct operating costs'	*1,145*	*1,918*	*3,063*	20%	7%
MVs' fees (NGO payments)	*45*	*59*	*104*	1%	0%
MVs' fees (Cash for beneficiaries)	*567*	*687*	*1,254*	8%	3%
Beneficiaries' transport costs	*0*	*1,966*	*1,966*	13%	4%
Rental of premises	*48*	*97*	*145*	1%	0%
Other operating costs	*4*	*-47*	*-43*	0%	0%
O&M	12	323	335	2%	1%
Security services	*0*	*126*	*126*	1%	0%
Premises O&M	*0*	*96*	*96*	1%	0%
Vehicles O&M	*11*	*83*	*94*	1%	0%
Other O&M	*1*	*18*	*19*	0%	0%
Utilities	2	22	24	0%	0%
Vehicles	0	13	13	0%	0%
Equipment	0	293	293	2%	1%
Building maintenance equip.	*0*	*72*	*72*	0%	0%
Data processing equip.	*0*	*89*	*89*	1%	0%
Other expendable	*0*	*82*	*82*	1%	0%
Other non-expendable	*0*	*42*	*42*	0%	0%
Other	*0*	*7*	*7*	0%	0%
Total (US$)	**18,811**	**25,868**	**44,679**	**n/a**	**100%**

4.2 Shares of cost by budget categories

As was mentioned above, overhead costs constituted 29% (US$ 13 million) of the total programme expenditure over the entire period of this study: US$ 4.4 million in Phase IB and US$ 8.3 million in Phase II. The purpose of this section is to investigate the various budget categories that constituted these non-administrative costs and discuss their evolution between phases, trying to understand what may have triggered cost differences. Figure 2 below illustrates the cost shares of aggregated budget categories by phases and for the entire duration of this study ('total').

Figure 2 Breakdown of non-transfer costs by budget categories (%), total and by phases



Source: Authors; Note: *NGO overheads refer to payments made by FAO to various IPs in Somalia for implementing the infrastructure rehabilitation process. These do not include any cost of tools or beneficiary transport costs. **HQ management fee is FAO budget code 6118 'Direct operating costs', which is a share of the programme costs retained at source for repatriation to headquarters. ***Other is a composite category consisting of miscellaneous items such as rent, premises maintenance, utilities (water, power) and data processing equipment. Due to scarcity of space we are unable to show each of these individually in the figure above.

The most noteworthy feature of the figure above is the changes in the cost shares of various categories between phases IB and II. In particular, we note the following:

The share of NGO overhead costs in total programme costs was 19% over both phases. However, this decreased by five percentage points between phases, from 23% in Phase IB to 17% in Phase II. This may be due to the stricter selection criteria introduced in phase II, which resulted in the programme being implemented by a smaller number of NGOs with lower overhead costs.

These NGO overhead costs consist of administrative and in-country operational costs paid to NGOs (who are the programme's IPs) to cover their overhead costs[12]. Thus, we see that while the administrative burden on NGOs may have increased – with increasing beneficiaries and other risk mitigation and compliance requirements – the share of their overhead costs in total programme overheads in fact decreased as a percentage share.

We also note that the **shares of HQ management fee, and MVs' fees** all decreased in percentage terms in Phase II in comparison to Phase IB, although their absolute values in Phase II rose. This reflects a larger proportionate share in Phase II of other items such as agricultural tools,

[12] We have not included the costs of acquiring tools for public works and transport costs for ferrying beneficiaries to work sites in these costs. They are treated separately, although in reality NGOs often procured these on behalf of FAO on a reimbursable basis.

beneficiary transport costs, security and equipment (mainly for data processing), which has been due to the augmented expenditure on risk management and compliance as well as greater emphasis on infrastructure rehabilitation in Phase II.

4.3 Share of costs by bespoke programme components

As mentioned above, to understand the context of the CFW Programme's operations in Somalia as well as the share of various programme features in total costs, we further split total programme costs by a bespoke set of programme components of interest to the programme's implementers, namely FAO Somalia, the CBI unit and various in-country IPs. This is not a standardised set of categories generated through FAO's internal accounting system, and thus decisions regarding which budget codes to attribute to which programme component were made by the authors discretionarily based on their understanding of the programme's features and in consultation with the CBI unit at FAO Somalia.

The purpose of this section is to investigate various core programme components in terms of their shares in non-administrative costs and discuss their evolution between phases. The programme components being considered in this section are listed in Table 3 above, with examples of items included under each. Table 6 below lists their absolute values while **Error! Reference source not found.** illustrates the cost shares of components by phases and for the entire duration of this study ('total').

Table 6 Breakdown of non-transfer administrative costs by programme components (US$'000), total and by phases

Core programme components	Dominant budget item	Phase 1B	Phase II	Total	% (excl. transfer)	% (incl. transfer)
Transfers to beneficiaries		**14,255**	**17,472**	**31,727**	**n/a**	**71%**
Cash Transfers to beneficiaries	Cash	14,177	15,274	29,451	n/a	66%
Transport top-up for beneficiaries	Cash	0	1,966	1,966	15%	4%
Tools given to beneficiaries	Tools	78	232	310	2%	1%
Standard overhead costs		**3,970**	**6,613**	**10,583**	**82%**	**24%**
M&E	Non-staff consultants	160	215	375	3%	1%
Standard security	Security guards	0	16	16	0%	0%
Programme management	Non-staff consultants	671	1,985	2,656	21%	6%
FAO common costs	Mgmt. fee repatriated to HQ	1,145	2,086	3,231	25%	7%
MV fees for cash transfer	Money vendor fees	567	687	1,254	10%	3%
NGO and other operating costs	Rental of premises, vehicles	1,427	1,624	3,051	24%	7%
Context specific overheads		**62**	**895**	**957**	**7%**	**2%**
Risk mitigation	National project personnel	12	610	622	5%	1%
Context-specific security	Armoured cars	50	285	335	3%	1%
Mandate-specific overheads	LOA costs for public works component	**524**	**888**	**1,412**	**11%**	**3%**
Total (US$)		**18,811**	**25,868**	**44,679**	**n/a**	**100%**

Source: Authors' analysis based on FAO data: Note: The 'Dominant budget item' column lists the items that had the biggest share of the corresponding programme component.

4.3.1 NGO operating costs and other overheads

The largest non-transfer cost in phase IB was CFW operating costs, which includes the following items:

- Administrative and other operating costs of implementing NGOs, which could not be directly be attributed to their supervision of public works programmes.

- Costs for non-staff personnel (consultants) and service contracts (firms), which could not be identified as clearly falling under one of the other programme components listed below.

- Operations and maintenance costs, including improvement to premises, cleaning of premises, upkeep of premises (other than cleaning), vehicles operation and maintenance of equipment, insurance, security services. This item increased significantly under phase II, due primarily to increases in costs related to improvement of premises (from $0 to $96,196) and vehicle operation and maintenance (from $390 to $82,657).

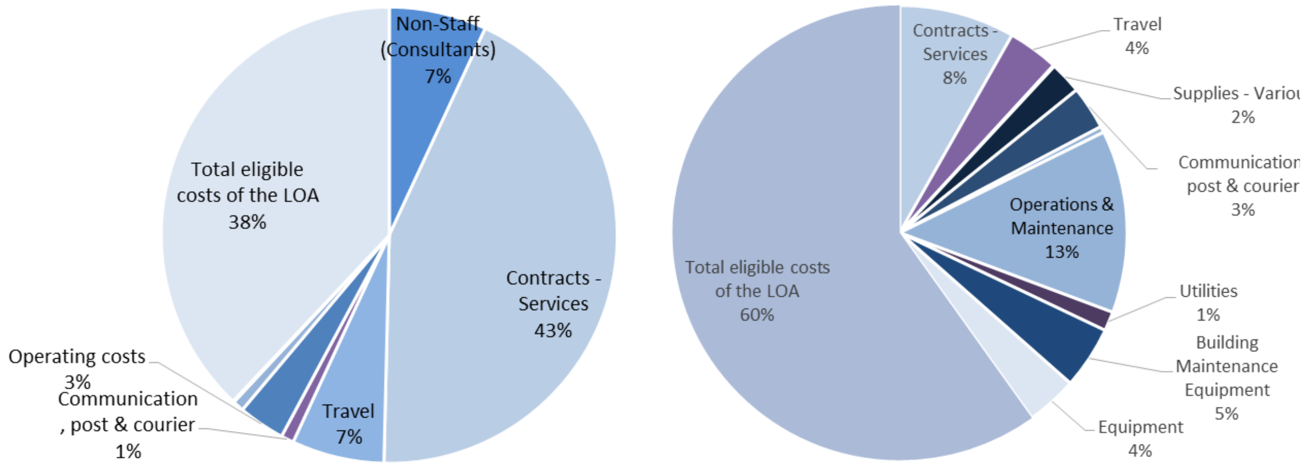
- Travel costs that could not be clearly identified as pertaining to one of the other components listed below. This includes mostly travel costs for FAO personnel and implementing NGOs to attend trainings or supervise projects on the ground. It does not include beneficiary transport costs, which are considered a benefit.

- Communications, post and courier costs (1% in phase IB and 3% in phase II); building maintenance (0% in phase IB and 5% in phase II); utilities, such as water, electricity, etc. (represented less than 1% of operating costs in both phases); communications equipment (0% in phase IB and 4% in phase II); various supplies, such as office stationary, books, periodicals, etc. (0% in phase IB and 2% in phase II); and other operating costs, such as rental of premises, etc. (3% in phase IB and less than 1% in phase II).

Figure 3: Breakdown of costs related to NGO operating costs and other overheads, by various budget categories

Phase IA

Phase II



4.3.2 Infrastructure rehabilitation

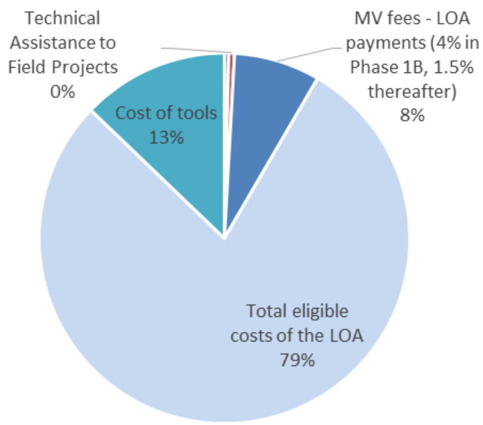
The cost of activities related to rehabilitation of infrastructure decreased from 13% of non-transfer costs to 11% between phases I and II (as is clear from

Figure 4 below). Figure 4 below shows that there was a sizable increase in costs related to the provision of tools, as well as costs of personnel (national project staff and locally recruited consultants) working on the public works component. Most of these payments, being recurrent in nature, will have to be incurred in subsequent years.

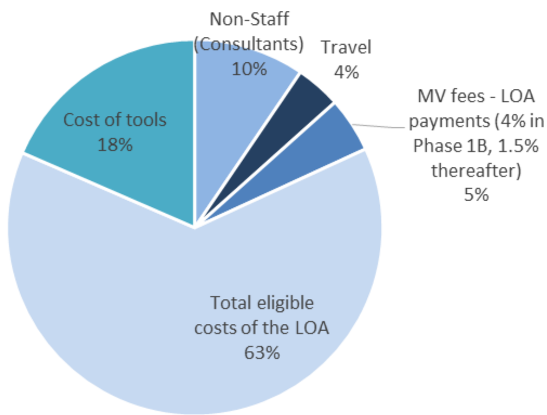
This includes Money Vendor fees incurred for transfer of payments to NGOs (not beneficiaries), as well as NGO overheads that are directly attributable to their role in the supervision of public works activities.

Figure 4 Breakdown of costs related to infrastructure rehabilitation by various budget categories

Phase IB



Phase II



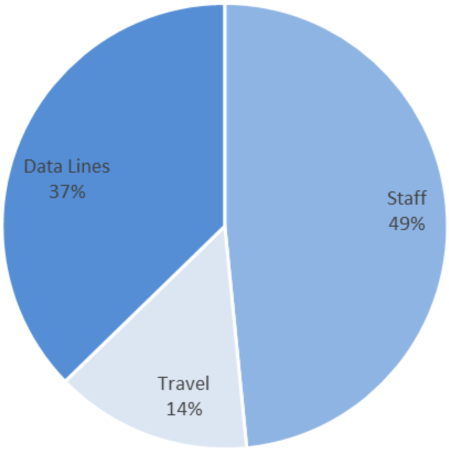
Source: Authors, based on FAO data. Left: Phase IB, Right: Phase II

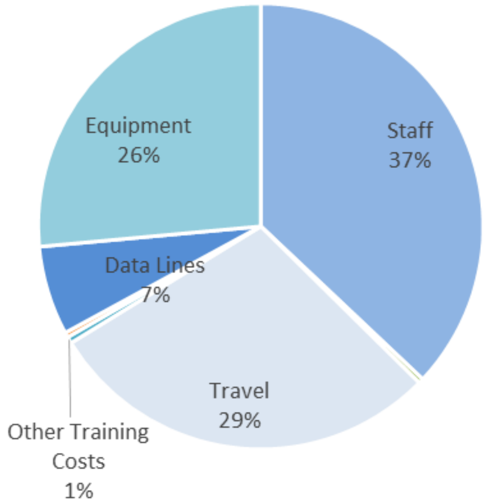
4.3.3 Risk mitigation, and compliance systems

As discussed above, the beginning of Phase IIA saw renewed emphasis on investment in **risk mitigation, as well as on compliance systems**, including investment in field monitors, biometric fingerprinting to ensure receipt of cash by beneficiaries, and phone calls from Nairobi to beneficiaries to ensure receipt of cash payments and discuss their overall experience with the CFW Programme. Expenditure on risk mitigation, as a percentage of non-transfer costs, increased from US$ 12,000 in Phase IB to US$ 610,000 in Phase II, chiefly led by higher personnel costs in relation to national project personnel (mainly the cadre of field monitors) but also lumpy expenditure items like data processing mainframes and biometric equipment (as shown in Figure 5 below).

Figure 5 Breakdown of risk mitigation and compliance activities by relevant budget codes, by phases

Phase IB Phase II





Source: Authors, based on FAO data. Left: Phase IB, Right: Phase II

4.3.4 Security-related costs

Given the lack of access to several programme districts (particularly in South Central regions) due to insurgency and threats against aid agencies by *Al Shabaab*, we also monitored costs attributable to **security in CFW operations**, breaking them into standard security arrangements and Somalia context-specific security activities. We noted that expenditure on standard security costs (such as the cost of, say, a standard office guard) were minimal and represented less than 1% of total non-transfer costs in any given phase. As for context-specific security, which increased from US$ 50,000 to US$ 285,000 from Phase IB to II, it was still at the lower end of cost shares in comparison to other components.

When eye-scanning through the various transactions categorised as 'security' related, we noticed that most of the large payments under this item were listed as 'agency cost sharing' with UNDP Somalia and as payments to UNON. It was unclear from the transaction listings whether such expenditures were for fixed costs or recurrent, and thus it is difficult to comment on how one would expect these security costs to pan out in subsequent years. If these are recurrent, one would expect them to be incurred each year; otherwise, lumpy security costs can be spread out over the short and medium term.

4.3.5 Costs of other programme components

A few components' cost shares remained largely constant or showed small changes in terms of percentage points. These included M&E (constant around 3%) and MV fees. However, it is noted that most of these expenditures are related to recurrent items (mainly personnel and travel) and thus it is expected that these would have to be incurred in subsequent years and are unlikely to decrease as is the case with fixed investments.

4.4 TCTR

The purpose of this section is to comment on the cost-efficiency of the CFW Programme by looking at its TCTR. As mentioned above in relation to Equation 1, the TCTR is simply a ratio of the total programme cost to the cash payments disbursed to beneficiaries, thus indicating the total amount spent by the programme for each dollar of cash disbursed.

Table 7 below summarises the following TCTRs: for the entire CFW Programme (1.41 per US$ 1 disbursed); for Phase IB (32c); and for Phase II (48c)

Furthermore, we have also broken down the TCTRs by various programme components so as to indicate how different activities collectively contribute towards these TCTRs. These TCTRs for respective components mirror the discussion just concluded on component shares in non-transfer administrative costs.

Briefly, we note that, in Phase IB, among the programme components of interest to us, FAO Somalia-wide common costs and programme management comprised the highest share of TCTR. In Phase II, the FAO common costs increased approximately from 8 to 12 cents for each dollar of cash disbursed, while programme management rose from 5 cents to 12 cents per US$. Risk mitigation, which comprised less than a cent in Phase IB, comprised 4c per dollar disbursed in Phase II.

The analysis presented in Table 7 suggests that the additional cost incurred by the programme as a result of the challenging country-specific context in which it operates, represents a relatively small proportion of overhead costs (3c per USD disbursed over the entire of the programme). However, this amount increased significantly from close to 0c in phase IB to close to 6c in phase II, as a result of the additional security and risk mitigation measures that were introduced in 2012 following the deterioration of the security situation and the discovery of significant irregularities in some implementing partners. Furthermore, it is important to note that this is likely to be an underestimate of the true cost-premium of operation in Somalia, since we were only able to include direct and clearly identifiable costs incurred as a result of specific activities implemented in response to context-specific challenges, such as satellite imagery verifications of infrastructure work or call centres to verify disbursement of funds to beneficiaries. As such, it does not include costs, such as the time of core project personnel who have been diverted from their regular tasks to investigate irregularities with implementing partners, or dealing with security or other emergencies.

The mandate-specific overheads, which could be directly attributed to the public works component of the programme, represented 4 cents per US$ disbursed over the entire duration of the programme.

Table 7 Component-wise TCTR (per 1US$ disbursed), total and by phases

Core programme components	Phase IB	Phase II	Total
Standard benefits: Cash + Transport	**1.00**	**1.00**	**1.00**
M&E	+0.01	+0.01	+0.01
Standard security	+0.00	+0.00	+0.00
Programme management	+0.05	+0.12	+0.08
FAO common costs	+0.08	+0.12	+0.10
MV fees for cash transfer	+0.04	+0.04	+0.04
NGO and other operating costs	+0.10	+0.09	+0.10
Like-for-like TCTR (standard overheads + cash + transport) / (cash + transport)	**1.28**	**1.38**	**1.34**
Risk mitigation overheads	+0.00	+0.04	+0.02
Context specific security overheads	+0.00	+0.02	+0.01
Mandate-specific overheads*	+0.04	+0.05	+0.04
Actual TCTR* (total programme cost) / (cash + transport + tools)	**1.32**	**1.48**	**1.41**
Alternative TCTR* (total programme cost - transport) / (cash + tools)	1.32	1.67	1.50

*Note that the denominators for mandate specific overhead costs and related TCTRs include tools, which are considered a mandate-specific benefit.

Source: Authors' analysis, based on FAO data.

In light of the significant changes in programme characteristics in Phase IIA (vis-à-vis Phase IB), we have already discussed above the limited applicability of the phase-wise and total CTRs described in this section, particularly when it comes to commenting on the relative cost-efficiencies of individual phases or when attempting to comment on the cost-efficiency of the CFW Programme in comparison to other cash-for-work programmes in Somalia. We return to this issue of comparator analysis in the discussion section below.

5 Discussion

This report discusses findings from a retrospective financial costing exercise of FAO Somalia's CFW Programme, implemented by its CBI unit. We cover the costs incurred to implement the CFW Programme over approximately 2 ½ years of its operations from October 2011 when the famine was declared till the end of 2013. We looked at costs by budget categories, by a bespoke list of core programme components, and ultimately by the TCTR of disbursing one dollar to beneficiaries.

Trends in non-transfer administrative costs and the large share of recurrent costs

In Phase II, the total volume of cash payments to beneficiaries increased by 8% (of total programme cost) and the number of beneficiaries by 13% vis-à-vis Phase IB. The non-transfer administrative costs over the same period increased by 84%. Some of the core programme components that drove this increase in administrative costs were risk mitigation, security-related and FAO common costs. An increase in the programme's costs is not intrinsically worthy of raising an alarm, as these costs could beneficially represent expenditures that strengthen the systems and processes of programme delivery. The Process review report (Volume II) discusses these dimensions. Increased costs could also represent upfront investment in fixed costs, which are implicit in the initial years of most programmes but plateau out in subsequent years. However, from our assessment of the nature of these cost drivers, most of the increased costs were being incurred to cover recurrent costs such as transport costs for beneficiaries, FAO personnel costs, MV fees, etc. These costs are not one-off costs and are unlikely to subside over time, given that most of them are recurrent by nature.

Decrease in NGO overheads vis-à-vis caseload and reporting requirements

NGOs' overhead costs, which are paid by FAO to the NGO/IPs through LOA, have decreased by five percentage points between phases, from 23% of non-transfer costs in Phase IB to 17% in Phase II. These NGO overhead costs consist of administrative and in-country operational costs paid to NGOs (which are the programme's IPs) to cover their overhead costs. In Phase II, the total volume of cash payments to beneficiaries increased by 8% (of total programme cost), and the number of beneficiaries by 13% vis-à-vis Phase IB. Thus while the beneficiary caseload, volume of transfer and reporting requirements through bi-weekly reports and other compliance activities have increased substantially between Phase IB and II, their overheads costs have flattened. This may partly reflect the more stringent screening process introduced at the stage of selecting implementing partners, where overhead costs where considered as a criterion in the selection process. The Process review report (Volume II) picks up on this point briefly in Section 4.5.1, but procurement of NGOs' services was beyond the scope of the process review as well as this report. Any further investigation of this strand of finding would have to check if the plateauing of NGO overheads is reducing the quality of their implementation services to FAO and/or compelling NGOs to cross-subsidise from other non-FAO sources of funds. Ultimately, what has to be borne in mind is that achieving value for money does not equate to a one-dimensional pursuit of procuring things 'cheaply' but rather sourcing the best quality inputs at the right price.

Costs associated with infrastructure rehabilitation are large but could still be underestimated

The cost of activities related to rehabilitation of infrastructure as a share of total programme costs increased from 3.2% to 4.3% between phases I and II (as is clear from

Figure 4). These costs have been calculated by isolating infrastructure rehabilitation-related costs but there is a need to be circumspect about these figures because of risks of underestimation. For instance, there are interdependencies between infrastructure rehabilitation and risk mitigation costs and a share of costs incurred under risk mitigation and compliance (such as in relation to satellite imagery or Form Management Tool forms) could be apportioned to infrastructure rehabilitation-related costs, thus further increasing the category's share in total programme costs.

A complex and unique programme with few comparators

The CFW Programme is complex and unique in many respects, including: its extensive systems and processes for risk mitigation, compliance and monitoring; its network of NGOs delivering the programme in-country; large number of beneficiaries (140,000); and its operations in an extreme-risk environment like Somalia within the context of no formal banking system. All of these aspects add to the rare and multipart nature of the programme but simultaneously make useful comparator analyses difficult. This is because we found no programme that could mirror or even closely resemble the CFW Programme in all its key facets.

However, by isolating the costs relating to (a) the challenging country context (i.e. extra security and remote management), and (b) FAO's mandate restrictions, we were able to compute a like-for-like TCTR, which give an indication of how cost efficient the programme might have been in a different context. It also allows us to quantify the cost surplus incurred by the programme as a result of the challenging environment. The comparison shown in Table 8 below, shows that the TCTR of this programme lies within the range of other cash-transfer programmes in the region, even when mandate and context specific overhead costs are taken into account.

Table 8: Comparison of FAO's TCTRs with that of other cash-transfer programmes

Programme name	Years of operation	Nb. of direct beneficiaries	TCTR
Mexico PROGRESA/ Oportunidades	16	6,500,000	1.05
Kenya HSNP, 2011/12	4	68,611	1.21
Kenya CT-OVC, 2008/09	3	15,000	1.34
FAO Somalia CFW (like-for-like)	**3***	**75,000**	**1.38**
Ethiopia PSNP, 2010-11	7	7,535,451	1.38
FAO Somalia CFW (actual)	3*	75,000	1.48
Bangladesh CLP, 2011-12	8	17,485	1.59
FAO Somalia CFW (actual, excluding transport)	3*	75,000	1.67
Zambia Child Grant, 2011	2	32,643	1.79
Ghana LEAP, 2010	3	26,079	2.11

*Since the famine scale-up

Source: Philip White, Anthony Hodges, and Matthew Greenslade, (April 2013), Guidance on measuring and maximising value for money in social transfer programmes – second edition, Department for International Development.

Annex A List of people met

Name	Position	FAO Somalia unit
Alberto Moreno	Security Officer	Security
Bakhta Boualam	Compliance Officer	Officer in-Charge Office
Camilla Dupont	HR Officer	Human Resources
Chana Opaskurnkul	LOA & Monitoring Officer	Monitoring & Information Management
Dan Opiyo	Cash-for-Work Officer	Cash Based Interventions
Germain Mirindi	ICT Coordinator	ICT
Giuseppe Simeon	Coordinator	Cash Based Interventions
Julie Lawson-Macdowall	Coordinator	Cash Based Interventions
Mohamed Hassan	HR/Admin Assistant	Human Resources
Nicolas Tremblay	Liason & Operations Officer	Programme Management Unit
Rajiv Agarwal	Operations Officer	Administration & Finance
Ruby D. Khan	Operations Manager	Cash Based Interventions
Stoyan Nedyalkov	Procurement Officer	Procurement
Thomas Michael Gabrielle	Information Management Advisor	Monitoring & Information Management

Annex B Triangulating personnel costs using two data sources

The purpose of this case study is to check the quality of cost-related data used for conducting this study.

As mentioned above, there are data quality concerns pertaining to the expenditure listing received from FAO Somalia to conduct this study. This concern mainly refers to the apportionment of FAO Somalia-wide shared costs attributed to CFW. Generally, in costing studies such as this, a suitable apportioning criterion is sought to attribute certain common overheads to the intervention being costed. For instance, one would ask: how much of the salary of the head of the Compliance unit should we apportion to the CFW Programme? This usually, but not always, takes the form of a staff time-use survey to see, for instance, what percentage of the unit head’s time is spent on activities pertaining to the CFW Programme, with a corresponding apportioning of his or her salary then being attributed to the programme.

In the transaction listing, we noticed that most shared overhead items were already apportioned to the CFW Programme, including common personnel costs for staff from, say, the Finance or Programme Management or Information Management units. However, the apportionment criterion or rules for these attributions are not clear from the listings. In our costing study, we have proceeded with these attributions as supplied to us in the transaction listing. However, to triangulate these, we have undertaken an alternative mini costing exercise for personnel cost only by conducting time-use surveys for a list of staff (provided by the CBI unit) who spend at least some portion of their time on the CFW Programme.

Based on the list of staff members provided by the CBI unit, we asked heads of each unit to estimate how much time staff working under them had spent in various phase of the CFW programme, to understand how much of personnel costs were attributable to the CFW programme. We received personnel cost data, as of 31 December 2013, from the human resources team at FAO Somalia. For years 2011 and 2012, personnel costs for 2013 were deflated by the US consumer price index: 2011 (3%), 2012 (1.7%). The time-use percentages were then multiplied by each staff members’ personnel cost to get the totals for each phase. This is summarised in Table 9 below.

Table 9 Summary of personnel costs, as reported in the expenditure listing versus staff time use survey

Data source	Phase IA (US$ ‘000)	Phase II (US$ ‘000)	Total (US$ ‘000)
Expenditure listing	1,045	2,077	3,122
Staff time use survey	973	2,732	3,706
Difference	+72	-655	-589

In short, we found that the difference between personnel costs reported by the two sources mismatched by US$600,000 over the entire period of this costing study. Compared to the staff time use figures, the expenditure listing overreported personnel costs by US$72,000 in phase IB and underreported by US$655,000 in phase II.

Both data sources have issues. While the assumptions behind expenditure listings’ apportioning of personnel costs to CFW programme are unclear, staff time use apportioning percentages are reported by respondents in wide ranges making room for imprecision, i.e. some of the most common responses were “5-10%” or “10-15%” for percentage of time spent on the CFW programme. Thus, both sources are fraught with opaque assumptions. In the ultimate analysis, it is difficult to draw out clear conclusions from this triangulation exercise and comment on which data source could be more credible.

Annex C Explaining the difference between cost-efficiency, cost-effectiveness and cost-benefit analysis

Cost-effectiveness analysis

If the effect of the cash transfer is to be measured at the level of impact, this would mean collecting information on changes in the living standards of the recipients. Quantitative analysis of the impact of a cash transfer programme is generally obtained by a household survey. This might require hundreds or even thousands of households to be interviewed at least twice, once as a baseline before receiving the cash and once afterwards. One would expect part of the sample to be a control group, that is the same as the treatment (recipient) group in every respect except that it does not receive the cash, so that the effect of the cash can be isolated. The household survey could show results such as whether the cash has altered households' consumption patterns, dietary diversity, use of education and health services, and the use of financial products and services and communications.

Additional quantitative findings about the impact of the programme might be obtained by looking at changes in market prices during the time that the transfer is distributed. This requires a regular survey, such as a monthly or weekly survey, of the prices of a standard bundle of food and non-food items in many villages, to see whether the disbursement of the cash transfer is causing local price rises.

Quantitative impact analysis using a survey is an expensive and time-consuming research activity.

Cost–benefit analysis

An alternative approach is to look at cost–benefit analysis, i.e. the cost of providing the transfer relative to the identified benefit for the beneficiaries. This does not need a control group since the research does not try to assess whether some other mechanism was more effective. However, it does still require a survey of hundreds of beneficiaries to identify the costs and the benefits.

A method which uses fewer resources is to use administrative records to quantify the benefit of the programme in terms of *outcomes*, such as the number of people reached, the number of transfers made, the timeliness of receipt of transfers, or the number of cases of fraud identified. This requires the programme to have in place a well-functioning management information system (MIS) that collects information on all the variables required for analysis.

Cost-efficiency analysis

A third approach is to conduct an analysis of cost-efficiency, which is the cost of delivering the transfer relative to the size of the transfer itself. This can make comparisons that say, for example, that it costs $X in administration to deliver a payment of $25 to a household in cash, but $Y in administration to deliver the same size payment via a mobile phone. It does not analyse the effect of receiving the payment so it is not possible to say, for example, that it costs $X to achieve a change of size *y* in the diversity of household consumption / rates of attendance at schools or health facilities / use of mobile phones. This eliminates the cost of administering a household survey to quantify the effect of the cash.