Guidance Note for Transfer Modality Comparative Cost Analysis

Somalia Food Security Cluster (2013)

Background

In the design of any programme, a number of factors need to be analysed in order to select the most appropriate transfer modality between cash, vouchers and in-kind. Agencies are being required more and more by donors to justify that projects are efficient and effective and the Food Security Cluster (FSC) now requires more rigorous cost-efficiency analysis between transfer modalities. When applying for CHF and CAP, agencies will be required to fill in the ‘Quick Calculation Tool’ to demonstrate that these costs have been considered in the transfer modality selection.

The scope of this FSC guidance note is to provide a simple methodology for agencies that do not already have a tool to calculate cost-efficiency. It will not aim to provide a comprehensive cost-effectiveness calculation methodology but rather will outline the key elements of this for further consideration.

The guidance note will be made of three sections. The first will highlight the difference between cost-efficiency and cost-effectiveness. The second section will outline a simple cost-efficiency calculation that any organisation can conduct to compare the costs of food, cash or vouchers. The third section will look at going beyond the cost-efficiency calculations, highlighting where further information on this can be found.

Section 1: What is the difference between Cost-Efficiency and Cost-Effectiveness?

Cost-efficiency looks at the comparable cost of delivery between food, cash and vouchers, measuring outputs against inputs in monetary terms. It looks at the costs of the food basket and supply chain as well as the operational and administrative costs. This calculation can be done during the programme design phase and mapped out in the log frame at input/output level.

Cost-effectiveness goes a step further to look at how much it costs to effectively meet the objectives of the programme, mapping out all costs and benefits in the logical framework. This is quite a complex calculation to measure the costs of achieving programme outcomes such as improved food consumption and increased nutritional intake. Parts of this analysis can be carried out at design stage, as well as during impact monitoring and evaluation of the programme outcomes.

Section 2: Cost-Efficiency

In the process of transfer modality selection, a simple calculation can be carried out to determine cost-efficiency, looking at the comparative cost of delivering a given transfer to a beneficiary, including the cost of the transfer itself.
Cost-efficiency is calculated by dividing the costs of one transfer modality by the costs of the transfer modality that is for comparison. For example, to identify the cost-efficiency of cash transfers as compared to in-kind transfers, the calculation is:

1. **Divide** the cash transfer value (in the currency of operation), plus the costs of delivering the cash transfer by
2. the costs to the agency to buy the food in-kind and deliver this food.

Cost-efficiency calculation results vary considerably depending on the situation of the country concerned. When comparing for example the cost-efficiency of cash vs in-kind as above, the result 1.0 means that both are the same cost-efficiency. If the figure is below 1.0 then cash is cheaper than in-kind. If the figure is above 1.0 then in-kind is cheaper than cash.

The ‘Cost-Efficiency Quick Calculation Tool’ that accompanies this guidance note has been developed to simplify this calculation by following the five steps below:

**Figure 1: Cost-Efficiency Quick Calculation Tool**

Costs included should be comprehensive in order to get a true cost comparison.
Section 3: Looking beyond Cost-Efficiency

The cost-efficiency calculation above is a very useful, simple tool to determine which transfer modality is the cheapest to deliver and is a good start to further analysis during programme design. Cost-efficiency analysis does however have limitations. Low cost-efficiency for example does not always mean low cost-effectiveness, since sometimes higher delivery costs can be justified in order to achieve even higher outcomes and objectives. The bottom line when making funding applications is, if the cheapest option is chosen then can objectives still be met? If the more expensive option is chosen, can these extra costs be justified? Additional factors can also be considered such as: Is the project at a pilot stage with high set-up and equipment costs? Do costs differ significantly between seasons and contexts within a country? Are there externalities such as impact on the local economy or gender issues which are more evident in one transfer modality than another?

These additional questions are important to ask as value for money is not only about minimizing costs, it is about maximizing the impact of every dollar spent to ensure that programming is as effective as possible. Cost-effectiveness however is not an easy calculation to make and many layers of complexity can be added. Certain assumptions about effectiveness also need to be made before the project starts and can then be tested out at evaluation stage.

For agencies that would like to go beyond the simple cost-efficiency calculation, additional resources on how to measure cost-effectiveness can be found from the following sources:

- **DFID (2011)** DFID’s Approach to Value for Money (VfM).
- **DG ECHO**, Evaluation and Review of the Use of Cash and Vouchers in Humanitarian Crises.
- **Harvey, P. (2007)** Cash-Based Responses in Emergencies, HPG Report No. 24, ODI.

Conclusion

As agencies now have the full range of cash, vouchers and food to choose from, so they need to become smarter in programme design and more accountable in their justifications of transfer modality selection. This guidance note has aimed to provide a simple cost-efficiency calculation tool that agencies can use when selecting between food, cash or vouchers, as well as to provide comparisons between different delivery mechanisms. It has also encouraged agencies to go beyond these simple calculations to look also at cost-effectiveness and where to go for additional information.