The total cost of the emergency nutrition response needs to be determined. The budget should reflect all planned humanitarian action required to fulfil the NiECG objectives: Currently, there are two main ways of establishing the cost of the response plan at sectoral/cluster levels:

**Project-based costing**

**Preconditions**

●    Ideal in settings that have been using the method in the past and that are satisfied with it.

●    The process must be clear, and no unexpected changes (such as setting a ceiling at a late stage for example) should be accepted.

●    Agreement by all partners for full public disclosure of their project on OPS / FTS

●    OCHA in country is able to support in OPS usage - including OPS introductions, training and user support (in addition to the support provided by OCHA Geneva), and is able to manage and communicate on the overall process of project submission and vetting.

●    OCHA in-country should also actively participate in ensuring that FTS is updated.

**Methodology**

The clusters/sectors identify humanitarian activities, with indicators and targets in line with the strategic objectives and present them in the cluster/sector response plans of the HRP. Subsequently, all sector members submit their projects, including project budgets, through the online project system (OPS) database. The SAG or the Project Review Committee vets projects according to an agreed timeline and criteria, and all projects are subsequently submitted to the HC for final approval. The total sector budgets are calculated as the sum of the approved project budgets. The total budget, as listed in the HRP and financial tracking service (FTS), is the sum of all sector budgets. Main responsibility for costing lies with cluster partners which the responsibilities for vetting process lies with the Clusters, the SAG or the PRC.

**Advantages**

●    Peer-review of projects strengthens sector internal dynamics and allows for quality check of submissions, and for coherence with sector response plans.

●    This process provides an overview of response capacity. Looking at planned projects, cluster coordinators have a vision of who is intending to do what where, which facilitates identification of potential gaps in the response, as well as duplication of projects.

●    The system provides visibility to participating organisations vis-à-vis donors. This gives donors easy access to information about organisations on the ground to facilitate their funding decisions.

●    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.

**Disadvantages**

         The process can be time consuming and heavy, especially for organisations who have already secured funding.

●    The process can be lengthy and seen as static, and revising projects can be seen as cumbersome.

●    The approach may lead to over or under budgeting as organisations may inflate or underestimate funding needs to cover their project costs.

**Activity Based Costing or Unit costing**

**Preconditions**

●     Buy-in from all sectors and agencies ahead of the planning process.

●     Agreement by partners and sectors to share minimum information on projects implemented within the HRP framework with OCHA in order to enable response monitoring and financial tracking.

●     Strong, functioning sectors to ensure sound, well-informed costing methodology, e.g. for the nutrition the cost of treating one SAM or MAM child which should include all cost,  the cost of delivering aspects of  IYCF-E intervention, BSFP, MN etc., which most times do not exist..

●     HC leadership is required to apply this methodology across the sectors.

●     Understanding within each sector on key principles of activity/service-based costing methodologies, and agreement to a coherent approach within and across sectors for costing key activities/services and common cost drivers  (e.g. per service delivered or response activity carried out) and/or investment in bringing in technical expertise to bring all cluster coordination teams to a similar capacity to lead cluster/sector process.

●     Solid baseline information on number of people in need and (unit/activity) prices is needed to generate trustworthy cost estimates that can be documented.

●     The requisite amount of human resources for fully implementing the approach.

**Methodology**

Activity-based costing for humanitarian appeals refers to a method of estimating overall resource needs for a humanitarian response plan (HRP), using average costs per sectoral activity, per person served, or per item delivered. This calculation allows a country operation to focus its HRP on the overall estimated cost for the planned response, in line with the humanitarian needs overview (HNO) and the country’s strategic objectives.

In this approach the costs per sector are determined on a unit cost per person per type of activity; sectors identify humanitarian activities, with indicators and targets, and present these in the sector response plans. Cluster/sectors must decide whether activities/services identified are grouped by intervention area (e.g. higher level outputs) and costed at this level, or whether smaller supporting activities under each intervention area (e.g. training, facilities repair, service operation) are costed separately.  For each planned activity, an estimate budget is established, using an activity-based costing method, and these sector budgets form the total HRP budget. Projects are not vetted, nor registered in OPS. The responsibility for costing lies with the clusters, less with the cluster partners, however, the agreement on standard costs to be applied has to be agreed by all, which in the case of nutrition is not possible as for a number of interventions, there are no standardized costs.

**Advantages**

●    The approach ensures participation by all actors in the response planning process, without requiring the disclosure of detailed project information by organization.

●    Reduces transaction costs related to project planning and vetting and possible complications due to government engagement in this process.

●    The planning and budgeting process of the HRP is less influenced by organisation’s concerns about projects and funding requirements, encouraging more cohesive planning and prioritisation.

●    The methodology promotes improved strategic coordination and coherence of appeal documents.

●    If the HCT has the right capacities in place, and clusters have worked out sectoral activity based costs, rapid application is possible in sudden onset crises.

●    Organisations and sectors are under less time pressure during the HRP process, with a lighter administrative burden, particularly on organisations, prior to the launch of the appeal.

**Disadvantages**

●    As there is no peer review and vetting process, there is weaker quality control in the project planning phase, including quality assurance tools such as the gender marker and the identification of duplications and gaps in a sector’s overall intervention package.

●    Loss of transparency and accountability as incentive to use OPS and FTS systems may decrease the reporting of funding received and the accuracy of FTS data.

●    Difficulties related to financial and activity tracking makes sector coordination more challenging.

●    Lack of existing guidance for cluster level activity cost at a global level.

●    Costing of intercluster activities is problematic.

●    Unit based costing is more problematic for certain clusters such as protection or coordination.

**Other methods**

In some places a hybrid method consisting of cluster requirements + projects have been used. Two possible ways have been tried so far:

**Flash appeal style:** requirements are activity-based at the onset of the emergency, then, when the appeal is revised, projects are elaborated, and the requirements are the total of projects requirements.

**Marketplace approach:** (as done in CAR/Burundi) where requirements remain unit based costing, but projects total might be higher or lower, showing either lack of coverage by agencies, or competition among agencies. There is not enough evidence at this point that this method is useful. In particular, cluster partner have reported that this means additional work that does not yield additional funding.

Overall, the projects based costing has been sued but in a few countries, active based costing has been used, but the move towards unit costing or activity based costing is still under discussion following a review undertaken by OCHA in 2015.