

Study on Approaches to Assess Cost-Effectiveness of DG ECHO's Humanitarian Aid Actions

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Abstract

This independent study examines approaches to assess the cost-effectiveness of ECHO's humanitarian aid operations. It comes at a pertinent time internationally with the World Humanitarian Summit Grand Bargain calling for humanitarian actors to work together efficiently, transparently and harmoniously and to 'get more means into the hands of people in need'. It is also relevant to reform efforts in the European Commission and ECHO on Better Regulation and improvements to results management through the introduction of standard key output and outcome indicators. The study draws on a range of different sources of evidence including a review of evaluations and literature, numerous interviews, and corporate and project data; resulting guidelines were further tested in a case study.

The study produced detailed guidance for assessing cost-effectiveness in ECHO ex-post evaluations. It suggests one Evaluation Question for all geographical evaluations, and provides a minimum and a full package of analysis reflecting different levels of importance given to cost-effectiveness in each particular case. The study also recommends that ECHO considers starting a change management process with the aim of making ECHO a more efficient and cost-effective humanitarian donor. It provides hereby suggestions for adapting ECHO's management and monitoring systems and structures.

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List of acronyms and abbreviations

CBA	Cost Benefit Analysis
CEA	Cost-Effectiveness Analysis
CER	Cost-Effectiveness Ratio
CMAM	Community-based Management of Acute Malnutrition
DAC	OECD Development Assistance Committee
DALY	Disability Adjusted Life Year
DEVCO	European Commission Directorate-General for International Cooperation and Development
DFID	United Kingdom Department for International Development
DRC	Danish Refugee Council
EC	European Commission
ECHO	Directorate-General for European Civil Protection and Humanitarian Aid Operations
EQ	Evaluation Question
EU	European Union
FAO	United Nations Food and Agriculture Organization
FichOp	ECHO Fiche Operationelle
FPA	Framework Partnership Agreement
FTS	Financial Tracking Service
GAM	Global Acute Malnutrition
GGOPHA	General Guidelines on Operational Priorities for Humanitarian Aid
HIP	ECHO Humanitarian Implementation Plan
HOPE	ECHO Humanitarian Office Programme Environment
HQ	Headquarters
IAF	ECHO Integrated Analysis Framework
ICAI	Independent Commission for Aid Impact
IRC	International Rescue Committee
JC	Judgement Criteria
KPI	Key Performance Indicator
KRI	Key Results Indicator
MAD	Minimum Acceptable Diet
MFF	ECHO Multi-Year Funding Framework
MS	Member State
NGO	Non-Governmental Organisation
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
OECD	Organisation for Economic Cooperation and Development
OFDA	United States of America Office of Foreign Disaster Assistance
PHASE	Providing Assistance to Sahel Emergencies Programme

QALY	Quality Adjusted Life Year
ROI	Return On Investment
RUTF	Ready-to-Use Therapeutic Food
SAM	Severe Acute Malnutrition
SRP	Strategic Response Plan
TCTR	Total Cost Transfer Ratio
ToR	Terms of Reference
UK	United Kingdom of Great Britain and Northern Ireland
UN	United Nations
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Emergency Fund
VfM	Value for Money
WASH	Water, Sanitation and Hygiene
WFP	United Nations World Food Programme
WHO	United Nations World Health Organization
WHS	World Humanitarian Summit
WWD	ECHO World Wide Decision

Executive Summary

Introduction and Purpose

The “Study on Approaches to Assess Cost-Effectiveness of DG ECHO’s Humanitarian Aid Actions” was commissioned by the Evaluation Sector of the European Commission’s Directorate-General for European Civil Protection and Humanitarian Aid Operations (ECHO).

The study is an important contribution by the ECHO Evaluation Sector to Commission requirements included in the European Commission (EC) Financial Regulation and Better Regulation Guidelines for better and more consistent cost-effectiveness assessments of Commission activities. The study builds on ongoing ECHO work to improve results management.

The study on approaches to assess cost-effectiveness also contributes to thinking on how ECHO could approach a number of World Humanitarian Summit commitments made in the Grand Bargain to work together efficiently, transparently and harmoniously in the context of ever increasing humanitarian needs and deepening deficits.

The purpose of this study was

1. to assess the feasibility of recognised approaches to cost-effectiveness assessment for ECHO humanitarian aid operations,
2. to provide practical approaches for assessing cost-effectiveness within the parameters of ECHO’s operations and data collection practices for ex-post geographical /country level evaluations, and
3. to make recommendations for improving monitoring and management systems to facilitate cost-effectiveness assessments in ECHO.

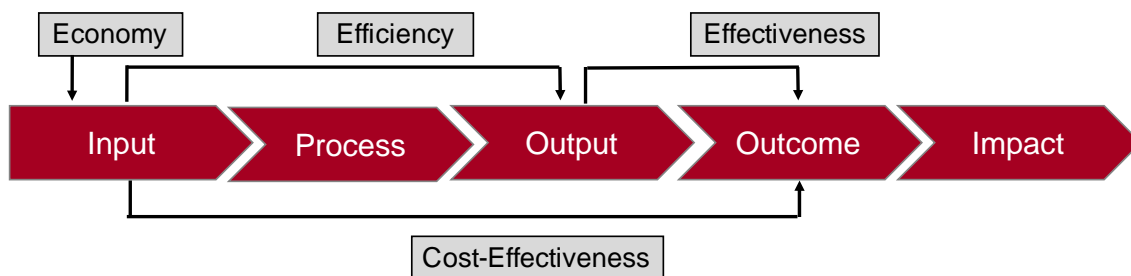
Terms and Definitions

The study found that one of the most important challenges around greater adoption of cost-effectiveness approaches in humanitarian aid is the misunderstanding of terms and definitions. In the absence of consistent EC and ECHO terminology, the study recommends the following terminology for future ECHO evaluations:

- **Economy:** are inputs of the appropriate quality bought at the right price?
- **Efficiency (equivalent to cost-efficiency):** how well are inputs converted into outputs?
- **Effectiveness:** how well are outputs achieving the desired outcomes?
- **Cost-effectiveness:** the achievement of intended outcomes in relation to costs.

Using these terms and the below diagram for illustrative purposes will cause the least confusion as they are defined (although not used) consistently by most actors in the humanitarian system.

Figure 1. Cost-effectiveness assessments and the results chain



Source: Adapted from DFID

Findings and conclusions per task

The study on approaches to assess cost-effectiveness was organised across three successive phases and seven tasks. The methodology required the use of various tools and strong stakeholder engagement with ECHO staff, relevant EC stakeholders and independent evaluation experts and ECHO evaluators. The summary findings and conclusions per task are:

Task 1 – ECHO evaluations review

The study found that despite a question on cost-effectiveness having been included in ECHO evaluation ToRs since 2014 evaluators have not been able to satisfactorily judge the extent to which ECHO humanitarian aid actions were cost-effectively delivered or if the size of the budget was commensurate to expected outcomes and ECHO objectives. This gap is partially due to the difficulty in humanitarian aid to define, quantify and measure outcomes clearly, but it is also due to a lack of consistent methods being used. Guidance could therefore contribute to filling this gap by promoting more systematic analysis in ECHO evaluations and potentially in other donor evaluations if the guidance is shared.

Task 2 – Evaluability assessment of the appropriateness and proportionality of ECHO's budget

This task differed from the others in that it related to what economists call 'allocative efficiency' rather than the 'productive efficiency' the main part of the study dealt with. While 'productive efficiency' has been translated for development and humanitarian aid into Value for Money or Cost-effectiveness frameworks, there is no recommended or appropriate way of applying 'allocative efficiency' principles to humanitarian aid. This is because decisions on budget allocations in humanitarian aid should be based on need, a consideration of what others are doing and the donor's objectives. Allocating aid to where it is cheapest would undermine Humanitarian Principles.

The study therefore produced a discussion paper on what types of evidence ECHO could generate and consider through evaluations for budget size decisions at the global Multi-Annual Financial Framework level. This evidence consists of four categories:

1. Quantitative analysis of ECHO's global budget in comparison to need, other donors, total funding and ECHO objectives
2. Quantitative and qualitative evidence of ECHO's cost-effectiveness in key cost areas
3. Qualitative evidence on the effectiveness of ECHO's EU Added Value roles

4. Wider evidence on the effectiveness of the humanitarian system and improvements over time.

Task 3 – Cost-effectiveness methods and literature review

The objective of this task was to review the available recognised methods of assessing cost-effectiveness and to develop a solid understanding of their applicability to ECHO humanitarian aid operations. The review found that there is a consensus amongst major donors and aid agencies that considering the costs and results of actions is worth doing. Cost-effectiveness (often referred to as Value for Money) is a concept to which numerous analytical approaches can be applied, with the choice of tool, formula or process being driven by the goal of the analysis. There is no ‘one size fits all’. A number of the tools and methods are relevant for immediate use in ECHO evaluations. For others, more quantitative tools, ECHO systems will need to change as described in the recommendations section below.

Tasks 5 and 6 – Detailed approach for assessing cost-effectiveness in ECHO ex-post evaluations and case study testing

The study developed detailed guidance for assessing cost-effectiveness in ECHO ex-post evaluations. The purpose of the guidance is to ensure that the opportunity that evaluations offer for analysing cost-effectiveness is seized. This will help ECHO justify its actions, ensure good stewardship of its resources and contribute to evidence.

The guidance suggests one Evaluation Question that should be included in all ECHO Terms of Reference of geographical evaluations:

To what extent did ECHO achieve cost-effectiveness in this response?

The Evaluation Question is then split into two sub-questions – the cost-effectiveness of ECHO in performing its role as a donor (“the process”) and the cost-effectiveness of ECHO funded actions (“the bottom line”). Judgement criteria and indicators complete the framework to evaluate ECHO’s cost-effectiveness in a response.

Judgement criteria and indicators on the cost-effectiveness of ECHO as a donor	
JC 1	ECHO’s budget allocations are based on needs, actions of other donors and ECHO objectives
I 1.1	Evidence that ECHO’s budget allocations are based on needs
I 1.2	Evidence that ECHO’s budget allocations considered the actions of other donors
I 1.3	Proportion of ECHO funding compared to total humanitarian funding
I 1.4	Evidence that ECHO’s budget size was commensurate to ECHO objectives and expected outcomes
JC 2	ECHO balanced cost in relation to effectiveness and timeliness in making strategic choices about its portfolio of assistance
I 2.1	Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices related to partners, sectors, approaches, geographical locations, beneficiaries and transfer modalities
JC 3	ECHO took appropriate actions to ensure cost-effectiveness throughout the project

Judgement criteria and indicators on the cost-effectiveness of ECHO as a donor	
	cycle
I 3.1	Evidence of ECHO considering efficiency and cost-effectiveness in selecting partner proposals and negotiating contracts
I 3.2	Evidence of ECHO monitoring efficiency and cost-effectiveness of partners
I 3.3	Optional: Evidence that lessons learned were considered in programming

Judgement criteria and indicators on the cost-effectiveness of ECHO-funded actions	
JC 4	Humanitarian actions funded by ECHO were efficient
I 4.1	Qualitative evidence that partners and actions supported were efficient
I 4.2	Optional: Value of transfers reaching populations compared to administrative costs
I 4.3	Optional: Evidence that largest cost drivers were well-managed
I 4.4	Optional: Cost per unit / beneficiary in key sectors
JC 5	Humanitarian actions funded by ECHO were cost-effective
I 5.1	Qualitative evidence that partners and actions supported were cost-effective
I 5.2	Optional: Main quantitative or monetary outcomes of ECHO-funded projects compared to costs

Detailed guidance is provided on how to analyse all indicators and how to conclude on the judgement criteria and overall evaluation question on cost-effectiveness. The guidance further presents recognised and feasible methods and tools for ECHO evaluations rated from 1-3 on the level of effort required for their application. A minimum set of indicators is recommended to be included from now on in all ECHO evaluations to facilitate a consistent assessment of the cost-effectiveness of ECHO as a donor (the process) and its funded humanitarian aid actions (the bottom line).

Tasks 4 and 7 – Gap analysis and recommendations on monitoring and management system changes

See below under recommendations.

Conclusions

This study comes at a pertinent time internationally with the World Humanitarian Summit Grand Bargain calling for humanitarian actors to work together efficiently, transparently and harmoniously and to ‘get more means into the hands of people in need’. The study is also pertinent to reform efforts throughout the European Commission on Better Regulation and in ECHO on improvements to results management through the introduction of standard key output and outcome indicators.

Applying the guidance consistently in ECHO evaluations from now on and disseminating the results throughout the organisation will enable ECHO to improve on the three main functions of cost-effectiveness analysis in humanitarian aid:

- Deepening the evidence base (learning)
- Driving cost-effectiveness in programme management (improving)

- Demonstrating cost-effectiveness (accountability)

Recommendations

The study makes three sets of recommendations to ECHO on how to:

1. integrate cost-effectiveness assessments in future ECHO evaluations,
2. adapt existing management and monitoring systems and structure, and
3. manage the change process for integrating cost-effectiveness into ECHO programming.

Integrating cost-effectiveness assessments in future ECHO evaluations

The study recommends that all future ECHO evaluations include one evaluation question on cost-effectiveness with a minimum package of indicators on ECHO as a donor and ECHO funded actions. Where cost-effectiveness is a particularly pertinent issue, the Evaluation Manager will specify this in the ToRs and the evaluation team will select additional optional indicators and detailed evaluation tools and methods during the inception phase in line with broader evaluation matrix development.

It is recommended that the ECHO Evaluation Sector pilots the guidance once before rolling it out in ECHO. The guidance should then be introduced to ECHO regional and field offices through existing communication activities. It is also recommended that the ECHO Evaluation Sector presents the guidance to other humanitarian donors in the interest of WHS commitments on harmonisation and reducing duplication and management costs.

Adapting existing management and monitoring systems and structures

The recommendations in this section follow the order of the tasks of ECHO as a donor in country programming in line with the five judgement criteria in the cost-effectiveness guidance.

Making budget allocation decisions (JC1): if ECHO wanted to provide greater transparency and predictability on budget allocations at country level (in line with WHS Grand Bargain commitments to greater transparency), it would need to be more explicit about how its decisions on budget size link to needs, other donor funding and its objectives (including EU Added Value). Expected outcomes would need to be defined in the Humanitarian Implementation Plans (HIPs) with a budget commensurate to the scale of outcomes envisaged.

Making strategic choices as a donor (JC2): while ECHO as one of the biggest humanitarian donors makes strategic choices annually when choosing partners and actions to fund at country level, there is no documented analysis of the costs and benefits of these choices. It is therefore recommended that ECHO considers conducting multi-annual strategic assessments in protracted crises weighing up the costs and benefits of for example, funding different types of partners (NGOs versus UN), consortia versus individual partners, different transfer modalities, and the balance between different approaches (preparedness versus response). Multi-annual strategic assessments would contribute to ECHO meeting WHS Grand Bargain commitments on increasing multi-year planning. If done together

with another like-minded donor, it could also contribute to the WHS Grand Bargain commitment on reducing duplication and management costs.

Managing partners throughout the project cycle (JC3): to introduce consistent and systematic cost-effectiveness assessments into the ECHO project cycle, ECHO could either include questions on partners considering cost-effectiveness in the FichOps Guidelines or introduce a cost-effectiveness marker in line with the two already existing gender and resilience markers. The questions could look like this:

- Does the Single Form provide sufficient information to assess the action's
 - Efficiency, such as cost per beneficiary, ratio between goods and services directly delivered to beneficiaries and others costs (already existing question in the FichOps Guidelines)?
 - Economy, such as the cost per input of the main cost drivers (new question)?
 - Cost-effectiveness, such as the cost per outcome in key sectors (new question)?
- Are partners consistently generating and using this information to improve their programming?

The requests from partners on additional cost-effectiveness information should ideally be harmonised with other donors to comply with the WHS Grand Bargain commitment on reducing duplication and management costs.

Delivering humanitarian aid cost-effectively – “the bottom line” (JCs 4 and 5): following on from the recommendation under JC3 for ECHO to ask partners about their consideration of cost-effectiveness, ECHO could include the following three sets of questions in addition to the two recommended ones above:

Economy:

- What are the three main cost-drivers of the action?
- What are the costs per input of these three main cost-drivers?
- How do they compare to costs in previous actions or other partners? Are there large variations? Can variations be explained?
- What evidence is there that partners are managing the cost-drivers well?

Efficiency:

- What are the transfer ratios and unit costs of the action?
- Are they significantly higher or lower than in previous actions or in comparison to other partners?
- What reasons for large variations are given by partners?
- Are these reasons valid? If not, what is being done about it?

Cost-effectiveness:

- What are the costs per key quantified outcome?
- What is the cost-effectiveness ratio (CER)?
- Is the CER significantly lower or higher than in previous actions or in comparison to others?

- What reasons for large variations are given by partners?
- Are these reasons valid? If not, what is being done about it?

In order to enable sound cost-effectiveness analysis with the data generated above and enable comparisons and benchmarking, ECHO could

- capitalise more on partners and other donor's efforts to analyse cost-effectiveness,
- commission thematic evaluations on cost-effectiveness in key sectors/cost areas, and
- feed regular monitoring data into regional databases and / or into sector policy guidelines.

Managing the change process for integrating consistent cost-effectiveness assessments into ECHO programming

The study recommends that ECHO considers starting a change management process with the aim of making ECHO a more efficient and cost-effective humanitarian donor. This should involve:

- Defining what cost-effectiveness means for ECHO in the current internal European Commission context (Better Regulation Agenda, Financial Regulation) and external context (WHS commitments and increasing needs).
- Collaborating with other donors to learn from their experience, harmonise and align approaches to cost-effectiveness assessments (in line with WHS commitments).
- Committing adequate resources to making cost-effectiveness an integral part of programme management while making sure not to over-complicate.
- Being realistic about costs to partners of an increased focus on cost-effectiveness and ensuring that cost-effectiveness assessments are cost-effective.
- Communicating the purpose and mechanics of the process to partners, Member States and affected communities.
- Managing the risks involved with new processes and change by involving staff and building on the existing efforts to drive cost-effectiveness in ECHO and by partners.

1. Introduction

The present document is the Final Report of the Study on Approaches to Assess Cost-Effectiveness of DG ECHO's Humanitarian Aid Actions, commissioned by the Evaluation Sector of the European Commission's Directorate-General for European Civil Protection and Humanitarian Aid Operations (ECHO). It was preceded by an inception report (April 2016) and a progress report (May 2016).

The ToRs state that the study was commissioned due to various Commission requirements, such as in the Financial Regulation¹ and Better Regulation Guidelines, to assess the cost-effectiveness of Commission activities and to justify the level of spending. Furthermore, in the case of humanitarian aid, there is a strong need to improve cost-effectiveness, considering the ever increasing humanitarian needs and stagnant allocations.

1.1 Study scope and purpose

The focus of this study is on developing an approach to analyse cost-effectiveness in ECHO evaluations. Despite the focus on evaluations, the tools developed in this study can be adapted and built on for use throughout other levels of analysis and for different purposes. But given the relatively short time-frame and resources for this study, it was impossible to develop approaches and tools for the many different areas in which ECHO would like and is asked to improve its capacity to conduct cost-effectiveness analysis.

The following figure presents the subject, purpose and scope of the study:

¹ E.g. Art. 30: 1. Appropriations shall be used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness. 2. ...The principle of efficiency concerns the best relationship between resources employed and results achieved.

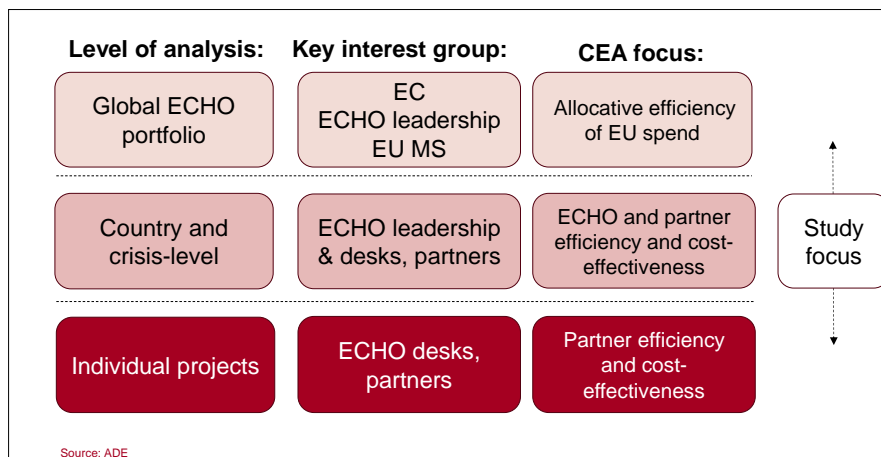
Figure 2. Study purpose, subject, scope and principle users

Subject	Approaches to assess cost-effectiveness of ECHO's humanitarian aid actions
Purpose	<ul style="list-style-type: none"> • Assess feasibility of recognised approaches to cost-effectiveness assessment for ECHO humanitarian aid operations • Provide practical approach for assessing cost-effectiveness within the parameters of ECHO's operations and data collection practices for ex-post country level evaluations • Make recommendations for improving data collection and management to improve cost-effectiveness approaches
Scope	<ul style="list-style-type: none"> • <i>Geographic:</i> Worldwide • <i>Thematic:</i> all and only ECHO's humanitarian aid operations <ul style="list-style-type: none"> → Includes all sectors of ECHO's operations → Excludes ECHO's capacity building activities (inc. DIPECHO, Aid volunteers and Civil Protection)

Source: ADE based on ToR

In addition, evidence generated through better and consistent cost-effectiveness assessments in evaluations could and should inform decision making both upstream and downstream (see Figure 3) even when specific tools for those levels of analysis have not been developed yet.

Figure 3. Levels of Analysis



1.2 Terms and definitions

Cost-effectiveness

One of the challenges around greater adoption of cost-effectiveness approaches in humanitarian aid is the confusion and misunderstanding of terms and definitions. The purpose of this section is to summarise the most commonly used terms and definitions and to conclude with a recommendation for ECHO evaluations.

Table 1. Table of Equivalents

Organisation	Source	Term	Definition
ECHO	Study ToRs and ECHO evaluation ToRs	Cost-effectiveness	Cost-effectiveness: “Is the size of the budget for the programme appropriate and proportional to what the programme is set out to achieve? Is it sufficient for reaching a critical mass of impacts? Could the same results have been achieved with less funding?”
	FichOp Guidelines 2016	Cost-efficiency	Cost-efficiency is efficiency at output level
	Transfer Modalities study ²	Cost-effectiveness	Cost-effectiveness: the cost of achieving intended programme outcomes
European Commission	EC Better Regulation Guidelines	Efficiency	Efficiency considers the relationship between the resources used by an intervention and the changes generated by the intervention" where changes refer to outputs, results and impacts so that analysis of cost-effectiveness is included as part of the efficiency criterion.
	Financial Regulation	Efficiency	Efficiency concerns the best relationship between resources employed and results achieved.
OECD-DAC	DAC criteria for evaluating development assistance ³	Efficiency and effectiveness	Efficiency: measures the outputs - qualitative and quantitative - in relation to the inputs. It is an economic term which signifies that the aid uses the least costly resources possible in order to achieve the desired results. Effectiveness: measures the extent to which an aid activity attains its objectives/outcomes.
DFID	DFID's Approach to	Value for Money and the 3Es	Economy: are inputs of the appropriate quality bought at the right price?

² http://ec.europa.eu/echo/funding-evaluations/evaluations/thematic-evaluations_en

³ <http://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm>

Organisation	Source	Term	Definition
	Value for Money, 2011 ⁴		<p>Efficiency or Cost-efficiency: how well are inputs converted into outputs?</p> <p>Effectiveness: are outputs achieving the desired outcomes?</p> <p>Cost-effectiveness: how much impact does an intervention achieve relative to the inputs?</p> <p>Value for Money: making the best use of resources.</p>
WFP	Technical Note on Efficiency Analysis, June 2013 ⁵	Efficiency	<p>Efficiency at activity level e.g. cost and benefit of food fortification plant</p> <p>Efficiency at output level e.g. cost of cash transfers versus food-in-kind per Euro of food delivered</p> <p>Efficiency at outcome level e.g. cost of cash versus food-in-kind per unit of food consumption improvement</p> <p>Efficiency at impact level e.g. cost per QALY saved, Benefit-Cost Ratio of food vouchers</p>
IRC	“Cost Analysis Methodology at the IRC”, Best Use of Resources Initiative at the IRC	Best Use of Resources	<p>Best use of resources: maximizing the impact of each dollar spent to improve our client’s lives.</p> <p>Cost-efficiency: cost per output that a program produces</p> <p>Cost-effectiveness: cost per outcome that a program achieves</p>
ICAI – Independent Commission for Aid Impact	ICAI’s Approach to Effectiveness and Value for Money, November 2011 ⁶	Value for Money and the 4Es	<p>Economy: getting the best value inputs</p> <p>Efficiency: maximizing the outputs for a given level of inputs</p> <p>Effectiveness: ensuring that the outputs deliver the desired outcome</p> <p>Equity: ensuring that the benefits are distributed fairly</p>

Source: ADE

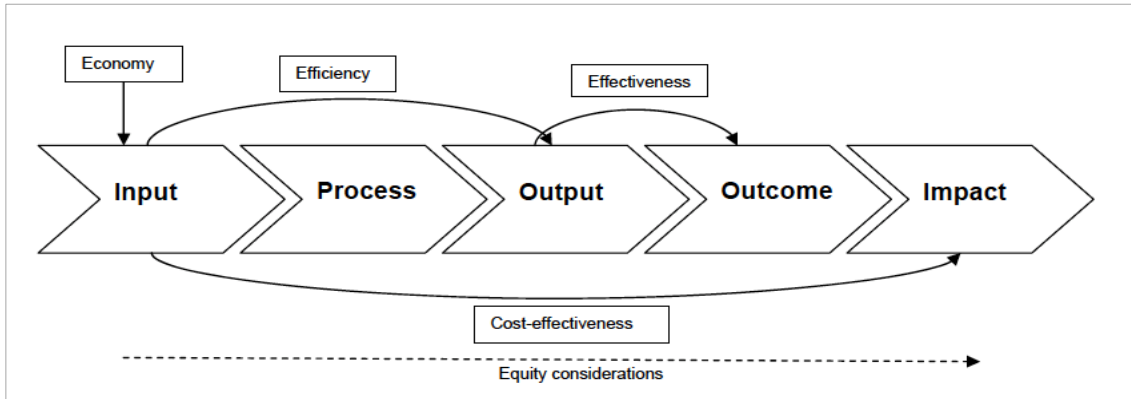
⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67479/DFID-approach-value-money.pdf

⁵ Renard, R. and Lister, S., “Technical Note on Efficiency Analysis”, WFP – OEV, June 2013

⁶ <http://icai.independent.gov.uk/wp-content/uploads/ICAIs-Approach-to-Effectiveness-and-VFM2.pdf>

The UK Department for International Development (DFID) uses the below figure to demonstrate how Value for Money relates to the results chain.

Figure 4. Value-for-money and the results chain



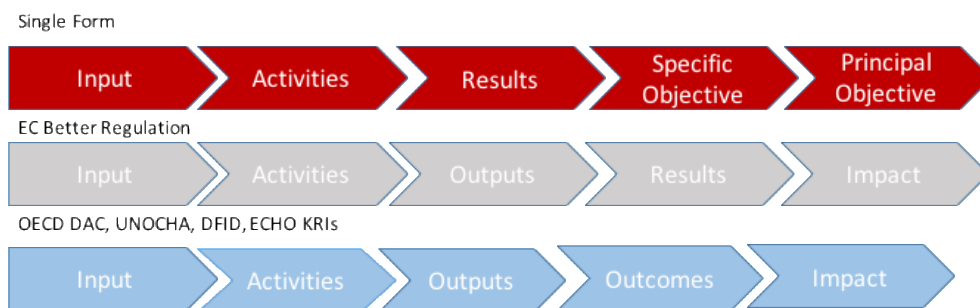
Source: DFID

While many donors routinely analyse elements of the VfM chain, the prominence of DFID terminology and approaches is due to the fact that DFID is the donor continuously publishing guidance on the subject in both development and humanitarian aid.

Results chain

There are also inconsistencies in results terminology, where the terminology in the EC's 'Better Regulation Toolbox'⁷ is different to the results chain in ECHO's Single Form and different again to the more widely used terminology in the humanitarian system and in ECHO's KRIs as illustrated in Figure 5.

Figure 5. Results chain terminologies



⁷ Better Regulation Toolbox, p. 271, Tool #42: Identifying the Evaluation Criteria and Questions

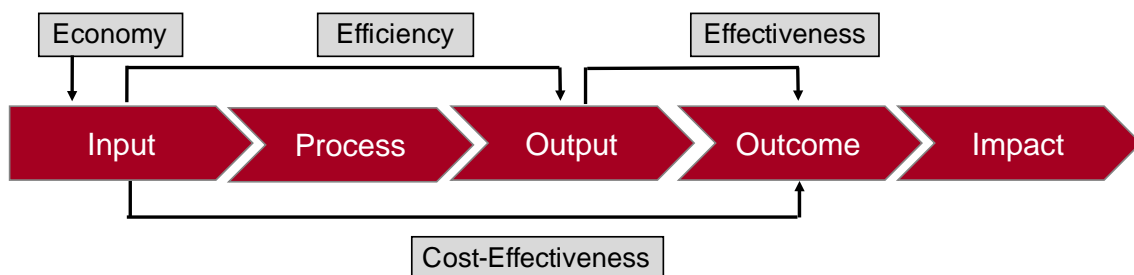
Conclusion on terminology

The study team recommends to use the following terminology in ECHO evaluations:

- **Economy:** are inputs of the appropriate quality bought at the right price?
- **Efficiency (equivalent to cost-efficiency):** how well are inputs converted into outputs?
- **Effectiveness:** how well are outputs achieving the desired outcomes?
- **Cost-effectiveness:** the achievement of intended outcomes in relation to costs.

Using these terms and the below diagram for illustrative purposes will cause the least confusion as they are defined (although not used) consistently by most actors in the humanitarian system and within the European Commission and ECHO. Where relevant and necessary, ECHO can add in 'equity' considerations.

Figure 6. Cost-effectiveness assessments and the results chain



Source: Adapted from DFID

Using the terms and diagram consistently will help ECHO with improving the understanding of the three functions of cost-effectiveness analysis in humanitarian aid:

- Deepening the evidence base (learning)
- Driving cost-effectiveness in programme management (improving)
- Demonstrating cost-effectiveness to Member States and affected communities (accountability)

1.3 Report outline

The structure of Volume I of the Report is as follows:

- **Introduction:** covering the subject, purpose and scope of the study; terms and definitions used; and the approach taken to the study tasks.
- **Context:** covering existing initiatives for cost-effectiveness analysis in the wider humanitarian system and within ECHO.
- **Study methodology:** covering the team's understanding of the study tasks, the approach selected and the study outputs.
- **Approaches, Findings and Conclusions per Task**
- **Conclusions**

- **Recommendations**
- **Annex A** presents the **cost-effectiveness guidelines** for ECHO evaluations (Task 5)

Volume II includes the following annexes:

- **Annex B:** ToR
- **Annex C:** Evaluation review (Task 1)
- **Annex D:** Literature review (Task 3)
- **Annex E:** Bibliography
- **Annex F:** Discussion paper (Task 2)
- **Annex G:** Table of Gaps and Recommendations (Tasks 4 and 7)

2. Context

It is important to consider the scope of the study in the context of reforms and initiatives for greater efficiency, effectiveness and cost-effectiveness analysis in the wider humanitarian system, the European Commission and within ECHO. Much has been going on to improve data availability and analysis externally and internally in ECHO, but important constraints remain.

2.1 External context

Humanitarian System

This study comes at a pertinent time with humanitarian needs and financing gaps at an all-time high,⁸ and a strong commitment from the international community to address this crisis at the World Humanitarian Summit in May. It also comes at a time of increasing pressure within European countries (political, media and public) for aid agencies to demonstrate cost-effectiveness in the use of public funds.

The recent report “Too important to fail – addressing the humanitarian financing gap” by the High-Level Panel on Humanitarian Financing is particularly relevant to the efficiency and cost-effectiveness agenda.⁹ One of the report’s three key recommendations is a “Grand Bargain on efficiency – stretching available money to reach more people in need.”

The “Grand Bargain on efficiency” calls for more financial transparency, scaling up the use of cash-based programming and more coordination in its delivery, a reduction in duplication and management costs, more support to national first responders, more harmonised and simplified reporting requirements, less earmarking, more multi-year humanitarian funding, more participation of beneficiaries, and commissioning of functional expenditure reviews.

The effort to drive efficiency and cost-effectiveness in humanitarian action is not new. Any aid organisation with good programme management is striving to deliver humanitarian aid efficiently and cost-effectively as a matter of routine. The interest from the public and media for aid agencies and donors to demonstrate the efforts made in these areas is more recent. The UK’s drive to improve Value for Money in humanitarian aid was first highlighted in the Humanitarian Emergency Response Review published in 2011.¹⁰ In the same year, the UK’s Department for International Development carried out the first Multilateral Aid Review, assessing multilateral agency performance on Value for Money criteria. WFP started explicitly adopting the VfM concept and embedding it throughout its

⁸ The High-Level Panel on Humanitarian financing puts the needs at \$40 billion, with \$25 billion currently being spent on life-saving assistance to 125 million people in need, and a funding gap of \$15 billion.

⁹ https://www.worldhumanitariansummit.org/whs_finance/hlphumanitarianfinancing

¹⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67579/HERR.pdf

organisation from the strategic to the operational level in 2013. Several NGOs, such as Oxfam and DRC are defining VfM for their organisation and have developed tools to analyse VfM in their operations.

In the system as a whole, tools for economic and financial analysis are used more than before to deepen the evidence base and demonstrate the efficiency and cost-effectiveness of different humanitarian interventions. For example, UNICEF, WFP, UNHCR and OCHA are working together on a “Return on Investment for Emergency Preparedness Study” to advance the evidence base on time and cost returns to emergency preparedness.¹¹

European Commission

Within the European Commission, unrelated to humanitarian financing, there are efforts underway to more systematically drive and demonstrate efficiency and cost-effectiveness through the Better Regulation agenda of May 2015. “Better regulation is about designing EU policies and laws so that they achieve their objectives at minimum cost.”¹²

Directorates General, including ECHO, are required to introduce the ‘evaluate first’ principle, commit to quantifying impact more and put in place indicator frameworks to capture results more systematically.

Financial regulation article 27(1) also states that “budget appropriations shall be used in accordance with the principles of economy, efficiency and effectiveness”.

2.2 Internal ECHO context

In response to these external developments, ECHO is committed to improving systems and processes in the future in addition to already on-going actions on improving efficiency and cost-effectiveness assessments.

Future Commitments

In response to the “Grand Bargain on efficiency”, the Communication from the Commission (written by ECHO) to the European Parliament and Council on the World Humanitarian Summit includes a section on making humanitarian action more efficient and cost-effective. The Communication states:

“Quality, results, cost-efficiency and accountability to affected populations are also key elements of humanitarian effectiveness. There is a need for common tools to measure whether the assistance addresses actual needs and brings the expected impact. In parallel, in order to maximise the reach and relevance of action, there should be mechanisms in place to ensure that the views of affected populations, particularly women, are considered throughout the response. All of these efforts should be underpinned by functioning

¹¹ http://www.unicef.org/publications/index_81164.html

¹² http://ec.europa.eu/smart-regulation/index_en.htm

financial tracking, if possible to the level of actual aid delivered to beneficiaries, to avoid gaps and overlaps. In turn, this approach should facilitate evaluation of results to make further improvements.”

“Donors should systematically coordinate their efforts and evaluate the delivery practices of implementing organisation to identify their added value and possible cost efficiencies, based on common humanitarian standards.”

This Communication shows that ECHO is ready to work with others to make the system more efficient and cost-effective. This will require getting ‘the own house in order’ but also flexibility to harmonise approaches with other donors and aid agencies.

Existing Practice and On-going Initiatives

Results

ECHO is acutely aware of the challenges in humanitarian aid in collecting and analysing data on the results (outputs and outcomes) it is funding and hence its difficulties in assessing efficiency and effectiveness of its support. ECHO is therefore working on improving its results reporting systems. Currently, ECHO is introducing *standard* indicators to improve the quality of the results indicators and to enable ECHO to compare as well as aggregate achievements across programmes. Two sets of indicators are being developed for different purposes:

1. 30 to 35 **output indicators** that can be aggregated for reporting and communication purposes at the corporate level. In an environment of budget pressures in most European governments and the large demands for humanitarian assistance, it is particularly important to be able to show how many people, how many humanitarian aid actions and which actions are supported through ECHO to improve disaster affected people’s lives. The proposed output indicators will be able to deliver this. For example, ECHO will be able to show how many people receive what type of food assistance funded by ECHO during the El Nino related drought in Ethiopia. The output indicators will also inform programme monitoring and evaluation and will enable more coherent efficiency analysis.
2. A small number of **outcome indicators** helping ECHO to capture how much ECHO’s humanitarian aid actions have changed lives. For example, measures such as a reduction in malnutrition rates or increases in coping strategy indices. These outcome indicators are not aggregable and will not be used for communications purposes. They are intended to support ECHO in programme performance monitoring and evaluation, and are needed for cost-effectiveness analysis.

Process efficiency and effectiveness

ECHO is also revising Key Performance Indicators (KPIs) to measure organisational efficiency and effectiveness reported on in the Annual Management Plans and Activity Reports. Current examples of KPIs are:

1. % of ECHO funded operations in which Disaster Risk Reduction has been mainstreamed.
2. Indicators based on gender and resilience markers.

3. % of contracts issued under following targets for number of days elapsed from decision to contracting: Primary Emergency decision: 5 days; Emergency decision: 18 days; Other: 56 days.

Efficiency can be assessed at different levels of operations and so can effectiveness. The ECHO KPIs measure efficiency and effectiveness at the organisational level with impact for the project level. An evaluation of ECHO's efficiency and cost-effectiveness in for example a worsening crisis, should look at the speed of ECHO funding as slow funding could result in having to fund actions later at a higher cost not to mention unnecessary suffering which may be experienced by the affected population.

Guidance, process and templates

ECHO already provides some guidance and uses elements of efficiency and cost-effectiveness analysis at several stages of the programme cycle and in policy. Examples are:

- Thematic policy guidelines include some evidence on which interventions in WASH for example are more efficient than others and recommends that the guidance is taken into account in project appraisal.
- Single Form budget templates are designed to enable analysis of costs of outputs. Desks and field staff sometimes look at comparative unit costs when they assess project proposals.
- FichOp Guidelines require ECHO staff to ask questions on cost-efficiency when selecting partner proposals.
- The Framework Partnership Agreements' Partners' Assessments include criteria on partner capacity to be efficient in procurement for example.
- All evaluations include the effectiveness and efficiency criteria, and specific questions on cost-effectiveness as explained in the section on terms and definitions above.

At an operational and policy level, ECHO is at the forefront of driving the humanitarian system to scale up the most efficient and effective transfer modalities. ECHO is playing a lead role on scaling-up unconditional multi-sector cash transfers. For example, ECHO developed "10 Common Principles for Multi-Purpose Cash-Based Assistance to Respond to Humanitarian Needs" which were endorsed by European Governments and the High Level Panel on Humanitarian Cash Transfers.¹³ ECHO is also improving its capacity to conduct context specific analysis to ensure that the most cost efficient and effective choice of transfer modality is made.¹⁴

In addition, the UK demands greater attention to Value for Money analysis from ECHO. This is in particular with reference to DFID's €106 million delegated funds to ECHO over four years for the 'Providing Assistance to Sahel Emergencies Programme' (PHASE). DFID expects ECHO to provide yearly Value for Money analysis of the delegated funds for Annual Reviews. However, the monitoring system in ECHO is not currently geared up to do this.

¹³ http://ec.europa.eu/echo/files/policies/sectoral/concept_paper_common_top_line_principles_en.pdf

¹⁴ http://ec.europa.eu/echo/sites/echo-site/files/evaluation_transfer_modalities_final_report_012016_en.pdf

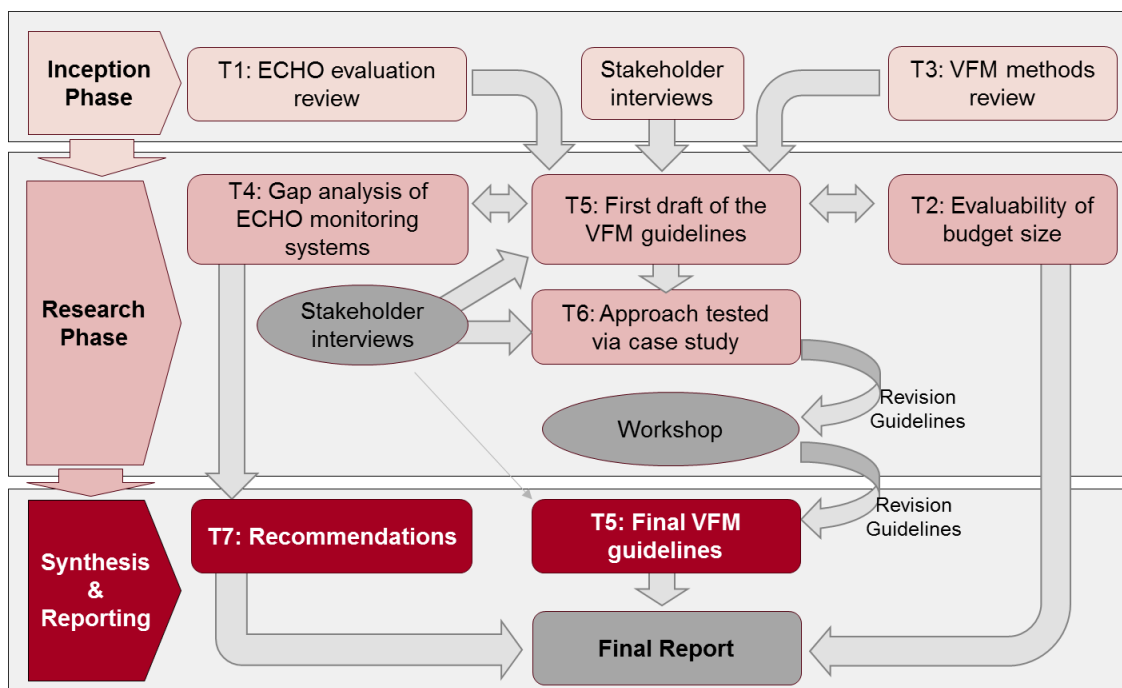
Conclusion

Despite all these different demands for efficiency and cost-effectiveness assessments of ECHO's humanitarian aid, as well as the many initiatives and actions already underway to improve ECHO's capacity, ECHO does not have an institutional definition of what efficiency and cost-effectiveness mean in the context of its mandate and actions nor institutional guidance on undertaking this analysis. While most stakeholders consulted already undertake some form of efficiency analysis, this is done without a commonly understood terminology or consistent and systematic methodology.

3. Methodology

The study on approaches to assess cost-effectiveness was organised across three successive phases and seven tasks (see figure below).

Figure 7. Study Phases and outputs per task



Source: ADE

This approach has required the use of various tools such as evaluation review, literature review, and stakeholder interview (evaluators, ECHO staff, etc.). These tools are detailed in the following table.

Table 2. Study Tools

Task 1	Review of the approaches taken so far in ECHO Humanitarian aid evaluations to assess cost-effectiveness/VfM.
	<ul style="list-style-type: none"> Review of ECHO humanitarian aid evaluations through a common evaluation review template
Task 2	Feasibility analysis of developing a methodology for evaluating the appropriateness and proportionality of ECHO's budget at the crisis level.
	<ul style="list-style-type: none"> Review of approaches to evaluating the size of the budget and reaching critical mass at the crisis level in ECHO evaluations so far (as part of Task 1) Interviews with framework contract evaluators and key ECHO staff on the above Literature review on the VfM of advocacy and influencing interventions Quick review of the feasibility of generating basic statistics of ECHO funding per crisis by going through OCHA FTS data for the last two years Meetings with and regular updates to the Evaluation Sector

Task 3	Review of different recognised methods of assessing cost-effectiveness/VfM, and examination of the feasibility of applying them to ECHO Humanitarian Aid programmes.
	<ul style="list-style-type: none"> ▪ Literature review (academic and donor literature on cost-effectiveness and value-for-money) ▪ Interviews with policy, evaluation and learning staff of ECHO and where possible other donors
Task 4	'Gap analysis' of ECHO's management & monitoring systems, in view of identifying missing elements that are necessary/useful for carrying out cost-effectiveness assessments.
	<ul style="list-style-type: none"> ▪ Literature review (notably of ECHO Evaluation of the use of different transfer modalities) ▪ Inputs from Task 3 (see above) and to some extent from Task 5 ▪ HOPE data and Single Forms review ▪ Semi-structured interviews with ECHO staff (including HOPE database specialists) and partners
Task 5	Development of a detailed approach for assessing cost-effectiveness of ECHO Humanitarian Aid programmes, applicable to ex-post evaluations, built on both quantitative and qualitative components.
	<ul style="list-style-type: none"> ▪ Inputs from Tasks 1-4 ▪ Semi-structured interviews with ECHO staff (including a representative number of field and desk staff) for reality checks, feedback and most of all buy-in ▪ Semi-structured interviews with evaluation departments of partners and other donors ▪ Study team workshop for developing a draft approach ▪ Progress meeting with Steering Group for feedback and buy-in ▪ Workshop with evaluators for fine-tuning and capacity building ▪ Final meeting with Steering Group
Task 6	Test of the detailed approach via a case study in the context of an existing, recent ECHO Humanitarian Aid evaluation.
	<ul style="list-style-type: none"> ▪ Inputs from Task 5 ▪ Quantitative and qualitative analysis of data ▪ Semi-structured interviews with ECHO staff and partners
Task 7	Recommendations on how ECHO could adapt its existing management & monitoring systems and structures to facilitate/improve/enable assessments of cost-effectiveness of Humanitarian Aid actions.
	<ul style="list-style-type: none"> ▪ Inputs from Tasks 4, 5 and 6 ▪ Semi-structured interviews with ECHO staff, partners and other donors ▪ Workshop with evaluation practitioners (23 June 2016)

The methodology used by the study team had a strong focus on regular and wide reaching stakeholder engagement with ECHO staff, relevant EC stakeholders as well as independent evaluation experts and ECHO evaluators. This approach was used because of the study team's previous experience with introducing cost-effectiveness analysis in other donors and NGOs necessitating capacity building from an early stage in the process.

4. Approaches, Summary Findings and Conclusions per Task

This chapter provides an overview of all the tasks carried out, the approaches taken, the summary findings and conclusions.

4.1 Task 1 – ECHO Evaluation Review

Approach

In order to be able to propose a practical method for assessing the cost-effectiveness of ECHO operations in evaluations, the study team examined the practices deployed so far in ECHO evaluations. The full review is in Annex D of this report.

The study team constructed a template questionnaire for the conduct of the evaluation review, included in the table below. The questionnaire was developed on the basis of the initial scoping interviews with ECHO staff and a preliminary review of recent evaluations. Its purpose was to ensure that the review provided consistent and comprehensive analysis of the approach taken to efficiency and cost-effectiveness analysis in recent ECHO evaluations, with a particular focus on information regarding:

- The approaches taken to assess efficiency, and what type of quantitative information had been collected under this criterion.
- How the evaluations assessed cost-effectiveness since the introduction of the generic questions on cost-effectiveness in 2014.
- What comparisons were made between different programming options and partners.

Table 3. Evaluation Review Template Questionnaire

Q#	Question
1	What approach is taken to assess efficiency?
2.	How is cost-effectiveness assessed?
2.a	Critical mass question included? Addressed how?
2.b	Size of budget appropriate and proportionate question included? Addressed how?
2.c	Question if the same could have been achieved with less funding included? Addressed how?
2.d	Cost per beneficiary included? How? Compared to what?
2.e	Factors influencing cost-effectiveness included (quantitative and qualitative)? How?
2.f	Constraints to assessing cost-effectiveness mentioned? Which ones?
3	What other quantitative information is included under efficiency? Any cost data?
4	Comparisons with other options? Between partners?
5	Results: indicators clear? Reported on? Quantitative or qualitative? Challenges raised? Attribution?

Q#	Question
6	What approach is taken to evaluating EU added value? Is it linked to cost-effectiveness? How?
7	Other comments

A sample of 13 evaluations was selected from previously published ECHO evaluations. The sample was selected using a purposive sampling technique, starting with the most recent evaluations published under the current evaluation framework contract. A purposive approach was taken due to the small number of total evaluations available, and the need to include thematic and geographic evaluations, covering both sudden onset and protracted crises.

Summary Findings

All ECHO evaluations considered included at least one evaluation question on efficiency and the most recent evaluations (since 2014) also included these generic questions on cost-effectiveness: *“Is the size of the budget for the programme appropriate and proportional to what the programme is set out to achieve? Is it sufficient for reaching a critical mass of impacts? Could the same results have been achieved with less funding?”*

The main finding of this review is that variable level of attention is paid to efficiency and cost-effectiveness analysis in ECHO evaluations. Several studies conducted partial analyses and often failed to clearly explain what analysis was conducted and what the results were. More precisely, the review highlights the following points:

Limitations

- The evaluations demonstrated very little attention paid to costs in relation to effectiveness (cost-effectiveness). Specific questions on cost-effectiveness were only introduced in 2014.
- Answers to efficiency and effectiveness evaluation questions were not based on quantitative data analysis. Qualitative statements on efficiency were often not backed up by relevant evidence.
- The lack of quantitative efficiency and cost-effectiveness analysis was justified by ECHO and partners by a lack of clear definitions of outputs and outcomes, imprecise numbers of beneficiaries, and little and diversely presented cost data which did not allow for comparisons.
- Definition and understanding of efficiency and cost-effectiveness was variable across evaluations.
- The questions on critical mass and size of the budget being appropriate and proportional were not answered satisfactorily. Evaluations interpreted the questions differently and most concluded that in the absence of clear objectives set by ECHO, it would be impossible to answer these questions. Reaching a ‘critical mass of impacts’ was particularly difficult to assess as impacts are not usually assessed in humanitarian aid and even less so in ECHO’s short-term projects.

Positive examples

- Despite these limitations, cost per beneficiary is relatively often calculated and sometimes compared over time or across partners, but without drawing conclusions on efficiency.
- Evaluations usefully separated efficiency analysis of ECHO as a donor and ECHO funded actions/partners. And some evaluations similarly separated process efficiency and implementing efficiency.
- Finally, several evaluations included good qualitative analysis of factors influencing efficiency and cost-effectiveness.

Conclusions

Despite the questions on cost-effectiveness having been introduced in 2014 into ECHO evaluations and the efficiency criterion being included in almost all evaluations, evaluators have not been able to satisfactorily judge ECHO or ECHO funded actions on the extent to which humanitarian aid is efficiently and cost-effectively delivered or if the size of the budget was proportional to the expected outcomes and objectives. Evaluators did not conclude either on the appropriateness of the size of the budget or if the same could have been achieved with less funding.

This gap is partially due to the difficulty in humanitarian aid to define outcomes clearly, quantify and measure them. But is also due to the questions not being clearly enough defined and no consistent methods being provided for answering them. Guidance could contribute to filling this gap by promoting more systematic analysis and the positive examples should be built on in the guidance.

The full results of the review are presented in Annex D to this report.

4.2 Task 2 – Evaluability assessment of the appropriateness and proportionality of ECHO's budget

Approach

This task was different to the others in that it wanted the study team to explore what is called in economic terms 'allocative efficiency' (see figure two above) rather than the 'productive efficiency' which the majority of the study is concerned with. While the economic term 'productive efficiency' has been translated into a framework (the VFM framework for example) that can be applied to humanitarian aid by donors such as DFID, 'allocative efficiency' is difficult and probably not appropriate to apply in humanitarian aid. This is because decisions on allocations are often based on political considerations but also importantly on 'equity' considerations, such as for example an objective by ECHO to intervene in forgotten crisis and help the most vulnerable.

As a result, there is a dearth of literature on this subject. It was therefore not possible to learn from how others are making humanitarian budget size or allocation decisions.

In light of the unsatisfactory outcomes of previous evaluations and the dearth of literature on the subject, the approach taken was to discuss the task with several internal and external stakeholders (including Alnap) and to exchange ideas with the ECHO Evaluation Sector at regular intervals. Draft discussion papers were exchanged with the Evaluation Sector and some illustrative data analysis of ECHO's global budget in relation to needs and other funding in the last five years was submitted (see Annex F of this report).

Summary Findings

The wording of the task was changed away from 'exploring the feasibility of identifying a critical mass and/or diminishing marginal utility when determining the size of the budget' as it was found impossible to usefully incorporate these concepts. With rising needs and an increasing financing gap, ECHO's budget could increase a lot more before it would reach diminishing marginal utility.

Country level

Through discussions with internal and external stakeholders and in particular ECHO's Evaluation Sector, the study team decided to develop one judgement criterion (JC) with four indicators which should enable a consistent exploration of the appropriateness and proportionality of ECHO's budget in relation to need, actions of other donors and ECHO objectives in future country/regional evaluations.

JC 1	ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives
I 1.1	Evidence that ECHO's budget allocations are based on needs
I 1.2	Evidence that ECHO's budget allocations considered the actions of other donors
I 1.3	Proportion of ECHO funding compared to total humanitarian funding
I 1.4	Evidence that ECHO's budget size was commensurate to ECHO objectives and expected outcomes

Global level

In addition, Annex F contains the discussion paper with suggestions on what types of evidence and tools the Comprehensive Evaluation of ECHO Humanitarian Aid Action could use to generate evidence for input into budget size decision-making processes in the context of the next MFF. The evidence is grouped into four areas:

	Types of analysis	Location in Evaluation
1	Quantitative analysis of ECHO's global budget in comparison to need, actions of others donors, total funding and ECHO objectives	Cost-effectiveness EQ
2	Quantitative and qualitative evidence of ECHO's cost-effectiveness in key cost areas and in its overall portfolio of interventions	Cost-effectiveness EQ
3	Qualitative evidence on the effectiveness of ECHO's EU Added Value roles	Effectiveness or EU Added Value EQ
4	Evidence on humanitarian system effectiveness and improvements over time	Literature Review or outside of the Comprehensive Evaluation

While invariably budget size decisions are based on many different considerations including political ones, evidence on ECHO's budget size in comparison to need and other funding, and its effectiveness and cost-effectiveness in delivering humanitarian aid should enable more evidence based decision making.

Conclusions

The study concludes that it is worthwhile to evaluate ECHO's processes for decision-making and budget allocations systematically at country level. JC 1 in future country evaluations 'ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives' should provide a more rounded picture of ECHO's allocation decisions than before.

For the global level, this study has provided some suggestions for the collection of relevant evidence and use of tools that could be included in the Comprehensive Evaluation ToRs to feed into future budget size decision-making. The ECHO Evaluation Sector might want to seek more specific additional support though for the Comprehensive Evaluation ToRs drafting process from an independent evaluation company.

4.3 Task 3 – Cost-effectiveness methods review

Approach

The objective of this task was to review the available recognised methods of assessing cost-effectiveness and to develop a solid understanding of their applicability to ECHO humanitarian aid operations. The study also included an overview of current donor and agency practices. The full review is in Annex C of this report.

The review encompassed approaches that seek to tackle all elements of value-for-money analysis, including cost, economy, efficiency and effectiveness. It moreover covered a range of both qualitative and quantitative approaches, including:

- Cost driver analysis
- Follow the money
- Efficiency analysis
- Cost-benefit analysis
- Return on investment
- Social return on investment
- Cost utility analysis
- Multi-criteria analysis

The overview of current practices encompassed: Key donors (DFID, OFDA, OECD-DAC, European Commission), UN Agencies (WFP, WHO, FAO, UNHCR and UNICEF), NGOs, The International Movement of the Red Cross, Studies commissioned by donors and aid agencies including ECHO, DFID and Global Humanitarian Assistance.

Summary Findings

This review finds that there is consensus amongst major donors and aid agencies that considering the costs and results of actions, whether termed value for money or something else, is worth doing. This is evidenced by donors and aid agencies developing frameworks that consider elements of cost-effectiveness.

VFM and cost effectiveness generally consider (1) what is spent in relation to what is achieved and (2) whether alternative approaches could achieve more with the same resources (or achieve the same result for less). While definitions vary in wording, there is relative consensus on the meaning of VFM and cost-effectiveness.

Moving from the conceptual level to frameworks and tools for analysis, there is diversity in formulas and methodologies. Even analytical approaches that have relative agreement on their meaning (e.g. Cost-Benefit Analysis) have diverse formulas and tools.

There is some evidence that VFM and cost effectiveness have provoked concerns amongst implementing agencies and others that they are all about cost – potentially at the expense of quality and the fundamental drive of the humanitarian mission to assist those most in need. While there are forms of analysis that consider cost in relative isolation (e.g. economy, cost driver), guidance on decision-making and evaluation always situates these elements within broader analysis.

While quantification and monetisation of outcomes is a common thread in some forms of cost-effectiveness analysis, the balance between quantitative and qualitative approaches is rarely directly addressed. However even the analytical approaches that monetise and score outcomes require some sort of qualitative assessment of those outcomes as well as their value.

Analyses on cost, cost-effectiveness and VFM are not generally used to justify levels of humanitarian funding – rather they are used to influence how this funding is directed.

Conclusions

VFM and cost-effectiveness are concepts and numerous analytical approaches can be used to assess them, with the choice of tool, formula or process being driven by the goal of the analysis. There is no 'one size fits all'. The desire for a single tool or formula to be generally applied to different types and levels of analysis is unrealistic.

A number of the tools and methods are relevant for immediate use in ECHO evaluations to be included in the guidance. For other, more quantitative tools, ECHO systems will need to change. Overall, key informant interviews will continue to be the prevalent tool for cost-effectiveness analysis (both on process and the bottom-line) in the near term.

The full results of the literature review are presented in Annex C to this report.

4.4 Task 4 - Gap analysis of ECHO's management & monitoring systems

Approach

This task, building on the results of tasks 1 and 3 including stakeholder interviews, aimed at assessing ECHO capacities and processes to analyse cost-effectiveness, and the extent to which ECHO data management facilitates analysis of costs in relation to results (see Annex G).

The gap analysis of ECHO's current management and monitoring systems was begun at the start of the research phase. A preliminary download of FichOps and Single Forms was made from the ECHO HOPE database, to provide the study team with an assessment of the contract-level data readily available to ECHO evaluators. A next step of the gap analysis was conducted during the case study as further project-level data was compiled and interviews carried out with ECHO staff and partners in Niger and Mali.

The study team also reviewed the EC Better Regulation Guidelines and "Toolbox", a sample of Humanitarian Implementation Plans (HIPs), a sample of Integrated Analysis Frameworks (IAFs), the General Guidelines on Operational Priorities for Humanitarian Aid in 2016 (GGOPHA), Framework Partnership Agreement documents, Gender and Resilience Markers, FichOp Guidelines 2016, and the Single Form Guidelines 2016.

The study team conducted a number of interviews with ECHO staff at HQ and regional level to verify gaps identified in the document review. Finally, information collected in interviews and the workshop with ECHO evaluators supplemented the information collected throughout.

Lessons from this task were used to inform the revision of the guidance and fed into task 7. The findings of the gap analysis are included in the table of recommendations in Annex G and summarised here.

Summary Findings

The findings are presented in order of the tasks ECHO as a donor carries out on an annual basis and are in line with the five JCs in the cost-effectiveness assessment guidance.

Making budget allocation decisions (JC1)

While ECHO carries out detailed needs assessments in the form of the IAFs, it is not clear how needs and other donor funding feed into decisions on the budget size. As HIPs do not currently specify expected outcomes, it is also not clear how budget size relates to expected outcomes.

Evaluators therefore encounter difficulties when trying to assess the proportionality or appropriateness of ECHO's budget size in relation to what the programmes set out to achieve.

Making strategic choices (JC2)

As mentioned above, there does not seem to be a document or process in place that sets out the expected outcomes of ECHO's engagement at country or regional level in different sectors which could be looked at in relation to costs. The HIP does not usually go into such level of detail. There does not seem to be a document or process for monitoring and closing all ECHO funding per sector committed under a HIP either. Appraisal, monitoring and closing is only done at the individual project level. The reasons for specific choices on the overall combination of partners and activities do not seem to be explicitly addressed.

Evaluations are not aligned with the yearly HIPs as they span several years. Therefore, they cannot easily capture aggregate results and efficiency data at the country or crisis level as the only data source are individual project documents.

Managing the project cycle (JC3)

Only some sector guidelines include pieces of evidence on which interventions within a sector are more efficient than others. Staff are encouraged to use these guidelines for project appraisal but there is no FichOp guidance on how to include the sector guidelines in project appraisal.

FichOps include some very specific criteria on economy and efficiency to be considered when appraising projects. On economy, FichOps in particular want experts to look at the international/national staff ratio and local versus international procurement. On efficiency, the FichOps guidelines recommend experts to consider cost per beneficiary and the admin cost ratio. No benchmarks or further guidance on how these should be considered are given in the guidelines though. And there are no questions on cost-effectiveness included.

FPA selection criteria do ask about procurement systems complying with EC competition regulations but do not ask about broader monitoring systems being able to generate cost-effectiveness data.

The Single Form does not include specific boxes on efficiency or cost-effectiveness of partners but requires partners to report by outputs and allocate costs to outputs. Also since June 2016 the Single Form requires partners to provide ECHO with the transfer value of their actions. This enables ECHO to calculate efficiency ratios from information provided by partners. In some cases, this might also enable ECHO to manually calculate costs per outcome.

ECHO does not require partners to provide budget information in a standard format. This makes cost-driver and economy analysis difficult and time-consuming.

Delivering humanitarian aid cost-effectively – the bottom line (JC 4 and JC5)

As mentioned above, FichOp guidelines require ECHO staff to look at the efficiency of actions in project appraisal and at specific aspects of procurement and staffing (economy questions). But there is no guidance on how to use the information generated, to compare it to what, why and how in order to be able to learn and improve consistently across the organisation. From talking to stakeholders and looking through a sample of Single Forms (in the case study and beyond), the approaches taken are ad-hoc and not systematic.

Conclusions

ECHO staff do assess economy and efficiency of partner actions to some level at appraisal stage. ECHO policy guidance documents and evaluations do include efficiency and cost-effectiveness analysis to some extent, mostly qualitatively. However, these assessments are not consistent, comparable or aggregatable and not systematised in ECHO. While some of the assessments are currently able to contribute to learning and improving, current systems do not enable ECHO yet to demonstrate conclusively to taxpayers and affected communities that humanitarian aid actions are efficient and cost-effective.

4.5 Task 5 - Develop a detailed approach for assessing cost-effectiveness in ECHO ex-post evaluations

Approach

The scope of this study was to develop a detailed approach for assessing cost-effectiveness in ECHO ex-post evaluations. Based on the findings from task 1-4 and extensive stakeholder consultations including a workshop with ECHO evaluators and independent evaluation experts, the study team has developed guidance, included in Annex A of this report.

The guidance is aimed at ECHO evaluators, as well as evaluation managers and steering group members. It might also be useful for wider use in the humanitarian evaluation community.

The guidance provides a minimum package of indicators and optional indicators for ECHO and evaluators to choose from – rather than a mandatory set of questions as such. This should allow ECHO and evaluators to tailor their approach to fit the specificities of the evaluation in question, whilst still responding in a consistent manner to the question of ECHO's cost-effectiveness through the inclusion of a standard EQ on cost-effectiveness with five standard judgement criteria.

The guidance consists of three chapters:

1. An introduction to cost-effectiveness analysis, terms and definitions
2. Guidance for assessing the extent to which ECHO delivered cost-effectiveness in the response under evaluation.

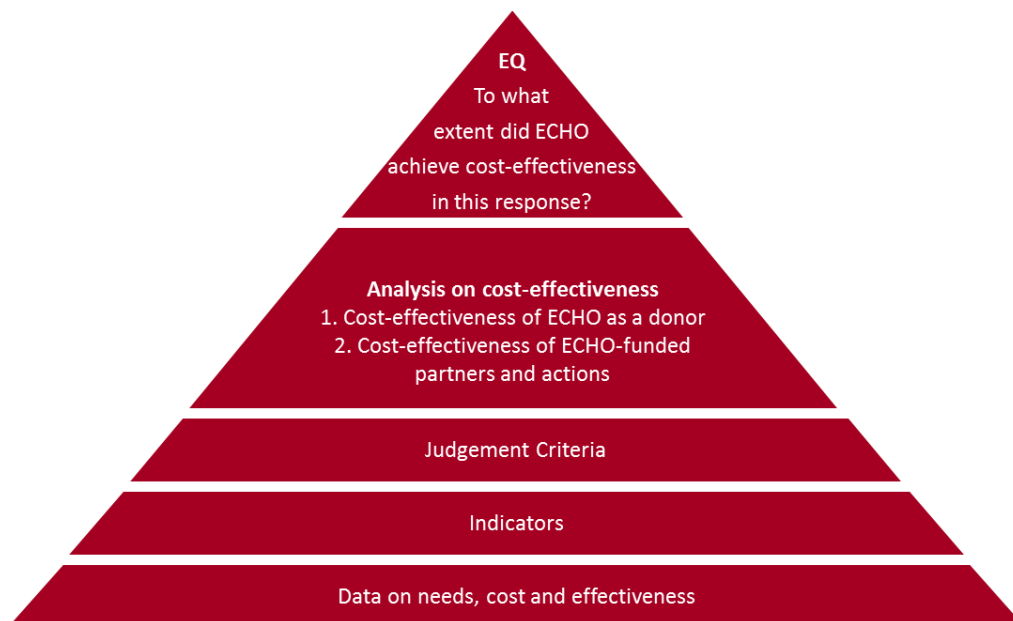
3. Introduction to and examples of tools and approaches that can be used to analyse the evaluation question on cost-effectiveness.

Summary Findings

Evaluating the cost-effectiveness of ECHO as a donor and ECHO funded actions is feasible and realistic with current monitoring and management systems and structures.

The Evaluation Questions to be added to ECHO evaluations is: 'To what extent did ECHO achieve cost-effectiveness in this response?' The EQ is then split into two sub-questions on the cost-effectiveness of ECHO as a donor and ECHO funded actions. Five judgement criteria and fifteen indicators are presented to enable evaluators to make a judgement on both process and the bottom line of cost-effectiveness in ECHO and partners as illustrated in Figure 8.

Figure 8. Cost-effectiveness evaluation question



The five judgement criteria and fifteen indicators are listed in Table 4 below.

Table 4. Judgement criteria and indicators

Judgement criteria and indicators on the cost-effectiveness of ECHO as a donor	
JC 1	ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives
I 1.1	Evidence that ECHO's budget allocations are based on needs
I 1.2	Evidence that ECHO's budget allocations considered the actions of other donors
I 1.3	Proportion of ECHO funding compared to total humanitarian funding
I 1.4	Evidence that ECHO's budget size was commensurate to ECHO objectives and expected outcomes
JC 2	ECHO balanced cost in relation to effectiveness and timeliness in making strategic choices about its portfolio of assistance
I 2.1	Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices related to partners, sectors, approaches, geographical locations, beneficiaries and transfer modalities
JC 3	ECHO took appropriate actions to ensure cost-effectiveness throughout the project cycle
I 3.1	Evidence of ECHO considering efficiency and cost-effectiveness in selecting partner proposals and negotiating contracts
I 3.2	Evidence of ECHO monitoring efficiency and cost-effectiveness of partners
I 3.3	Optional: Evidence that lessons learned were considered in programming

Judgement criteria and indicators on the cost-effectiveness of ECHO-funded actions	
JC 4	Humanitarian actions funded by ECHO were efficient
I 4.1	Qualitative evidence that partners and actions supported were efficient
I 4.2	Optional: Value of transfers reaching populations compared to administrative costs
I 4.3	Optional: Evidence that largest cost drivers were well-managed
I 4.4	Optional: Cost per unit / beneficiary in key sectors
JC 5	Humanitarian actions funded by ECHO were cost-effective
I 5.1	Qualitative evidence that partners and actions supported were cost-effective
I 5.2	Optional: Main quantitative or monetary outcomes of ECHO-funded projects compared to costs

Conclusions

The study team developed an evaluation framework that can be used immediately using existing systems and evaluation practices. However, the study team also identified several areas where ECHO systems need changing in order to embed systematic and consistent cost-effectiveness assessments into ECHO's operations. The recommended changes are explained in detail in Annex G (and summarised in 4.7 below). These will take time and senior management leadership to implement.

4.6 Task 6 - Case study

Approach

The ToR for this study included a requirement to “test the detailed approach via a case study in the context of – preferably – an existing, recent ECHO Humanitarian Aid evaluation”. In consultation with the Steering Committee a decision was made that the case study would be conducted in the Sahel. Within the Sahel region a decision was taken to focus on two countries; Mali and Niger. This provided the opportunity to compare the results in more than one country but remained consistent with the available resources.

In practice the case study was used to test the draft evaluation methodology¹⁵ as part of a simulated evaluation. The simulation provided the draft Guidance to a team of two evaluators – one senior and one junior – who were tasked with ‘evaluating’ the cost effectiveness of ECHO’s operations in these two countries. The simulation was not integrated into a full, on-going evaluation and so could not benefit from other the learning under other evaluation questions.

The objective of the exercise was not to produce an evaluation of the efficiency and cost-effectiveness of DG ECHO operations within the Sahel. Instead the objectives of the case study were targeted to fine tuning the evaluation approach, specifically to:

- Confirm the availability of the data sources specified in the guidance
- Test the relevance and feasibility of the tools and methods proposed in the guidance within the context of ECHO operations
- Assess the resource implications of including these requirements within an evaluation
- Test the extent which the evaluation approach provides useful insights

In line with the guidance the case study extracted data from a number of sources including an analysis of ECHO documents included sector policy guidance, previous evaluations, HIPs, WWDs, IAFs, SingleForms and Fichops, and detailed budgets as submitted by partners. External data was drawn from OCHA appeals and the FTS. Interviews were conducted with ECHO staff in country offices and with implementing partners. All interviews and data collection was done remotely, by telephone supplemented by email exchanges.

The case study was conducted over a two-week period. This was not a fulltime exercise but an extended period was need to download and analyse data, and arrange and conduct a variety of interviews. The coverage of the indicators and data sources over this period was as follows:

¹⁵ The methodology tested was the draft Guidance dated 6th June 2016

	Judgement criteria and indicators	Data sources	Tools and methods	Coverage
JC 1	ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives			
I 1.1	Evidence that ECHO's budget allocations are based on needs	HIP and IAF Appeals / SRPs OCHA FTS Key informants	Review of documents and basic data Interviews	Availability of data sources confirmed and interviews with ECHO conducted
I 1.2	Evidence that ECHO's budget allocations considered the actions of other donors	IAF and HIP Key informants	Review of documents Interviews	Documents downloaded and analysed
I 1.3	Proportion of ECHO funding compared to total humanitarian funding	OCHA FTS	Calculate basic data	Data downloaded and analysed
I 1.4	Evidence that ECHO's budget size was commensurate to ECHO objectives and expected outcomes	Key informants	Interviews	Interviews with ECHO conducted
		HIP	Review of documents	Documents downloaded and analysed
JC 2	ECHO balanced cost in relation to effectiveness and timeliness in making strategic choices about its portfolio of assistance			
I 2.1	Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices related to partners, sectors, approaches, geographical locations, beneficiaries and transfer modalities	Key informants	Interviews	Interviews with ECHO conducted
		HIP Evaluations Sector policy guidance	Review of documents	Documents downloaded and analysed
JC 3	ECHO took appropriate actions to ensure cost-effectiveness throughout the project cycle			
I 3.1	Evidence of ECHO considering economy, efficiency and cost-effectiveness in selecting partner proposals and negotiating contracts	Key informants FichOps in HOPE	Interviews Review of documents	Documents downloaded and analysed, interviews conducted
I 3.2	Evidence of ECHO monitoring efficiency and cost-effectiveness of partners	Key informants	Interviews	Interviews with ECHO conducted
I 3.3	Optional: Evidence that lessons learned were considered throughout the project cycle	Key informants FichOps in HOPE Monitoring reports	Interviews Review of documents	Documents downloaded and analysed, interviews conducted

JC 4	Humanitarian actions funded by ECHO were efficient			
I 4.1	Qualitative evidence that actions funded by ECHO were efficient	Key informants	Interviews Checklist of efficiency drivers	ECHO and partners interviewed
I 4.2	Optional: Value of transfers reaching populations compared to administrative costs	Sample of budgets and financial data from HOPE	Alpha value	Values computed for cash transfer projects
I 4.3	Optional: Evidence that largest cost drivers were well-managed	Sample of budgets from HOPE and Partner finance and logistics staff	Cost Driver and Economy analysis of largest cost areas Interviews	Discussed with partners but full analysis not conducted
I 4.4	Optional: Cost per beneficiary / cost per unit	Sample of budgets and financial data from HOPE Other partner documents	Cost per unit analysis	Values computed for key results including nutrition interventions
JC 5	Humanitarian actions funded by ECHO were cost-effective			
I 5.1	Qualitative evidence that actions funded by ECHO were cost-effective	Key informants	Interviews Checklist of cost-effectiveness drivers	ECHO and partners interviewed
		FichOps and other partner programme documents	Document review	Documents downloaded and analysed
		Key informants	Multi-criteria analysis	Not done
I 5.2	Optional: Main quantitative or monetary outcomes of ECHO-funded projects compared to costs	Key informants FicheOps and other partner documents Budgets and financial data from HOPE	Cost effectiveness analysis Cost benefit analysis	Not done as limited evidence of effectiveness

Summary Findings

Data Availability

Much of the data required for the analysis on cost-effectiveness was relatively readily available. The main observations that impacted on the guidance were that:

- ECHO sector guidance gives little or no specific guidance or benchmarks for analysing cost effectiveness. This creates challenges in formulating evaluative opinions on performance.

- The Integrated Analysis Frameworks (IAFs) are not readily available but are key evaluative documents. Mechanisms to facilitate access to these documents should be considered.
- Detailed budgets are only available in non-standard formats and a retrospective analysis of disaggregated budget data carries high transaction costs. Aggregated data is available on costs per result in the Single Form.
- Number of beneficiaries continues to be inconsistently reported – for example in some cases as a target population while for other projects as the number actually accessing services.
- Data on ECHO's own administrative costs was not available.

Tools and Methods

In terms of the tools and methods; interviews, analysis of documents and analysis of basic datasets (including OCHA FTS data and HOPE reporting) was relatively straightforward. However, the quantitative analysis at project level proved more challenging both in terms of data availability, resource requirements and the contextualisation of results.

There were positive experiences in the use of measure of cost efficiency where there was both available data and suitable comparators to draw useful conclusions from the data. Costs per beneficiary per result were relatively easily extracted and could be usefully compared across partners for key result areas (such as CMAM approaches). Comparisons of the ratio of transfer values to administrative costs were also relatively easily extracted for projects that deliver goods rather than services. Useful comparisons could be made between modalities (for example for cash, vouchers or in-kind transfers) or with established benchmarks.

Analysis of input costs through cost driver analysis was less straightforward requiring more time in data extraction. For most projects the main cost driver was human resources – and these costs are intimately associated with the overall quality of services provided. With limited data on outcomes no cost effectiveness analysis was attempted in the context of the case study.

Conclusions

The overall conclusion of the case study was that the guidance provided a useful and feasible approach. Most of this analysis is within the capacity of a 'generalist' evaluator and does not require specialist skills. Aspects of quantitative analysis were found to add value – but principally as an entry point for further enquiry rather than as a stand-alone finding. More detailed quantitative analysis is likely to require significant additional evaluation resources (which need to be further examined), as well as requiring additional expertise (such as economics) in the evaluation team.

There were sensitivities around asking ECHO staff and partners about the processes of assessing efficiency and cost-effectiveness in humanitarian aid actions. This was because of the lack of systematic guidance on what is supposed to be done on cost-effectiveness analysis. However, the case study also found that many ECHO partners do already assess

efficiency and cost-effectiveness to improve their own programme management and to report to other donors.

Based on the Sahel case study, the study team estimates time requirements for the minimum package of cost-effectiveness analysis to be about 10 days to be added to an existing geographical evaluation and 20 to 25 days for a full package.

4.7 Task 7 – Recommendations to adapt ECHO's management & monitoring systems

Approach

Based on the results of tasks 1-6 including extensive stakeholder consultation and the workshop with evaluators and ECHO staff, the study team has drafted operational recommendations to improve ECHO's management, monitoring systems and structures to facilitate cost-effectiveness assessments.

Annex G contains the full table of detailed recommendations and Chapter 6 includes the summary recommendations.

Summary Findings

The assessment of efficiency and cost-effectiveness of humanitarian aid actions is currently not systematically integrated into ECHO management and monitoring systems. This does not mean that ECHO is not driving efficiency and cost-effectiveness of humanitarian actions. In many policy areas, including for example multi-sector cash transfers, ECHO takes a leading role in the international system to promote this type of transfers that have shown to be efficient and cost-effective under many circumstances. ECHO also has sound systems and processes in place to drive efficiency and cost-effectiveness in its actions. Examples are the Framework Partnership Agreements, the extensive and expert field network enabling close monitoring, the efficiency and cost-effectiveness questions in evaluations, several FichOp criteria for partner selection and monitoring, and in particular the Single Form which provides a very useful format for consistent project cycle management, including efficiency and cost-effectiveness assessments.

Conclusions

All these systems and processes already provide ECHO with information and a certain level of assurance on the efficiency and cost-effectiveness of its actions. For ECHO to be able to not just learn and improve, but to confidently demonstrate the cost-effectiveness of its actions to tax payers and affected communities, some systems and structures will need to be adapted.

5. Conclusions

This study comes at a pertinent time internationally with the World Humanitarian Summit Grand Bargain calling for humanitarian actors to work together efficiently, transparently and harmoniously and to 'get more means into the hands of people in need'.

The study is also pertinent to reform efforts in the European Commission and ECHO on Better Regulation and improvements to results management through the introduction of standard key output and outcome indicators.

While neither the European Commission nor ECHO has an institutional definition, framework or guidance for assessing cost-effectiveness, there is demand for this at all levels of ECHO's operations. Different offices and individual staff use different approaches to varying levels of quality and detail. Any aggregation or comparison of cost-effectiveness is therefore difficult.

This study could not fulfil all of ECHO's demands for approaches to assessing cost-effectiveness. Given time and resources, the study focussed on approaches to assessing cost-effectiveness in ECHO ex-post evaluations. However, the terms and definitions as well as several of the judgement criteria, indicators and tools developed for evaluators will be useful to consider for application in other operational areas such as project appraisal.

Applying the guidance consistently in ECHO evaluations from now on and disseminating the results throughout the organisation will enable ECHO to improve on the three main functions of cost-effectiveness analysis in humanitarian aid:

- Deepening the evidence base (learning)
- Driving cost-effectiveness in programme management (improving)
- Demonstrating cost-effectiveness to Member States and affected communities (accountability)

In the near-term and while systems and processes are not yet set up to deliver more robust data and analysis on cost-effectiveness, the emphasis should be very much on learning and improving. For the full benefits of cost-effectiveness assessments along the three 'Ds' and in particular on accountability to spread throughout ECHO operations, ECHO senior management would need to start a change management process, taking important steps to prioritise and resource cost-effectiveness adequately.

Carrying out cost-effectiveness analysis without strong awareness in an organisation on what it is, what data are required, and how it is used in decision-making carries high risks of misinterpretation that could damage the organisations reputation and effectiveness. The guidance to evaluators produced in this study is a first step towards reducing these risks.

6. Recommendations

6.1 Recommendations to the ECHO Evaluation Sector

6.1.1 On integrating cost-effectiveness in the ECHO evaluation process

Based on increased corporate interest in the cost-effectiveness of operations, it is proposed that minimum standards are applied to cost-effectiveness assessments in all future ECHO operational evaluations. In addition, the Evaluation Manager will need to consult with the evaluation steering group and other users of the evaluation to assess the demand for specific information on cost effectiveness. In some circumstances cost-effectiveness will be a particularly pertinent issue and demand higher levels of attention. This will have implications for the level of resources allocated to this area of enquiry, the guidance provided to the evaluators in the ToR and the evaluation methodology.

The proposed starting point is that all geographical evaluations include a standard EQ on cost-effectiveness as given in the Cost-Effectiveness Guidance for ECHO Evaluations (see Annex A), namely; *“To what extent did ECHO achieve cost-effectiveness in this response?”*. Taken in conjunction with the supporting Guidance, this will require evaluators to follow a consistent and comparable approach to evaluating the cost effectiveness of ECHO operations.

Lessons on good evaluation practice¹⁶ highlight the need to limit the number of top level evaluation questions. Therefore, it is recommended that only one evaluation question is included on cost-effectiveness. However, the Evaluation Manager should provide guidance on context specific issues and concerns, along with an indication of the relative importance of this question within the evaluation, in the overall evaluation ToR.

It is recommended to the ECHO Evaluation Sector that all future ECHO geographical evaluation ToRs should include a link to the Cost-Effectiveness Guidance for ECHO Evaluations to serve as a resource and common frame of reference. The Cost-Effectiveness Guidance for ECHO Evaluations would provide a basis for evaluators to develop the section of the evaluation matrix detailing the approach to answering the cost-effectiveness question.

It is recommended that in all evaluations all five judgement criteria and the minimum set of indicators (as included in the Guidance in Annex 2) is included. Where cost-effectiveness is a particularly pertinent issue, the Evaluation Manager will specify this in the ToRs. The selection of additional optional indicators and detailed evaluation tools and methods (ranging from levels 1-3) should then be carried out by the evaluation team during the inception phase in line with the broader evaluation matrix development. Criteria for choosing the specific methods will include

¹⁶ See for example the ALNAP Guide on the Evaluation of Humanitarian Action <http://www.alnap.org/what-we-do/evaluation/cha#>

- feasibility,
- effort,
- potential duplication or trade-offs with other EQs.

The table below provides the ECHO Evaluation Sector with some estimates of the additional resource requirements for the minimum package and a full package of cost-effectiveness analysis. It is important to note that these are only estimates and will vary with the size of the response to be evaluated.

Table 5. Estimated resource requirements

Level of detail for cost-effectiveness EQ	Focus	Estimated additional ECHO resource requirements	Estimated additional evaluation team resource requirements	Skills in evaluation team
Minimum package	Process and qualitative information	3 additional days	10 additional days	Evaluation and/or humanitarian expertise
Full package with all indicators and level 3 tools	Process and quantitative, comparable cost-effectiveness assessment	5 additional days	20-25 additional days	Requires some economic or quantitative skills

The additional time demands on evaluation teams are expected to decrease as they become more familiar with the approach and guidance.

6.1.2 On rolling out the cost-effectiveness guidance

Before rolling out the guidance, the ECHO Evaluation Sector should ideally pilot the use of the guidance in an upcoming geographic/crisis evaluation. For the pilot, the guidance should be sent not just to evaluators but also all ECHO staff involved in the evaluation.

Once the pilot has concluded with potentially further refinements to the guidance, the Evaluation Sector could tap into existing ECHO communication processes to present the revised guidance to ECHO regions and field offices. ECHO field offices in turn need to inform partners about the cost-effectiveness EQ ECHO evaluations will from now on include.

In rolling out the guidance, the Evaluation Sector should communicate the main functions of cost-effectiveness analysis to ECHO staff. As long as systems in ECHO are not in place to generate more cost-effectiveness analysis, it needs to be clear that the emphasis will be on the first two functions of learning and improving, rather than accountability.

The ECHO Evaluation Sector needs to make provisions for extra time and skill demands of ECHO evaluators in future evaluations. The exact provisions will depend on the level of detail and priority given to cost-effectiveness analysis in the evaluation.

The ECHO Evaluation Sector should include a session on the cost-effectiveness EQ in all future evaluation framework contractor meetings. A presentation of the guidance to other humanitarian donors in the context of existing humanitarian evaluation meetings would be an important first step towards potentially harmonising and collaborating on this with others in the future.

6.2 Recommendations for adapting existing management and monitoring systems and structures (Task 7)

The recommendations are presented in order of the tasks ECHO as a donor carries out on an annual basis and are in line with the five JCs in the cost-effectiveness assessment guidance.

Making budget allocation decisions (JC1)

If ECHO wanted to provide greater transparency and predictability on budget allocations at country level (in line with WHS commitments for greater transparency), it would need to clearly link its decisions on budgets size to needs, other donor funding and its objectives. ECHO could consider setting targets of funding as a % of need or as a % of total humanitarian funding for example per crisis. And it could consider defining expected outcomes in the HIPs clearly, allocating a budget commensurate to the scale of achievements envisaged.

Making portfolio choices (JC 2)

The most critical gap in ECHO's tasks as a donor might be the lack of documented analysis of the costs and benefits of ECHO's strategic choices in its portfolio. An important recommendation to ECHO would therefore be to carry out a strategic multi-annual analysis of its engagement every few years in protracted crises weighing up the costs and benefits of different options of delivering humanitarian aid. The process would need to weigh up the costs and benefits of funding

- different types of partners (NGOs versus UN versus others),
- consortia versus individual partners,
- different transfer modalities,
- different approaches (preparedness/resilience versus response), and
- sectors (in terms of ECHO's comparative advantage vis-à-vis others).

The HIPs would continue to exist as annual financing decisions, setting out clearly what outcomes ECHO intends to achieve every year in line with the strategic multi-annual analyses.

Such an approach would go a long way to meet WHS commitments on multi-year planning. ECHO could also consider carrying out the strategic multi-annual assessments together with another like-minded donor, thereby reducing duplication and management costs (another WHS commitment).

Managing partners throughout project cycle (JC 3)

To introduce consistent and systematic cost-effectiveness analysis into the ECHO project cycle, ECHO could either include cost-effectiveness criteria in the FichOp Guidelines or introduce a cost-effectiveness marker in line with the two already existing gender and resilience markers.¹⁷ While adding questions to the FichOp Guidelines would be a relatively straight-forward way to assess cost-effectiveness throughout the project cycle, a marker would send a strong signal to partners, tax payers and affected communities that ECHO is serious about providing cost-effective humanitarian aid.

The questions (ideally harmonised with other donors in order to reduce duplication and management costs) could look like this:

- Does the Single Form provide sufficient information to assess the action's
 - efficiency, such as cost per beneficiary, ratio between goods and services directly delivered to the beneficiaries and other costs? (existing question in FichOp Guidelines)
 - economy, such as the cost per input of the main cost drivers (new question)?
 - cost-effectiveness, such as the cost per outcome in key sectors (new question)?
- Are partners consistently generating and using this information to improve their programming?

ECHO could also incentivise partners to consider cost-effectiveness in their programming by demanding that partners have systems in place through an additional Framework Partnership Agreement selection criterion.

Delivering humanitarian aid cost-effectively -the bottom line (JC 4 and JC5)

Following on from the recommendation under JC 3 that ECHO asks partners about their consideration of cost-effectiveness throughout the project cycle, ECHO could include the following questions in FichOp Guidelines or in a cost-effectiveness marker:

Efficiency:

- What are the transfer ratios and unit costs of the action?
- Are they significantly higher or lower than in previous actions or in comparison to other partners?
- What reasons for large variations are given by partners?
- Are these reasons valid? If not, what is being done about it?

Economy:

¹⁷ https://ec.europa.eu/echo/files/policies/sectoral/gender_age_marker_toolkit.pdf

- What are the three main cost-drivers of the action?
- What are the costs per input of these three main cost-drivers?
- How do they compare to costs in previous actions or other partners? Are there large variations? Can variations be explained?
- What evidence is there that partners are managing the cost-drivers well?

Cost-effectiveness:

- What are the costs per key quantified outcome?
- What is the cost-effectiveness ratio (CER)?
- Is the CER significantly lower or higher than in previous actions or in comparison to others?
- What reasons for large variations are given by partners?
- Are these reasons valid? If not, what is being done about it?

In order to enable sound cost-effectiveness analysis with the data generated above and enable comparisons and benchmarking, ECHO could

- capitalise more on partners and other donors' efforts to analyse cost-effectiveness,
- commission thematic evaluations on cost-effectiveness in key sectors/cost areas,
- feed regular monitoring data into a regional database and or sector policy guidelines.

Implementing these changes to existing systems and structures would greatly increase ECHO's capacity to deliver cost-effective humanitarian aid and demonstrate this to affected communities, Member States and partners.

6.3 Recommendations for Introducing Cost-Effectiveness Analysis into ECHO Programming

The detailed recommendations for system change are included in Annex G and summarised above. For these system changes to be implemented efficiently and effectively, the study team recommends that ECHO considers starting a change management process with the aim of making ECHO a more efficient and cost-effective humanitarian donor. This should involve:

- Defining what cost-effectiveness means for ECHO in the current internal European Commission context (Better Regulation Agenda, Financial Regulation) and external context (WHS Grand Bargain commitments and increasing needs).
- Collaborating with other donors to learn from their experience, harmonise and align approaches to cost-effectiveness assessments (in line with WHS Grand Bargain commitments).
- Committing adequate resources to making cost-effectiveness an integral part of programme management while making sure not to over-complicate.
- Being realistic about costs to partners of an increased focus on cost-effectiveness and ensuring that cost-effectiveness assessments are cost-effective.

- Communicating the purpose and mechanics of the process to partners, Member States and affected communities.
- Managing the risks involved with new processes and change by involving staff and building on the existing efforts to drive cost-effectiveness in ECHO and by partners.

Annex A. Cost-effectiveness guidance for ECHO evaluations

Guidance on analysing cost-effectiveness in evaluations of ECHO humanitarian aid actions

DRAFT

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1. Introduction

Understanding the costs and results of humanitarian assistance is imperative to ensuring that scarce financial resources are used in the best ways. In recent years, donors and aid agencies have placed stronger emphasis on analysing the 'cost-effectiveness' and 'value for money' of humanitarian assistance. This has been driven by several trends. The gap between humanitarian needs and humanitarian funding is widening. Government aid departments face scrutiny to justify their allocations as governments deal with the pressures of financial crises and competing needs. Effective and accountable use of resources has been and remains a priority for principled humanitarian responses.

In the context of the European Commission, the better regulation agenda has been developed to design and evaluate EU policies and laws transparently, with evidence, and backed up by the views of citizens and stakeholders. It covers all policy areas and aims for targeted regulation that goes no further than required, in order to achieve objectives and bring benefits at minimum cost.

Evaluations are a prime resource to contribute to this understanding and better regulation agenda. They are the primary vehicle through which ECHO and its partners regularly analyse their humanitarian actions to promote both learning and accountability and inform future decisions.

1.1 Why evaluation guidance on cost-effectiveness?

The purpose of this guidance is to ensure that the opportunity that evaluations offer for analysing cost-effectiveness is seized. This helps ECHO justify its actions to its stakeholders and ensure good stewardship of its resources. It also contributes to evidence on 'what works' in humanitarian response.

The aim is to promote more systematic analysis of cost-effectiveness by ensuring that key questions are included on these issues in evaluations and providing guidance on answering them. The guidance does not cover the full range of issues which an evaluation should address but is intended as a module, within a broader evaluation, specifically on assessing cost-effectiveness.¹⁸

1.2 Scope

This guidance is primarily meant to inform ECHO evaluations at country/crisis level. It includes assessing the extent to which ECHO and its partners were cost-effective. It provides ECHO and evaluators with a menu of options for analysis that can be flexibly adapted in different circumstances.

¹⁸ Further guidance on evaluations for the European Commission can be found in the Better Regulation Guidelines: http://ec.europa.eu/smart-regulation/guidelines/ug_chap6_en.htm

This guidance covers analysis related to cost-effectiveness and the associated concepts of economy and efficiency. 'Effectiveness' is necessarily a crucial aspect of cost-effectiveness. While this guidance covers key issues related to cost-effectiveness, it cannot cover all issues on effectiveness, given the wide range of outcomes that humanitarian programmes seek to achieve.

1.3 Target audience

This guidance is targeted first and foremost to evaluators of ECHO-funded humanitarian actions. It is also targeted to European Commission evaluation managers and steering group members. It is intended to make all their jobs easier as a practical resource based on consideration of the challenges and benefits of analysing costs and outcomes of ECHO and its partners. While developed specifically for ECHO, it may be of use to the wider humanitarian evaluation community.

1.4 Understanding cost-effectiveness

There is no standard definition of cost-effectiveness in ECHO or within the European Commission. Different organisations define cost-effectiveness and the similar concept of value for money in different ways. There is however consistency in the main ideas – analysis of what an intervention or portfolio costs in relation to what it achieves. Where possible, this is compared with alternative approaches to achieve the same objective.

This guidance defines cost-effectiveness as *the achievement of intended outcomes in relation to costs*. Another way to think about cost-effectiveness is the optimal use of resources to achieve outcomes.¹⁹ A way of framing these issues is through the 'three Es' of economy, efficiency and (cost)-effectiveness:

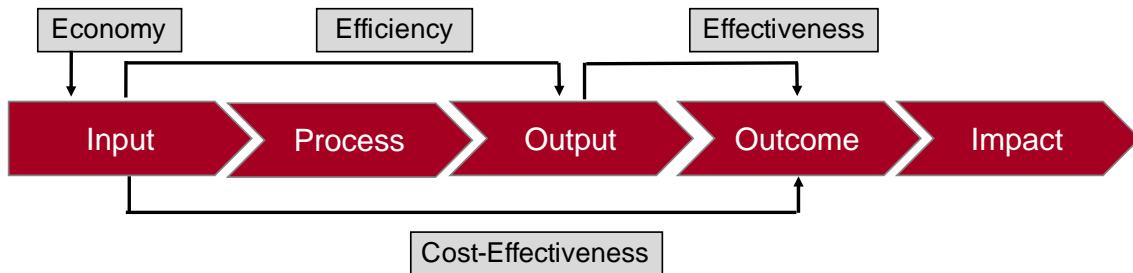
- **Economy:** are inputs of the appropriate quality bought at the right price?
- **Efficiency:** how well are inputs converted into outputs?
- **Effectiveness:** how well are outputs achieving the desired outcomes?

The 3Es are in line with Article 27(1) of the European Commission Financial Regulation, which states that 'budget appropriations shall be used in accordance with the principles of economy, efficiency and effectiveness'.²⁰ Some frameworks also include equity as the fourth 'e' – the distribution of benefits.

¹⁹ Efficiency and cost-effectiveness are framed slightly differently in the Better Regulation Guidelines, which describe efficiency as the 'relationship between the resources used by an intervention and the changes generated by the intervention'. This differs from OECD-DAC definition on efficiency, which considers the relationship between resources (inputs) and an intervention's outputs. This guidance uses the OECD-DAC framing. The differences between terminology are noted in Annex 1.

²⁰ Eureval C3E (2006) Study on the Use of Cost-effectiveness Analysis in EC's Evaluations. Center for European Evaluation Expertise.

Figure 9. Cost-effectiveness



Source: Adapted from DFID VfM Framework

As shown in Figure 9 an important distinction between efficiency and cost-effectiveness is that the former considers only outputs and the latter considers outcomes. It is possible to have interventions that are very efficient (because the inputs were cheap) but not cost-effective (because they did not achieve the changes that were envisioned). On the other hand, a portfolio or project with expensive inputs can still be cost-effective if it is highly effective.

1.5 Using this guidance

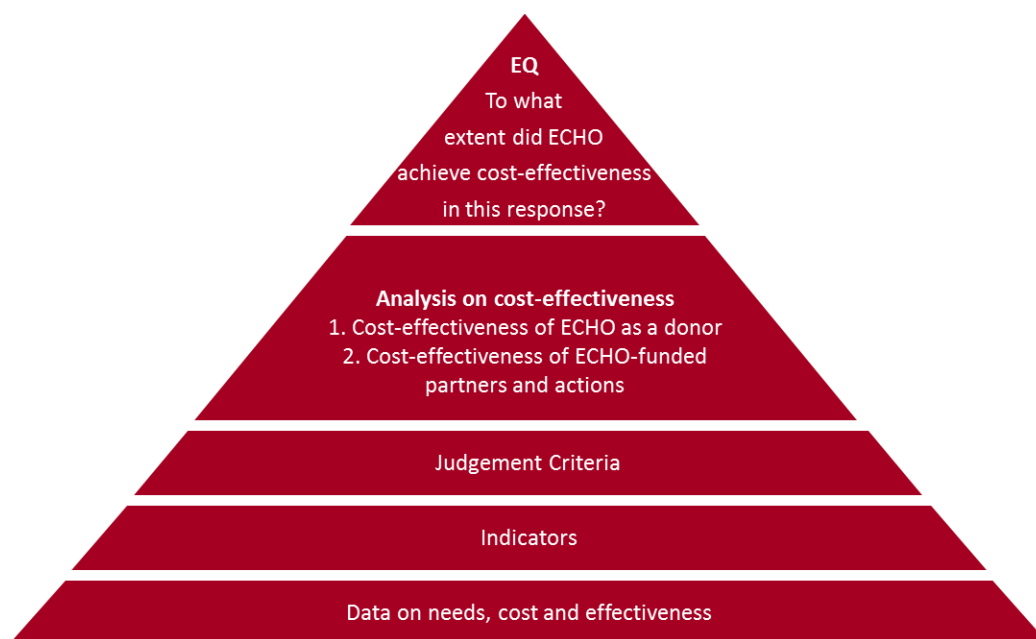
This guidance suggests one Evaluation Question (EQ) that should be included in all ECHO portfolio evaluations Terms of Reference:

To what extent did ECHO achieve cost-effectiveness in this response?

Chapter 2 outlines Judgement Criteria (JC) and indicators to answer the above EQ. The JCs and indicators cover two aspects of the above EQ – the cost-effectiveness of ECHO in performing its roles as a donor and the cost-effectiveness of the actions it supported via its partners.

The below pyramid shows the overall framework for the cost-effectiveness analysis, with the specific JCs, indicators, data sources and analytical outlined in Chapter 2. Chapter 3 describes in detail the analytical tools that are referenced in Chapter 2, including examples of analysis, data sources and issues to consider.

Figure 10. Framework for analysing cost-effectiveness in ECHO evaluations



This guidance does not seek to substitute for guidance on evaluating humanitarian action through the lens of the OECD-DAC criteria of appropriateness / relevance, connectedness, coherence, coverage, efficiency, effectiveness and impact.²¹ It does not seek to add a new criterion on cost-effectiveness. Rather it seeks to ensure that analysis on the *efficiency* of actions is considered in relation to their *effectiveness* and that specific queries and analysis are undertaken on *cost-effectiveness*. For these reasons the guidance has some overlaps with analysis that may be done specifically on the OECD-DAC criteria of efficiency and effectiveness.

The guidance uses the term ‘cost-effectiveness’ rather than ‘value for money’ because there is less consensus around the meaning of value for money and simply to avoid the repetition of using both terms throughout the text.

1.6 Cost-effectiveness in the evaluation cycle

This guidance recommends that all portfolio evaluations include the above standard EQ on cost-effectiveness. Recommendations to the ECHO Evaluation Sector on how to integrate the cost-effectiveness EQ into ECHO evaluations are included in the Report on the Study on Approaches to Assess Cost-Effectiveness of DG ECHO’s Humanitarian Aid Actions.

Table 6 summarises the steps that need to be taken to include cost-effectiveness in the evaluation cycle when and by whom.

²¹ And it does not seek to substitute for EC Better Regulation Guidelines on evaluation.

Table 6. Including cost-effectiveness in the evaluation process

Issue	Phase	Responsible
Include in the terms of reference the EQ on cost-effectiveness and include the consideration of cost-effectiveness in the roadmap	Planning	Evaluation Manager in consultation with the evaluation steering group
Provide evaluation guidance on cost-effectiveness to evaluation team	Inception	Evaluation Manager
Provide the evaluation team with access to HOPE and provide the relevant IAFs	Inception	Evaluation Manager in consultation with the evaluation steering group
Calculate basic data to inform JC and indicators choice	Inception	Evaluation team
In the inception report, propose a methodology to analyse cost-effectiveness that appears feasible and appropriate	Inception	Evaluation team
Access detailed budget data on ECHO partners in HOPE (annexed to SingleForms)	Evaluation	Evaluation team
Access data on outputs from ECHO partners in HOPE (in SingleForms)	Evaluation	Evaluation team
Access monitoring data on outcomes from ECHO partners in HOPE (in SingleForms). If not available in SingleForms, request from partners	Evaluation	Evaluation team
Include in draft evaluation report conclusion on cost-effectiveness supported by evidence and analysis	Report	Evaluation team
Describe in draft evaluation report any limitations of data and assumptions that could affect the conclusions on cost-effectiveness	Report	Evaluation team
Review draft evaluation report to ensure inclusion of findings and conclusion on cost-effectiveness and provide comments on analysis and conclusions	Report	Evaluation team

2. Analysing cost-effectiveness

2.1 Overall approach

An evaluation should include the following question: **To what extent did ECHO achieve cost-effectiveness in this response?** This chapter considers judgement criteria that can be used to analyse this question and indicators that provide the relevant information for those judgement criteria.

This guidance separates out the cost-effectiveness inquiry into two categories:

- A. judgement criteria about the cost-effectiveness of ECHO as a donor; and
- B. judgement criteria about the cost-effectiveness of the actions it supported.

These two categories are linked, as part of ECHO's role as a donor is ensuring that its partners deliver cost-effective responses. But there are also unique questions about how well ECHO performs its functions and what the actions it funds achieve. Thus we believe that it is important to promote analysis on both sets of issues to inform conclusions on cost-effectiveness in the evaluation. These judgement criteria are summarised in Table 8 (Judgement criteria and indicators on the cost-effectiveness of ECHO as a donor) and Table 9 (Judgement criteria and indicators on the cost-effectiveness of ECHO-funded actions). The chapter then briefly outlines how to analyse each indicator.

The indicators are a menu of options and not a prescription. It is indeed important in an evaluation to focus time and resources on most pressing issues, which is a judgement made by the evaluation steering group and the evaluation team, based on the priorities of the evaluation and data available.

Because not all evaluations will be able to delve into the same amount of detail given constraints of time and data, we have suggested that some indicators are 'optional' on the basis of the effort required in analysing them compared to their probable analytical contribution. All non-optional indicators are the suggested minimum analysis that should be conducted for each JC. A table with only the minimum, non-optional indicators is found in Annex 2.

The tools are graded as level 'one', 'two' or 'three' based on the effort required to use each tool, and it is possible to use multiple tools to analyse the same indicator. These levels are not an indication of priority and are purely meant to assist evaluators planning the amount of time required for different tasks.

- *Level one* tools require low to medium additional effort with a focus on qualitative evidence (and quantitative evidence where possible and easy to access) through document review and interviews that can be easily added to existing evaluation interview schedules or scanning for new information within a broader review of documents.
- *Level two* tools require more effort to locate data and conduct more in-depth interviews or document review.

- *Level three* tools require the most effort, time and skills as the data required for the analysis is not generated routinely in ECHO management and monitoring systems. It should not be expected for all evaluations to use level three tools unless dedicated resources are provided, however these tools may be of particular importance in specific contexts or may become more relevant over time with management and monitoring system changes that more readily enable the analysis.

Table 7. Explanation on tool levels

	Effort	Type of data	Detail
Level 1	Low to medium	Mostly qualitative with quantitative data where easy to access and interpret	Questions and issues that can be easily added to document review and indicators
Level 2	Medium to high	Quantitative and qualitative	Analysis that relies on data that is not readily available
Level 3	High	Qualitative and quantitative	Analysis that relies on data that is not readily available and requires time and quantitative skills to carry out.

There is no single approach or tool that is best placed for analysing cost-effectiveness and the associated concepts of economy, efficiency and effectiveness. There are several approaches drawn from different sectors that collectively provide evaluators with several options to explore cost-effectiveness. Tools are underlined in section 2.3 and explored in more detail in Chapter 3.

2.2 Overview of the Evaluation Question with JCs and indicators

This section provides an overview in table format of the

- judgement criteria,
- indicators,
- data sources,
- tools and methods to be used, as well as
- the levels of analysis corresponding to the tools.

The next section provides detailed guidance on how to respond to the JCs and indicators.

Table 8. Judgement criteria and indicators on the cost-effectiveness of ECHO as a donor

	Judgement criteria and indicators	Data sources	Tools and method	Level
JC 1	ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives			
I 1.1	Evidence that ECHO's budget allocations are based on needs	HIP and IAF Appeals / SRPs OCHA FTS Key informants	Review of documents and basic data Interviews	1
I 1.2	Evidence that ECHO's budget allocations considered the actions of other donors	IAF and HIP Key informants	Review of documents Interviews	1
I 1.3	Proportion of ECHO funding compared to total humanitarian funding (to be used with a comparator)	OCHA FTS	Calculate basic data	1
I 1.4	Evidence that ECHO's budget size was commensurate to ECHO objectives and expected outcomes	HIP	Review of documents	1
		Key Informants	Interviews	1
JC 2	ECHO balanced cost in relation to effectiveness and timeliness in making strategic choices about its portfolio of assistance			
I 2.1	Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices related to partners, sectors, approaches, geographical locations, beneficiaries and transfer modalities	Key informants HIP Sector policy guidance	Review of documents	1
		Key informants	Interviews	1
JC 3	ECHO took appropriate actions to ensure cost-effectiveness throughout the project cycle			
I 3.1	Evidence of ECHO considering economy, efficiency and cost-effectiveness in selecting partner proposals and negotiating contracts	FichOps in HOPE Key informants	Review of documents Interviews	1
I 3.2	Evidence of ECHO monitoring efficiency and cost-effectiveness of partners	Key informants	Interviews	1
I 3.3	Optional: Evidence that lessons learned were considered throughout the project cycle	FichOps in HOPE Monitoring reports Key informants	Review of documents Interviews	2

Table 9. Judgement criteria and indicators on the cost-effectiveness of ECHO-funded actions

	Judgement criteria and indicators	Data sources	Tools and methods	Level
JC 4	Humanitarian actions funded by ECHO were efficient			
I 4.1	Qualitative evidence that actions funded by ECHO were efficient	FichOps in HOPE and other partner programme documents	Document review Checklist of efficiency drivers	1
		Key informants	Interviews Checklist of efficiency drivers	1
I 4.2	Optional: Value of transfers reaching populations compared to administrative costs	Sample of budgets and financial data from HOPE	Alpha value	1-3
I 4.3	Optional: Evidence that largest cost drivers were well-managed	Sample of budgets from HOPE and Partner finance and logistics staff	Cost Driver and Economy analysis of largest cost areas Interviews	3
I 4.4	Optional: Cost per beneficiary / cost per unit	Sample of budgets and financial data from HOPE Other partner documents	Cost per unit analysis	1-3
JC 5	Humanitarian actions funded by ECHO were cost-effective			
I 5.1	Qualitative evidence that actions funded by ECHO were cost-effective	FichOps and other partner programme documents Key informants	Document review Checklist of cost-effectiveness drivers	1
		Key informants	Interviews Checklist of cost-effectiveness drivers	1
		Key informants	Multi-criteria analysis	2
I 5.2	Optional: Main quantitative or monetary outcomes of ECHO-funded projects	Key informants FicheOps and	Cost effectiveness analysis	3

	compared to costs	other partner documents Budgets and financial data from HOPE	Cost analysis	benefit	
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2.3 Guidance on how to carry out the analysis of the judgement criteria and individual indicators

2.3.1 Cost-effectiveness of ECHO as a donor (JC1 to JC 3)

ECHO's objective as a donor can be summarised as providing the right amount and type of aid, at the right time and in an appropriate way, to the most vulnerable people affected by natural and/or manmade disasters, in order to save lives, alleviate suffering and maintain human dignity.²² An evaluation should determine the extent to which ECHO pursued this objective in way that was cost-effective for the taxpayers that support it and for beneficiaries. This involves considering the tasks that ECHO carries out as a donor and the different processes it uses to ensure good cost-effectiveness.

JC 1	ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives
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ECHO is a large humanitarian donor, but as with all donors has finite resources. The size of the budget should be appropriate in a given context given the needs and numbers of people affected by crisis and disaster. Another factor that may influence the size of the budget is ECHO's added value as a humanitarian donor – in particular ECHO's commitment to humanitarian principles, evidence and encouraging approaches based on good practices. These commitments may affect the size of the budget, for example if ECHO engages in an underfunded 'forgotten' emergency or less accessible areas that may have justifiably higher costs.

1.1 Indicator: Evidence that ECHO's budget allocations are based on needs

Locate and calculate basic data on needs and funding of the response under evaluation. Review the crisis IAF to check for justifications on the size of ECHO's overall budget. OCHA FTS provides data on the total funding required as estimated via Strategic Response Plans, Humanitarian Response Plans and Flash Appeals, as well as data funding by donor and by sector (*Level 1*).

Ask ECHO HQ staff in key informant interviews how the size of the overall crisis response budget was determined (WWD and or Emergency Aid Reserve). Check whether they considered the overall needs in the context (e.g. related to humanitarian response plans / strategic response plans) (*Level 1*).

²² Terms of Reference for the study on Approaches to assess cost-effectiveness of DG ECHO's Humanitarian Aid actions. 2015.

1.2 Indicator: Evidence that ECHO's budget allocations considered the actions of other donors

Review the IAF for information on the presence of other donors (*Level 1*). Ask ECHO HQ and ECHO field staff in key informant interviews about the amounts of assistance that other donors provided and whether it had a specific role to play related to ECHO's added value as a humanitarian donor. Check the IAF for references on the action of other donors (*Level 1*).

1.3 Indicator: Proportion of ECHO funding compared to total humanitarian funding

Use OCHA FTS to calculate ECHO's funding to the total humanitarian funding. As a point of reference, ECHO's global share of humanitarian funding was 12% from 2012 to 2013 and 9% in 2014 and 2015 according to FTS. If ECHO's funding is higher or lower than average attempt to determine the reasons (e.g. larger share from other donors, higher priority for ECHO) (*Level 1*).

1.4 Indicator: Evidence that ECHO's budget size was commensurate to ECHO objectives and expected outcomes

Review the HIP for references to budget size in relation to objectives and to determine if the objectives were clearly established in the first place (*Level 1*).

Ask ECHO staff in key informant interviews what ECHO's broad objectives were in this context, including related to the EU Added Value on advocacy, leadership and coordination / coherence and whether the size of the budget was commensurate to achieving all of the objectives (*Level 1*).

JC 2	ECHO balanced cost in relation to effectiveness and timeliness in making strategic choices about its portfolio of assistance
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ECHO makes strategic choices about the features of its assistance. These choices include ECHO's objectives, the populations it intends to cover and priority sectors. All of these issues may be influenced by the EU added value of doing X and Y. ECHO may also emphasize criteria that will be prioritised in determining which actions to fund, such as the efficiency and effectiveness of targeting, transfer modalities, overheads, partnerships and coordination. Evaluators should consider whether and how efficiency and cost-effectiveness were considered in ECHO's strategic choices about its portfolio.

2.1 Indicator: Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices related to partners, sectors, approaches, geographical locations, beneficiaries and transfer modalities

Review the crisis IAF and Humanitarian Implementation Plan (HIP) to see if ECHO indicated how efficiency and cost-effectiveness figured in its strategy and priorities. For example, ECHO may have stressed a desire for those issues being justified in proposals or as an important consideration in their overall response (*Level 1*).

Ask ECHO staff in key informant interviews generally how choices were made related to partners (UN versus NGOs; individually or in consortia), sectors, approaches (such as supporting resilience or preparedness efforts), geographical locations, beneficiaries and transfer modalities. Assess how cost and effectiveness were considered when making these strategic choices. As timeliness can be a trade-off with cost, assess whether timeliness played a role in these decisions (*Level 1*).

JC 3	ECHO took appropriate actions to ensure cost-effectiveness throughout the project cycle
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ECHO should take steps throughout the lifecycle of the portfolio under evaluation to promote the efficiency and cost-effectiveness of the actions that it funded. This includes considering these issues in the selection of the partners (and their proposed activities) and monitoring them. It is not enough for ECHO simply to have taken actions, for example a 'box ticking' exercise with no real analysis probably will not pass muster. On the other hand, it would be unreasonable to expect ECHO to do types of analysis that are normally better suited to research. The steps need to be appropriate, in that types of questions asked and the level of effort that they required and the insights they yielded were reasonable and relevant. It is up to evaluators to determine the margin of what 'counts' as appropriate actions as these will vary from portfolio to portfolio.

3.1 Indicator: Evidence of ECHO considering economy, efficiency and cost-effectiveness in selecting partner proposals and negotiating contracts

Ask ECHO staff in key informant interviews how partners were selected and determine whether the economy, efficiency and cost-effectiveness of partners was considered in the selection process. Ask ECHO staff and partners whether ECHO queried partners on these issues when negotiating contracts.

While the role of evaluators is not to run an audit, evaluators do need to consider that ECHO staff are required through FichOp Guidelines to ask partners about managing certain cost drivers such as local versus international purchase and international to national staff ratios. Efficiency in relation to cost per beneficiary and the admin cost ratio is an appraisal criteria included in ECHO's FichOp guidance under financial aspects.²³ Note that in some cases ECHO may have limited choices that influence the extent to which partners' efficiency can be taken on board on the selection process (*Level 1*).

3.2 Indicator: Evidence of ECHO considering efficiency and cost-effectiveness of partners

Ask ECHO staff and ECHO partners in key informant interviews generally how ECHO monitored its partners and their activities and determine whether ECHO considered the efficiency and cost-effectiveness in the monitoring (*Level 1*).

3.3 Optional Indicator: Evidence that lessons learned were considered throughout the project cycle

ECHO-funded activities under evaluation may extend years, meaning that lessons can be learned throughout the lifecycle of the assistance that should be taken on board. Ask ECHO staff in key informant interviews whether lessons emerged during the period under evaluation and whether these lessons were incorporated into decisions about the selection

²³ The appraisal question on cost-efficiency in FichOps is: Does the Single Form provide sufficient information to assess the action's cost-efficiency, such as: cost per beneficiary, ratio between goods and services directly delivered to the beneficiaries and other costs?

of partners and projects (or other strategic decisions). Other uses sources of data may be monitoring reports and evaluations of individual projects and even from previous portfolios or from other non-ECHO interventions (Level 2).

2.3.2 Cost-effectiveness of ECHO-funded actions (JC4 and JC5)

The following judgement criteria and indicators can be used to understand the cost-effectiveness of the assistance that ECHO funded through its partners.

JC 4	Humanitarian actions funded by ECHO were efficient
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Efficiency refers to the cost of inputs in relation to their outputs and does not consider issues of effectiveness. Efficiency influences cost-effectiveness because any achievements or short-comings of an intervention's efficiency influence its cost-effectiveness. Analysis on efficiency is a useful contribution to learning and accountability through consideration of the relative cost of alternative approaches to achieving the same output and whether the intervention was implemented in the most efficient way. Most evaluations will have a separate EQ on efficiency. Data and analysis from that EQ should inform the below indicators.

4.1 Indicator: *Qualitative evidence that actions funded by ECHO were efficient*

Ask ECHO partner staff in key informant interviews how their assistance performed for efficiency and what evidence they have to support their conclusions (e.g. monitoring data). Ask ECHO and ECHO partner staff in key informant interviews about the factors that they believe influenced the efficiency of their ECHO-funded programmes (see Chapter 3 for list of examples). Ask whether in hindsight they believe that a different approach would have improved efficiency (*Level 1*).

4.2 Optional Indicator: *Value of transfers reaching populations compared to administrative costs*

In the case of programmes that provided cash, voucher or in-kind assistance to populations, choose a sample of projects and use the alpha ratio or the total cost transfer ratio to compare the value of assistance that reaches beneficiaries compared to administrative costs. Keep in mind that programmes that have elements such as training or sensitisation may have higher costs than those that do not because of the staff time associated with these functions. Since June 2016 the Single Form includes a tab on transfer modalities that enables an automatic calculation of these ratios. The FichOps guidance 2016 recommends TAs to pay particular attention to the ratio between the cost goods and services directly delivered to the beneficiaries and other costs. It therefore is reasonable to conclude that an alpha ratio or similar analysis should have been considered at some stage, at least in the case of cash, vouchers and in-kind aid, where an alpha ratio calculation is more straight-forward (compared to the provision of services). If the data is readily available, then this is a level 1 tool; if it is not then it is a level 3 as it requires the evaluator to gather this data. See Chapter 3 for benchmarks (*Level 1-3*).

4.3 Optional Indicator: Evidence that largest cost drivers were well-managed

In a geographical evaluation it usually would not be appropriate for evaluators to dig through all of partner's budgets and then assess whether they paid the 'correct' prices. However, this indicator may be particularly appropriate in crises where a large portion of the budget went to certain goods or services – such as food aid or transitional shelters – because overpaying for these inputs could have large repercussions on the economy and efficiency of the portfolio. Use cost-driver analysis to identify the three largest costs of the largest ECHO partner(s) and then economy analysis to determine whether these were reasonable. Ask partners what processes they had in place to not overpay for inputs and how they managed cost drivers (*Level 3*).

4.4 Optional Indicator: Cost per beneficiary / cost per unit

Cost per beneficiary is a meaningful measure of efficiency only if the same level of benefits or results are achieved (or expected to be achieved) and in similar circumstances. This is rarely the case. An additional challenge is that the definition of beneficiaries can be highly inconsistent across partners, making this a difficult indicator. However, tracking this information over time could eventually establish rough benchmarks for programmes delivering similar benefits. ECHO already requires partners in their logframes and financial statements to allocate costs to results so that the ratio of cost per unit of result can be easily calculated. Other donors ask for cost per beneficiaries and several NGOs have started calculating these for internal programme management reasons.

To calculate the cost per beneficiary, divide the budget or result/output by the number of beneficiaries. This indicator can also consider cost per unit, such as cost per safe shelter delivered depending on the Key Output Indicator/Result concerned. Again the same constraints apply that units may not be comparable. In terms of generation of the indicator, it could be classified as Level 1. However, for meaningful analysis, comparisons and benchmarks are needed which currently require Level 3 effort. (*Level 1-3*).

JC 5	Humanitarian actions funded by ECHO were cost-effective
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It is inevitable that the evaluation will explore effectiveness and outcomes in their own right with EQs specifically on effectiveness. This JC on cost-effectiveness specifically considers those outcomes in relation to costs.

5.1 Indicator: Qualitative evidence that actions funded by ECHO were cost-effective Ask ECHO partner staff in key informant interviews about how they believe that the cost of their assistance stacked up against what was achieved. Ask what factors that they believe influenced the cost-effectiveness of their ECHO-funded programmes (see Chapter 3 for list of examples) and whether they would have made modifications to the programme design or implementation relevant to cost-effectiveness in hindsight. Ask ECHO staff in key informant interviews the same questions and whether there are any activities within the portfolio that they believe were particularly more or less cost-effective (or from interventions done previously or by others in that context). Consider data from the

Effectiveness EQ and draw from factors influencing cost-effectiveness and the Efficiency EQ and JC 5 above on efficiency (*Level 1*).

Multi-criteria analysis, also referred to as a 'balanced score card approach' may also be appropriate in the case of comparing multiple benefits of multiple programmes. (*Level 2*).

5.2 Indicator: Main quantitative or monetary outcomes of ECHO-funded projects compared to costs

For projects where quantitative monitoring indicators are available, use cost-effectiveness analysis (CEA) to divide the costs by the benefits to determine the cost-effectiveness ratio (CER). This can be compared across projects with the same objectives being implemented in similar circumstances, as described in the next chapter. With ECHO partners being required to report on the standard Key Outcome Indicators from June 2016, more comparable quantitative outcome measures will become available over time (*Level 3*).

For projects where monetary indicators were used (e.g. income generated from livelihood activities), a 'light' form of cost-benefit analysis (CBA) and return on investment (ROI) analysis can be used (CBA and ROI normally require monetizing all benefits of a programme, which is rarely appropriate in humanitarian aid but may be in the case of preparedness interventions designed to mitigate future costs of disasters and for protracted displacement investments) (*Level 3*).

2.4 Bring it all together

The purpose of having a specific EQ on cost-effectiveness and multiple JCs related to efficiency and cost-effectiveness is to promote more consistent analysis of these in evaluation. With imperfect data and limited time it can be difficult to make detailed statements on the cost-effectiveness of an intervention, but it is essential that the evaluation team form a picture of the extent to which ECHO achieved cost-effectiveness in its response. The following are tips for doing so.

Look for areas that have improved over time, where lessons are being learnt and so that future improvements can be made.

As a priority for ECHO evaluations, first and foremost consider issues raised in the data collection and analysis that point to lessons on the cost-effectiveness of the actions and whether their cost-effectiveness has perhaps shifted or improved over time. Examine factors that influenced cost-effectiveness and lessons on how cost-effectiveness of ECHO-funded actions could be improved in the future in this context and beyond.

Dealing with sensitivities.

Evaluations can be sensitive in general and cost-effectiveness can be more so because it is sometimes vague about what is required. ECHO staff and partners may feel that they are being judged on analysis that they do not feel is part of existing management and monitoring or reporting requirements. Evaluators need to be clear about which requirements they are referring to (see list of data sources in Table 11) and overall emphasise the aspect of building evidence and learning

through the evaluation process and in the report. The purpose of the cost-effectiveness EQ is not to turn evaluators into auditors but to make reasonable conclusions on the cost-effectiveness of ECHO's portfolio, contribute to evidence and draw lessons where possible.

Draw from both qualitative and quantitative data for analysis of efficiency and cost-effectiveness.

Because of a paucity of data and constraints on resources and time for evaluations, much of the analysis on efficiency and cost-effectiveness must currently be based on qualitative analysis of stakeholder perceptions. The more quantitative analysis can be drawn on the better.

Draw conclusions on cost-effectiveness even amidst limited data.

As an evaluation team, broadly consider whether the balance between costs and outcomes appears to be optimal, based on what it found on the cost of the portfolio and what it achieved. The conclusion should be fully transparent about its robustness. Even amidst limited data the evaluation team should make a case for the extent to which ECHO achieved cost-effectiveness based on its findings and analysis. Evaluators should pull from the EQs on efficiency and effectiveness to inform their conclusion on cost-effectiveness and avoid repetitions of the same conclusions in each EQ.

Contextualise the analysis.

Evaluations seek to provide an evidence-based narrative about what ECHO intended to achieve and what it did. This includes considering challenges that often characterise an operational setting, such as related to insecurity, access and adherence to principles. The operational challenges facing humanitarians are one reason that humanitarian staff have expressed concerns that analysis on efficiency and cost-effectiveness is 'all about cost' and not about effectiveness. Situate analysis on cost and efficiency within the broader picture of what a portfolio achieved as well as the challenges and opportunities that characterised the setting.

Dealing with uncertainty - be explicit about any assumptions made in the analysis and how conclusions could change if the assumptions are not correct.

In making conclusions on cost-effectiveness and efficiency, evaluators will face information gaps. Evaluators may need to make assumptions about the extent that certain examples on efficiency and cost-effectiveness can be extrapolated across the intervention, about the viability of monitoring data, etc. These assumptions should be made explicit and the evaluation team should indicate how conclusions on efficiency and cost-effectiveness might change if the assumptions are not correct.

Provide analysis on attribution.

Understanding effectiveness is essential to reach a core judgement on cost-effectiveness. While this guidance does not seek to provide comprehensive advice on analysing effectiveness it does wish to point out the need to address attribution. First, changes in the beneficiary population must be understood (e.g. changes in diet,

income, harvest productivity). An important source of this data is monitoring done by partners, but monitoring has been recognised as a weakness in the humanitarian system and data quality may be questionable. Second, where data is available, there is a challenge of understanding the role of the intervention in those changes. Outputs (e.g. number of food package distributed, number of people trained, number of boreholes drilled) are straight-forward to attribute to an intervention. Outcome/impact level changes (e.g. changes in income, food consumption, coping strategies, malnutrition rates) are not because they are affected by other factors (e.g. seasonality, other interventions, price changes). As such, observing changes in indicators provide a 'before and after' picture, which is not the same as understanding what would have happened in the absence of an intervention and whether the intervention was responsible for that change. It is therefore important that analysis on cost-effectiveness (and effectiveness overall) include analysis making a case for how the intervention contributed to changes.

2.5 Basic data underpinning indicators

There are some basic calculations and data that will be useful in exploring indicators and establishing a background picture of the portfolio. Evaluators should locate and / or calculate these figures drawing on HOPE, strategic response plans and OCHA FTS. Evaluators should request (and ECHO should provide) access to the HOPE database and all relevant IAFs and HIPs.

Table 10. Basic calculations on ECHO as a donor

Basic calculations per year per country and for evaluation period	Data Sources	Relevant JCs / indicators
Total ECHO funding in absolute terms	OCHA FTS HOPE	JC1 ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives
ECHO funding as a % of need	OCHA FTS HOPE	I 1.1 Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices
ECHO funding as a % of total humanitarian funding	OCHA FTS HOPE	I 1.3 Proportion of ECHO funding compared to total humanitarian funding
ECHO funding in comparison to other Member States funding	OCHA FTS HOPE	JC1 ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives
ECHO funding as a % of funding per sector	OCHA FTS	I 2.1 Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices
% of ECHO funding to UN, NGOs and IOs	OCHA FTS	I 2.1 Evidence of ECHO considering cost in relation to effectiveness and timeliness in making

Basic calculations per year per country and for evaluation period	Data Sources	Relevant JCs / indicators
		portfolio choices
% of funding to each partner	OCHA FTS	I 2.1 Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices
Number of partners	OCHA FTS	I 2.1 Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices
Average grant size	HOPE	I 2.1 Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices I 3.1 Evidence of ECHO considering economy, efficiency and cost-effectiveness in selecting partner proposals and negotiating contracts
Number of beneficiaries reached	HOPE	JC 1 ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives

2.6 ECHO data sources

Evaluators need to have access to relevant resources. The table below shows what type of information and data can be found in the most relevant documents and resources on cost-effectiveness and how they can be accessed.

Table 11. Data sources

Data source	Types of information	How to access
Integrated Assessment Framework (IAF)	An in-depth assessment of humanitarian needs, taking into account the population affected and foreseeable trends.	Request from Evaluation Unit
Humanitarian Implementation Plan (HIP – Financing Decision)	Financing decisions are legal acts authorising ECHO to spend from the EU budget. They identify the region of implementation, the humanitarian crisis, the objectives, the available funds and potential partners. Decisions are taken on the basis of needs assessments.	Publically accessible at http://ec.europa.eu/echo/funding-evaluations/funding-decisions-hips_en

Data source	Types of information	How to access
FichOps (including the SingleForm)	FichOps bring together all partner information provided through the Single Form and ECHO's assessment of partner performance throughout the project cycle.	Accessed through HOPE database
FicheOp Guidelines 2016	ECHO criteria for partner selection and monitoring.	Request from Evaluation Unit
Single Form Guidelines June 2016	Requirements from ECHO partners on cost, efficiency and effectiveness information. Includes lists of new key output and outcome indicators.	Publically accessible at dgecho-partners-helpdesk.eu/_media/single_form_guidelines_final.pdf
Sector Policy Guidelines	Sector policy guidelines provide some advice on which sector interventions are more or less efficient and cost-effective. No quantitative data is included in these guidelines though.	Publically accessible at http://ec.europa.eu/echo/what/humanitarian-aid/policy-guidelines_en
OCHA Financial Tracking Service	Humanitarian financing per donor and per sector for all humanitarian crisis contexts globally (by year)	Publically accessible at fts.unocha.org
UN Appeals (Strategic, Response Plans, Humanitarian Response Plans and Flash Appeals)	Humanitarian financing and country strategy consisting of a narrative, strategic objectives and indicators, and cluster plans consisting of objectives, activities and accompanying projects, which detail implementation and costing of the strategy.	Publically accessible at fts.unocha.org
Partner budgets and financial data in Single Form and Annexes	Cost drivers, unit costs of inputs and sometimes costs per outputs/results, transfer values and admin costs.	Access through HOPE database

3. Analytical approaches and tools

The previous chapter referenced analytical approaches tools that can be used to analyse evaluation questions on cost-effectiveness. This chapter discusses these in more detail as well as some additional tools on economy, efficiency and cost-effectiveness analysis.

3.1 Cost-effectiveness

3.1.1 Qualitative analysis of cost-effectiveness

Key informant questions

Evaluators will inevitably be using key informant interviews to inform the entire evaluation. Here we suggest some questions that can be included on a key informant guide to address the JCs and indicators listed in the previous section.

ECHO staff

- What factors were considered in deciding which actions to fund? [Potential follow up questions: How were the costs and outcomes of potential actions considered? How did analysis of needs inform decisions? How did the actions of other donors inform decisions?]
- What factors were considered when deciding which partners to fund? [Potential follow up questions: How were the costs and outcomes of potential actions considered? Did ECHO consider the administrative and overhead costs of partners?]
- Did ECHO review and query any aspect of partners' budgets?
- Describe how ECHO monitored its partners. What were the main issues ECHO checked with its partners?
- What factors were considered in making portfolio choices related to sectors, geographical intervention areas and transfer modalities?

ECHO partners

- What factors were considered in deciding which actions to propose to ECHO fund? [Potential follow up question: How were the costs and outcomes of potential actions considered?]
- Did ECHO review and query any aspect of partners' budgets?
- Describe how ECHO monitored its partners. What were the main issues ECHO checked with its partners?
- Do you believe that interventions ECHO funded were efficient? What evidence do you have to support your view?
- Do you believe that the interventions ECHO funded were cost-effective? What evidence do you have to support your view?
- What factors contributed or detracted from the efficiency of the intervention? (see below for examples)
- What factors contributed or detracted from the cost-effectiveness of the intervention? (see below for examples)

Factors influencing efficiency and / or cost-effectiveness

A review of ECHO evaluations has found several factors consistently mentioned as impacting on the efficiency and cost-effectiveness of ECHO funded humanitarian aid actions. Using these factors systematically as a checklist for evaluators to go through will provide a more consistent picture of what factors improve or reduce the cost-effectiveness of ECHO aid. The factors could be ranked according to their perceived strength of influence on cost-effectiveness.

Factors influencing efficiency and cost-effectiveness of ECHO funded partners and actions:

- Timeliness
- Length of presence in country
- Extent of further subcontracting
- Choice of transfer modality
- Extent of staff turnover
- Returns from Preparedness Investment
- Existence of contingency plans based on risk assessment
- Level of innovation in programmes
- Extent of coordination
- Cost savings through coordination (e.g. on needs assessments, avoiding overlaps)
- Extent of post distribution losses
- Extent of targeting and methods used
- Extent of inclusion of affected communities' preferences in programming
- Level of local knowledge and local capacity building
- Wider impact and multiplier effects on the local economy

Data requirements and resources

The main source of data will be ECHO documents and interviews with ECHO staff and partners about their views on factors and the perceived importance of the factors in influencing cost-effectiveness. Single Forms also can be sampled (prioritising partners with the largest budgets) in order to check for references to factors which influence efficiency and cost-effectiveness.

Issues to consider

- Staff may be sensitive to questions on cost out of concerns that cost is receiving undue emphasis in an evaluation and also because partners may not routinely track some of the data on cost which would be useful for better analysing efficiency. It is also important to distinguish between what key informants think about efficiency and cost-effectiveness and the evidence available to support their claims.

Electronic survey

Evaluators may choose to do an electronic survey of ECHO staff and partners on a variety of questions linked to the evaluation. Most of the above Key Informant questions can be modified to work within a survey using formats of multiple choice, asking respondents to rank factors that influenced cost-effectiveness and asking the extent to which respondents agree with or disagree with statements on cost-effectiveness (*Level 3*).

Multi-Criteria Analysis or Balanced Scorecard Approach to analysing cost-effectiveness

Multi-criteria analysis is a tool for scoring interventions on multiple dimensions intended to support decision-making on a course of action. The method is intended to help decision-makers consider multiple criteria and integrate different options in a prospective or retrospective framework, reflecting the views of the actors concerned.

The Balanced Scorecard approach is similar in that it provides a tool for assessing the perceived costs and effectiveness of projects or portfolios by stakeholders. In contrast to the economic tool of cost-effectiveness analysis which can only assess one outcome, multi-criteria analysis and balanced scorecards can be used for assessing the cost-effectiveness of projects or portfolios with several outcomes. Outcomes do not necessarily need to be quantified.

The evaluator selects a sufficiently representative set of indicators from the existing analysis in the evaluation of economy, efficiency and effectiveness (both quantitative and qualitative) and puts them in a framework as illustrated in the table below. A selection of stakeholders or the evaluator could then score each indicator from 1-5 ranging from 'substantially not meeting expectations' to 'excellent, exceeding expectations' or use a Red-Amber-Green rating to highlight areas for improvement. Alternatively, the criteria could be scored and an overall score could be given in line with the methodology used by the ECHO gender and resilience markers. This involves four scores ranging from the marker 1) not being applicable to the project/portfolio 2) none or only one criterion being met, 3) two or three criteria being met and 4) all criteria being met.²⁴

²⁴ https://ec.europa.eu/echo/files/policies/sectoral/gender_age_marker_toolkit.pdf

Table 12. Example format of multi-criteria analysis or balanced scorecard approach

Criteria	Indicator	Scoring	Commentary
Economy	Main cost drivers are well managed		
Efficiency	Cost per beneficiary of selected KRI		
	Alpha ratio		
Effectiveness	Level of coordination with others		
	Timeliness		
	Satisfaction of end users/beneficiaries		

The more indicators per criterion the greater the weight given to that particular criterion. In the example above the greatest weight is given to effectiveness.²⁵

Data requirements and resources

No additional data requirements as all indicators are drawn from the evaluation. The EC Better Regulation Toolbox provides guidance on how to conduct multi-criteria analysis.²⁶

Issues to consider

- **Only calculate an overall score where needed and appropriate.** This tool can be used for analysing the cost and effectiveness of a particular sector intervention, particular phase in a response or for the entire response under evaluation. The wider the scope, the less appropriate and likely misleading it is to reduce it to one single score.

3.1.2 Quantitative tools for analysing cost-effectiveness

Cost-effectiveness analysis (CEA)

While this evaluation guidance discusses cost-effectiveness broadly as *the cost of achieving intended programme outcomes*, ‘cost-effectiveness analysis’ (CEA) is also a specific form of economic analysis used to quantify the cost per outcome of a programme. Normally it is used to compare two or more programmes with the same outcome. It therefore does not lend itself to analysis of the cost-effectiveness of programmes in their entirety if they have multiple outcomes and therefore cannot be compared.

²⁵ Wheatley and Pongracz, 2014

²⁶ http://ec.europa.eu/smart-regulation/guidelines/toc_tool_en.htm#

CEA is calculated by using the total costs as the numerator and the quantitative benefits as the denominator to determine the cost-effectiveness ratio (CER). The costs should be included all programme inputs and costs. Where possible this should include costs to beneficiaries.

For indicators that are measured per person or household, the number of people or households benefiting needs to be considered in the calculation. If a €100,000 programme increases the Food Consumption Score of 10,000 households by an average of 12 points, the CER calculation is $€100,000 / (12 \times 10,000) = 0.83$. Alternatively, this can be formulated as $€100,000 / 12 = 8,333$ then $8,333 / 10,000 = 0.83$. This ratio indicates that it cost €0.83 per point increase in FCS.

CEA is relevant when for interventions where meaningful outcome indicators are quantified but less so in interventions with multiple objectives and less quantification. Examples of quantifiable outcome indicators from ECHO's Key Results Indicators list are:

- Average coping strategy index scores
- % increase in food consumption score
- SAM recovery rate
- % of 6-23 months old children who receive a minimum acceptable diet (MAD)
- % increase / decrease in X (access to adequate WASH services and hygiene practices; living in safe and dignified shelters in secure settlements)

Data requirements and sources

CEA requires comprehensive cost data and quantified outcome indicators. Cost data should come from the actual spending of a programme as opposed to the budget. It should include all programme costs.

Issues to consider

- **Non-quantifiable outcomes and results.** CEA only covers quantifiable outcomes. The evaluation should consider whether there are non-quantifiable outcomes that will influence the overall conclusion on cost-effectiveness.
- **Comparability among interventions.** CEA comparisons between programmes are most relevant when the programmes were delivered under the same conditions. Differences in timing, programme design and location (e.g. more accessible, less accessible), scale and even whether one programme required start-up costs while another was on-going can affect the comparability of results. Any differences and assumptions made should be made explicit and consideration should be given to how the results could change if the assumptions are not correct
- **Attribution.** Attribution is perhaps the thorniest aspect of any analysis on effectiveness (including cost-effectiveness) that uses changes in indicators from the baseline to the end of the programme as the basis for analysis. Outcome/impact level changes (e.g. changes in income, food consumption, coping strategies, malnutrition rates) are affected by other factors than the assistance programme (e.g. seasonality, other interventions, price changes). As such, observing changes in indicators provide a 'before and after' picture, which is not the same as understanding what would have happened in the absence of an intervention and whether the intervention was

responsible for that change.²⁷ The evaluation should make an evidence-based case for the role of the intervention in the changes and clearly outline assumptions made.

Cost-utility analysis

Cost-utility analysis is a sub-set of CEA for the health sector. The disability-adjusted life year (DALY) is a common indicator of the burden of disease in a population and considers the impact of interventions on life expectancy and quality of life. In essence a DALY represents one lost year of healthy life due to disease or injury. The World Health Organization (WHO) uses it as a primary metric to assess the global burden of disease. The outcomes of a health intervention can be expressed as the number of DALYs averted.²⁸ Similarly quality adjusted life years (QALY) can be measured – the number of years that actions extend life. It is only expected that evaluators will use cost-utility analysis when evaluating interventions in the health sector.

For example, a €500,000 programme resulting in 100,000 DALYS averted has a CER of 5, meaning it cost €5 per DALY averted. A €400,000 resulting in 90,000 DALYS averted has a CER of 4.44, meaning a cost of €4.44 per DALY averted.

Data requirements and sources

Cost-utility analysis requires data on all costs of the programme and a quantitative assessment of a health outcome.

Issues to consider

- **Cost-utility analysis is unlikely to be relevant** for ECHO evaluations as none of the Key Outcome Indicators are measuring DALYs.

Cost-benefit analysis / return on investment

Cost-benefit analysis (CBA) is an approach that monetises the benefits and costs associated with an intervention to see which one is greater.²⁹ CBA quantifies in monetary terms as many of the economic costs and benefits of a programme as feasible, including items for which the market does not provide a satisfactory measure of economic value, in order to compare its costs with its results.³⁰ CBA is the most demanding approach to comparing costs and outcomes as it necessitates a comprehensive measurement of costs and programme impacts and the ability to place a monetary value on programme impacts across stakeholders.³¹ CBA can be used to judge whether an intervention is or was worth doing in isolation (i.e. not compared to alternatives).

²⁷ Levine, S. and S. Bailey (2015) Cash, vouchers or in-kind? Guidance on evaluating how transfers are made in emergency programming. Overseas Development Institute; Hughes, K. and C. Hutchings (2011) Can we obtain the required rigour without randomisation? Oxfam GB's non-experimental Global Performance Framework. International Initiative for Impact Evaluation Working Paper 13.

²⁸ Wheatley and Pongracz, 2014

²⁹ Tuan, M. (2008) Measuring and/or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches. Prepared for Bill & Melinda Gates Foundation Impact Planning and Improvement Prepared

³⁰ White et al., 2013

³¹ Tuan, 2008

Return on investment (ROI) is another way to express this same concept and data. Rather than only looking at the absolute costs of an action compared to its absolute benefits, ROI also considers the rate of return of those benefits. It is the gain from an investment minus the cost of investment, which is divided by the cost of an investment (e.g. a €1,000,000 investment that results in €1,200,000 in total benefits has a ROI of 20%). ROI is a more logical tool for making comparisons across interventions that seek to achieve the same objectives than CBA since ROI is a ratio.

Data requirements and sources

CBA requires data on the cost of a programme and its present and future benefits. Where benefits are not already monetised (e.g. increased income from livelihoods investment) these must be valued in monetary terms. The EC Better Regulation Toolbox provides guidance on how to conduct cost-benefit analysis.³²

Issues to consider

- **Appropriateness of monetising outcomes.** CBA is rarely used in humanitarian aid as it is rarely appropriate to monetise humanitarian outcomes. However, given the rise in protracted displacement/refugee funding an increasingly larger proportion of humanitarian funding is used for more permanent shelter and WASH constructions for example, including more environmentally friendly solutions, or livelihoods interventions. In those cases, CBA is certainly relevant for ECHO partners to carry out as well as in some cases for ECHO evaluations.
- **Preparedness and early response.** CBA has been increasingly used to analyse investment in preparedness and early response to determine whether the costs of investment outweigh the costs saved in the future related to lives, economies and infrastructure in the absence of these investments.
- **CBA and ROI 'light'.** Given the challenges both with appropriateness of monetising outcomes and the logistical constraints of achieving this, it is unlikely that a comprehensive CBA and ROI will be appropriate to use in an evaluation. However, if there *some* indicators that are already monetised or can be appropriately monetised, this can be used to make a broader case of cost-effectiveness. For example, if a livelihoods project that cost €100,000 were shown to have generated more than €100,000 in income.

³² http://ec.europa.eu/smart-regulation/guidelines/toc_tool_en.htm#

3.2 Efficiency

Efficiency is the conversion of inputs to outputs. This generally refers to analysis of the cost of alternative approaches to achieving the same outputs. Efficiency is one of seven criteria developed by the Development Assistance Committee (DAC) in 1999 to encourage comprehensive evaluation of humanitarian assistance in complex emergencies.³³

It is not expected for evaluations to use the tools below for all partners (depending on how readily available data is) but possibly for a sample of ECHO funded partners.

3.2.1 Total cost transfer ratio / alpha ratio

The **total cost transfer ratio** (TCTR) indicates the value of assistance that reaches beneficiaries compared to all other costs.³⁴ It is calculated by dividing the total programme cost by the total value of the transfers provided to recipients. It is most relevant for programmes that provide in-kind, voucher or food transfers. Compared to cost per beneficiary, using a ratio allows comparison between programmes that deliver different transfer amounts.

Sometimes the reciprocal of the TCTR is used, known as **the alpha ratio (α)**. This is the ratio of the value of transfers to total (administrative and transfer) costs. Cost-efficiency declines as α falls below unity.

The Evaluation of the Use of Different Transfer Modalities in ECHO Humanitarian Aid Actions 2011-2014³⁵ found that the crisis type has a large influence on the efficiency of different modalities. See table below. It also found that the 25% least efficient projects had a TCTR above 2 (or an alpha ratio below 1) meaning that for those 25% the costs to deliver a transfer was more than 100% of the transfer value itself. A transfer of €100 cost more than €100 to deliver, providing poor value for money.

Table 13 provides useful comparisons for evaluations to help identify outliers that require further investigation. For example, any projects with TCTRs higher than 2 should automatically be questioned about the reasons for the higher administrative costs.

³³ Beck, T. (2006) Evaluating Humanitarian Action Using OECD-DAC Criteria. An ALNAP Guide for Humanitarian Agencies. Overseas Development Institute

³⁴ White, P., A. Hodges and M. Greenslade (2013) Guidance on measuring and maximising value for money in social transfer programmes –second edition. Toolkit and explanatory text. DFID.

³⁵ ADE (2016) Evaluation of the Use of Different Transfer Modalities in ECHO Humanitarian Aid Actions 2011-2014.

Table 13. Average TCTRs in ECHO funded projects 2011-2014

Context	Cash	In-kind	Voucher	Average
Complex Emergency	2.81(27)	1.86(13)	2.11(18)	2.37
Slow Onset	1.64(16)	2.44(6)	1.54(6)	1.81
Sudden Onset	1.39(29)	1.46(4)	2.72(7)	1.62
Refugee Response	1.15(4)	1.48(7)	1.81(3)	1.44

Source: ADE (2016)

It is easier to do an alpha ratio (or TCTR) when populations are provided with commodities, vouchers or cash, which easily can be assigned a monetary value. It is trickier to do this when populations are provided with services such as healthcare. In this case the costs of providing the services (e.g. supplies, the costs of staff who directly provide the services, repair of infrastructure) can be compared with administrative /overhead costs (e.g. support staff costs, office rental). This analysis requires detailed cost data and is labour intensive if this data is not readily available from partners.

Data requirements and sources

Cost data should come from the actual spending of a programme or portfolio as opposed to the budget. It should include all costs by cost-category taken from HOPE.

Issues to consider

- **Focus on outliers.** It is not worth looking into small differences in ratios. Only where ratios differ significantly from the average, questions should be raised to understand the reasons and learn lessons. As above, for TCTRs, anything close to or above 2 should be questioned. Or in Alpha value terms, any values falling below unity should be questioned.
- **Factors that shape the proportion of the budget going to delivery costs** include the length of an operation, its scale, the type of assistance provided and whether agencies had existing capacity and presence, the location of a programme and associated transport or security costs.

3.2.2 Cost per beneficiary

The **cost per beneficiary** or cost per unit of result is calculated by dividing the budget or a programme or an output by the number of beneficiaries or units of result.³⁶ This is a meaningful measure of efficiency only if the same level of benefits or results are achieved (or expected to be achieved) and in similar circumstances. For protracted crisis, it can be meaningful to look at the cost per beneficiary over time and analyse the reasons behind trends or large variations.

³⁶ Buchanan-Smith and Cosgrave, 2013

Data requirements and sources

The total cost of a project / portfolio / output and the total number of beneficiaries from partner budgets / actual spend and FichOps in HOPE.

Issues to consider

- **Focus on outliers.** It is not worth looking into small differences in costs per beneficiary. As mentioned above, only where costs differ significantly, questions should be raised.
- **Making comparisons where possible.** Analysis of efficiency usually entails an element of comparison – between approaches, organisations and activities that can be used to pursue similar objectives (e.g. cash transfers v. food aid to deliver an amount of calories or nutritional value; funding an intervention through one NGO v. another NGO; the cost of an intervention v. the average cost of similar interventions in that context). Or it can be used to make comparisons over time. However, the cost per beneficiary is only relevant when the output is comparable.
- **Use ECHO Key Output Indicators where feasible.** ECHO is currently introducing *standard* indicators to improve the quality of the output indicators and to enable ECHO to compare as well as aggregate achievements across programmes. Only one indicator per sector will be reported on by partners out of 30-35 standard indicators in total (see table on data sources for Single Form Guidelines including the key standard indicators).

3.3 Economy and cost

As evaluations cover several years and / or countries with large numbers of projects funded by ECHO, the tools should be applied to a sample of projects only that represent very significant costs of the response. Examples would be transitional shelter in the Haiti earthquake evaluation, WASH and shelter in the Pakistan floods evaluation, or camp maintenance in a protracted refugee response in camps.

3.3.1 Cost-driver analysis

Any cost in a programme or portfolio can be subject to economy analysis. However, those that form the largest percentage of the budget matter most as an increase or decrease in those costs has the biggest impact on the bottom line. These costs are determined through cost driver analysis. 'Cost drivers' refer to the cost categories that most influence the overall cost of a project / programme / portfolio (e.g. international staff numbers and salaries, prices of aid commodities, security, transport costs or overheads).³⁷

Cost-driver analysis is done by identifying the cost categories/budget lines that are the largest in the budget and divide them by the total budget to establish which percentage they

³⁷ 'Cost driver' can also refer to factors that play a major influence on cost (e.g. location of a programme, scale).

represent. Alone this provides a useful picture of the allocation of the budget across inputs including staff time, transfers and overheads. It is also the basis for determining which costs to look at in economy analysis.

Box 1: Cost-driver Analysis Example

The budgets of the two largest partners of a protracted refugee response have the following three largest budget lines:

Partner A	Partner B
Construction contract: 25%	Repair and maintenance: 20%
Kerosene: 14%	International staff: 15%
International staff: 7%	CRIs: 12%

☒

For the two top lines, given their proportion in the budgets, a closer look at the unit costs and the processes for contracting are recommended, see economy analysis below. For partner B it might be worth exploring the reasons for a much higher international staff budget than partner A (as per FichOp guidelines 2016 on human resources of partners).

Data requirements and sources

Budget / actual spending of ECHO partners from HOPE.

Issues to consider

- **Factors that shaped cost.** Factors that shaped costs include the length of an operation, its scale, the type of assistance provided and whether agencies had existing capacity and presence, the location of a programme and associated transport or security costs. One of these factors might justify a large international staff presence for example.

3.3.2 Economy analysis

Economy refers to whether programme input costs were as low as they should be (i.e. not overpaying for inputs).³⁸ For example, it means that aid agencies should not buy a tent for €200 if the same tent can be purchased for €150, all other factors being equal.

To undertake analysis, look at the input costs per unit of the largest budget lines (identified under the cost driver analysis) in the budget. There are two main ways to establish if they are reasonable. The first is to establish whether systems were in place and followed to get the best cost per input. The second is by referring to cost data from similar projects from other organisations and from previous responses in that context and identifying outliers. Where there are large variations, it is important to ask why. As discussed below, it is often

³⁸ Wheatley, A. and S. Pongracz (2014). Humanitarian Value for Money Toolkit. Tools and approaches for measuring VfM in rapid onset and prolonged crises. Version 1.0

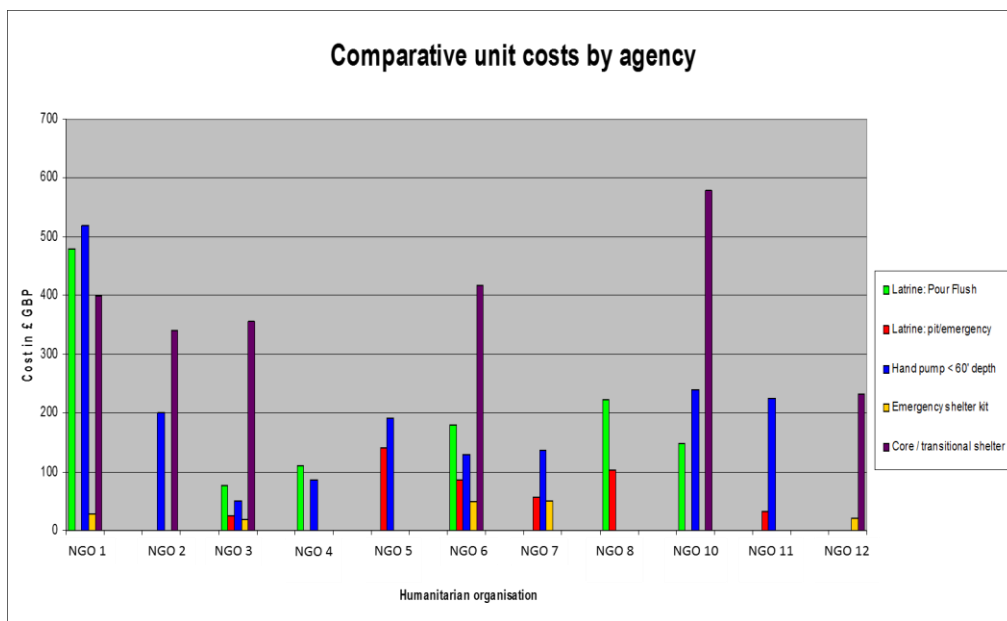
challenging to determine appropriate comparisons based solely on other per unit cost data, therefore a focus on significant outliers is recommended.

Box 2: Economy Analysis Example - Nutrition

ECHO is funding nutrition through an NGO consortium and a UN agency in a protracted emergency. The cost driver analysis of the budgets of these two largest partners identified the cost of RUTF as the largest cost area of the response. The unit costs per comparable packet size of RUTF is established by asking both partners with the outcome of one partner paying 1/3 more per pack than the other. This price difference adds up to over €1m for one year. Coordination or joint procurement could therefore possibly have saved €1m or procured RUTF worth €1m more.

Box 3: Economy Analysis Example – WASH and shelter

The bar chart below is a real life example of economy analysis in the two critical cost areas of WASH and shelter in a flood response. A comparison was made of input unit costs for latrines and shelter between several implementing partners. The bar chart shows clearly that there were some large outliers (e.g. pour-flush latrines for almost £500 in comparison to others between £100-200). Questions were asked about the outliers and while all procurement procedures were followed according to the rules the substantial extra cost in the case of the latrines for example could not be justified by better quality.



Data requirements and sources

Cost data should come from the actual spending of a programme or portfolio as opposed to the budget. It should include all costs by cost-category taken from HOPE. A comparison of planned versus actual costs can also be useful as large variations might highlight problems with financial management and procurement practices in partners. Depending on context, large variations over several funding cycles should be analysed.

Issues to consider

- **Focus on outliers.** Economy analysis needs to be economical in itself. It is not worth looking into small differences in costs. Only where costs are significantly higher or lower than the average, questions should be raised to understand the differences and learn lessons.
- **Appropriate comparisons for input costs.** The cost of an input per unit costs is a basis for understanding whether or not the price paid was reasonable. However, there is no standardised terminology for inputs, and similarly named inputs from different agencies may not actually be comparable. For example, two agencies may provide latrines in the same camp for internally displaced people at very different unit costs. One agency may provide only the latrine slabs to families in readily accessible areas, while the other trains community groups to manufacture the slabs instead of buying them, so that they can install latrines when they return to their villages; provides materials for building the latrine superstructure; works in relatively inaccessible areas; and also provides an extensive hygiene education programme.³⁹ It is therefore important that when comparing input costs, costs of additional activities are not added to the input unit costs. If in doubt, procurement plans of partners should provide the exact input unit costs.
- **Whether systems to control costs were followed and decisions informed by cost driver and economy analysis.** ECHO and its partners should have systems in place to ensure that they are not overpaying for inputs in bidding processes. The main processes will be linked to procurement and the awarding of contracts. ECHO partners have to comply with competitive procurement practices as set out in the Framework Partnership Agreements. Compliance is checked through audits and renewal of the FPAs. Evaluators should therefore focus on checking if economy analysis has fed into decisions of local versus international procurement or joint procurement with others to generate economies of scale.

³⁹ Buchanan-Smith, M. and J. Cosgrave (2014) Evaluating Humanitarian Action. Pilot Guide. ALNAP.

Annex 1. Table of Equivalents

Organisation	Source	Term	Definition
ECHO	Study ToRs and ECHO evaluation ToRs	Cost-effectiveness	Cost-effectiveness: “Is the size of the budget for the programme appropriate and proportional to what the programme is set out to achieve? Is it sufficient for reaching a critical mass of impacts? Could the same results have been achieved with less funding?”
	FichOp Guidelines 2016	Cost-efficiency	Cost-efficiency is efficiency at output level
	Transfer Modalities study ⁴⁰	Cost-effectiveness	Cost-effectiveness: the cost of achieving intended programme outcomes
European Commission	EC Better Regulation Guidelines	Efficiency	Efficiency considers the relationship between the resources used by an intervention and the changes generated by the intervention" where changes refer to outputs, results and impacts so that analysis of cost-effectiveness is included as part of the efficiency criterion.
	Financial Regulation	Efficiency	Efficiency concerns the best relationship between resources employed and results achieved.
OECD-DAC	DAC criteria for evaluating development assistance ⁴¹	Efficiency and effectiveness	Efficiency: measures the outputs - qualitative and quantitative - in relation to the inputs. It is an economic term which signifies that the aid uses the least costly resources possible in order to achieve the desired results. Effectiveness: measures the extent to which an aid activity attains its objectives/outcomes.
DFID	DFID's Approach to Value for Money, 2011 ⁴²	Value for Money and the 3Es	Economy: are inputs of the appropriate quality bought at the right price? Efficiency or Cost-efficiency: how well are inputs converted into outputs? Effectiveness: are outputs achieving the desired outcomes?

⁴⁰ http://ec.europa.eu/echo/funding-evaluations/evaluations/thematic-evaluations_en

⁴¹ <http://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm>

⁴² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67479/DFID-approach-value-money.pdf

Organisation	Source	Term	Definition
			<p>Cost-effectiveness: how much impact does an intervention achieve relative to the inputs?</p> <p>Value for Money: making the best use of resources.</p>
WFP	Technical Note on Efficiency Analysis, June 2013 ⁴³	Efficiency	<p>Efficiency at activity level e.g. cost and benefit of food fortification plant</p> <p>Efficiency at output level e.g. cost of cash transfers versus food-in-kind per Euro of food delivered</p> <p>Efficiency at outcome level e.g. cost of cash versus food-in-kind per unit of food consumption improvement</p> <p>Efficiency at impact level e.g. cost per QALY saved, Benefit-Cost Ratio of food vouchers</p>
IRC	“Cost Analysis Methodology at the IRC”, Best Use of Resources Initiative at the IRC	Best Use of Resources	<p>Best use of resources: maximizing the impact of each dollar spent to improve our client’s lives.</p> <p>Cost-efficiency: cost per output that a program produces</p> <p>Cost-effectiveness: cost per outcome that a program achieves</p>
ICAI – Independent Commission for Aid Impact	ICAI’s Approach to Effectiveness and Value for Money, November 2011 ⁴⁴	Value for Money and the 4Es	<p>Economy: getting the best value inputs</p> <p>Efficiency: maximizing the outputs for a given level of inputs</p> <p>Effectiveness: ensuring that the outputs deliver the desired outcome</p> <p>Equity: ensuring that the benefits are distributed fairly</p>

Source: ADE

⁴³ Renard, R. and Lister, S., “Technical Note on Efficiency Analysis”, WFP – OEV, June 2013

⁴⁴ <http://icai.independent.gov.uk/wp-content/uploads/ICAIs-Approach-to-Effectiveness-and-VFM2.pdf>

Annex 2. Minimum package of cost-effectiveness JCs, indicators and tools

	Judgement criteria and indicators	Data sources	Tools and method	Level
JC 1	ECHO's budget allocations are based on needs, actions of other donors and ECHO objectives			
I 1.1	Evidence that ECHO's budget allocations are based on needs	HIP and IAF Appeals / SRPs OCHA FTS Key informants	Review of documents and basic data Interviews	1
I 1.2	Evidence that ECHO's budget allocations considered the actions of other donors	IAF and HIP Key informants	Review of documents Interviews	1
I 1.3	Proportion of ECHO funding compared to total humanitarian funding	OCHA FTS	Calculate basic data	1
I 1.4	Evidence that ECHO's budget size was commensurate to ECHO objectives and expected outcomes	HIP	Document review	1
		Key informants	Interviews	1
JC 2	ECHO balanced cost in relation to effectiveness and timeliness in making strategic choices about its portfolio of assistance			
I 2.1	Evidence of ECHO considering cost in relation to effectiveness and timeliness in making portfolio choices related to partners, sectors, approaches, geographical locations, beneficiaries and transfer modalities	HIP Evaluations Sector policy guidance	Document review	1
		Key informants	Interviews	1
JC 3	ECHO took appropriate actions to ensure cost-effectiveness throughout the project cycle			
I 3.1	Evidence of ECHO considering economy, efficiency and cost-effectiveness in selecting partner proposals and negotiating contracts	FichOps in HOPE Key informants	Review of documents Interviews	1
I 3.2	Evidence of ECHO monitoring efficiency and cost-effectiveness of partners	Key informants	Interviews	1
JC 4	Humanitarian actions funded by ECHO were efficient			
I 4.1	Qualitative evidence that actions funded by ECHO were efficient	FichOps and other partner	Document Review	1

	Judgement criteria and indicators	Data sources	Tools and method	Level
		programme documents		
		Key informants	Interviews	1
JC 5	Humanitarian actions funded by ECHO were cost-effective			
I 5.1	Qualitative evidence that actions funded by ECHO were cost-effective	FichOps and other partner programme documents	Document review	1
		Key informants	Interviews	1

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