HSNP
Hunger Safety Net Programme

Evaluation of the Kenya Hunger Safety Net Programme Phase 2

Cost-efficiency analysis final report

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Executive summary

HSNP has been operating in northern Kenya since 2009, distributing cash payments to support some of the poorest households in the four counties of Turkana, Mandera, Marsabit, and Wajir, with the objective of improving food security. Phase 2 of the programme was launched in November 2012 under the authority of the Government of Kenya's (GOK) NDMA. In its second phase, the programme attempted to record the details of (and open bank accounts for) every household in the four counties, amounting to some 384,000 households. The programme also proposed to expand the list of households benefiting from routine (bi-monthly) cash support to 100,000 (known as Group 1). The remaining households (Group 2) might receive *ad hoc* financial support in the event of a drought emergency through a new 'emergency scale-up' mechanism.

The main objective of this cost-efficiency study is to ascertain the total costs incurred in setting up and delivering the programme to its intended recipients in the four counties. The study analyses all expenditure incurred for Phase 2 of HSNP from November 2012 up to the end of March 2018, which was the original timeframe for this phase of the programme. It aims to provide accountability to programme funders regarding how their money has been spent, and to assist GOK in considering programme sustainability.

The data for the report were collected from DFID, the Programme Implementation and Learning Unit (PILU), NDMA, and Financial Sector Deepening (FSD) Kenya in two rounds (November 2012 up to March 2016, and April 2016 until March 2018). The cost data collected were coded according to the activity on which the money was spent. Funds for HSNP Phase 2 have been provided primarily by DFID and GOK. DFID has funded 84% of all programme administrative costs, worth approximately KES 4.57 billion. The remaining 16% of administrative costs were covered by the GOK, worth approximately KES 866 million. The government started contributing to HSNP in July 2013 and has increased its funding ever year, thereby reducing the dependence on DFID funds, which have in some years shown a declining trend. At the roll-out stages of HSNP, the Australian aid agency AusAid (now the Department for Foreign Affairs and Trade) also provided funding to the programme, although this was disbursed and managed through DFID. The EU also provided funds for emergency transfers in financial year (FY) 2016/17. Some indirect support is also provided to HSNP by the World Bank under the National Safety Net Programme (NSNP), but this is not accounted for in this analysis.

Between November 2012 and March 2018, HSNP Phase 2 spent approximately KES 22.57 billion (£168.49 million) on implementation. This total comprised some KES 17.1 billion of cash distributed to recipient households, and about KES 5.4 billion in administrative costs. One of the objectives of this study was to understand what activities these administrative costs have been spent on, to help understand where the cost drivers in delivering the programme lie. There are four main categories of activity: start-up; roll-out; operations; and external evaluation. We have added a fifth, 'emergency payments', to highlight the cost of running the extra component of the HSNP that allows for scale-up of the programme to additional beneficiaries in the event of a drought or other shocks.

Of the total sum spent on implementation, 76% was spent on regular and emergency transfers to households. The remaining 24% was spent on administrative operations undertaken to set up the programme and deliver those transfers to beneficiaries. Operational activities have comprised the highest proportion of administrative costs as at March 2018 (50%), and their share in total expenditure will increase, since these are the costs of the day-to-day running of the programme. Within operational activities, the largest expenditure has been on case management (41%), a system that has been improved since the last costing study.

COST-EFFICIENCY ANALYSIS

At the moment of analysis, for every KES 1,000 delivered to households, the programme has spent about KES 320 to get the money to them (cumulative cost–transfer ration (CTR) = 0.32). As we would expect, the cumulative CTR has decreased over time, as initial administrative expenses were offset against a larger total value of transfers delivered. The annual CTR also declined between FY 2013/14, when transfers began, and FY 2015/16, but then rose slightly from FY 2016/17 into FY 2017/18 as the cost of rolling re-registration raised the cost of administering the programme.

The emergency payment mechanism has added about KES 751 million to programme administrative costs under Phase 2 (around 14% of total administrative costs), with over KES 3 billion disbursed to Group 2 households in transfers. Regular updates of the registration data are required to meet the objectives of the programme and, beyond that, to maximise the value of the registration data itself, which is used by programmes other than HSNP. There is a strong rationale for sustaining a slightly higher CTR by incorporating ongoing registration activities into the routine administration of the programme. Over the longer term, NSNP should explore moving to a predominantly on-demand registration system, with clear rules for eligibility and periodicity of support for all its programmes. This should reduce the cost of delivering these programmes to a stable level, while providing the conditions for maximising the quality of service delivery.

A higher CTR in comparison with other similar programmes should not, however, be interpreted as meaning that costs are too high and therefore wasted, for five reasons:

- any comparison of this CTR with that of other programmes would need to be made cautiously, as the respective timing of the studies in relation to the programmes they analyse is a major determining factor of their results;
- HSNP has the specificity of the emergency payments component, which is triggered in the event of a drought, releasing funds to additional households: for the emergency scale-up component, therefore, a 'high' CTR is in fact a good outcome;
- pursuit of cost-efficiency alone is not necessarily advantageous, and much depends on the objectives a programme is trying to achieve;
- the effectiveness of a programme is not always related to its cost-efficiency, and a higher administrative cost may be required to improve the human and social outcomes of the programme; and
- HSNP has constructed what amounts to a nascent social registry, potentially reducing costs for multiple other interventions, and representing the potential to considerably increase value for money at the expense of raising its own administrative costs.

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Abbreviations

AIE	Authority to Incur Expenditure
CT	Cash Transfer
CTR	Cost–Transfer Ratio
DFID	UK Department for International Development
FSD	Financial Sector Deepening
FY	Financial Year
GOK	Government of Kenya
HSNP	Hunger Safety Net Programme
KES	Kenyan Shilling
NGO	Non-Governmental Organisation
NDMA	National Drought Management Authority
NSNP	National Safety Net Programme
OPM	Oxford Policy Management
PILU	Programme Implementation and Learning Unit
VCI	Vegetation Condition Index

Currency and exchange rate

In the following report, costs have been reported in KES, in line with PILU and GOK's accounts. For reference, at present US $1 = 101 KES (approximately). The exchange rate has fluctuated over the last few years and steadily increased from 85 KES in early 2013 to 101 KES today. Interpretation of reported expenditure in US $ must therefore be cautious. Financial data received from DFID in British pounds has been converted to KES using average annual exchange rates for the relevant year taken from www.xe.com.

1 Introduction

The HSNP has been operating in northern Kenya since 2009, distributing cash payments to support some of the poorest households in the four counties of Turkana, Mandera, Marsabit, and Wajir, with the objective of improving food security in this arid region. In its first phase, from 2009 to 2012, the programme provided regular financial assistance to some 69,000 households. A new phase (Phase 2) was launched in November 2012. This brought about a considerable shift in the structure of the partnership between GOK and the programme's largest funder, DFID, since implementation came under the authority of the government-run NDMA. As a major innovation, the programme attempted to record the details of (and open bank accounts for) every household in the four counties, amounting to some 384,000 households. At the same time, the list of households benefiting from the routine (bi-monthly) cash support was significantly expanded, with the intention of reaching 100,000 households (known as Group 1). The remaining households were assigned to a separate group (Group 2), which had the possibility of receiving *ad hoc* financial support in the event of a drought emergency through a newly-introduced 'emergency scale-up' mechanism. The value of the regular payments to households has increased annually to compensate for inflation.

The HSNP's new look under Phase 2 has raised interesting questions about cost-efficiency. How much did it cost to register all households in northern Kenya? How much does the programme cost to administer on a day-to-day basis, and what activities are funds spent on? How do these costs compare with the amount of money reaching recipient households? This report aggregates and summarises the complete costs of HSNP Phase 2 for the entire original timeframe of the programme during this phase,[1] including the registration activities that took place prior to the commencement of Phase 2 payments (which began in July 2013).

The study is intended to be retrospective, rather than forward-looking. It measures the actual costs, rather than the hypothetical costs that might be incurred if the programme were to be scaled up or amended. The accuracy and level of analysis has depended on the data provided by the various funding and implementing agencies, which include GOK (including the NDMA), the HSNP's PILU, DFID, FSD Kenya (who oversee the distribution of the payment by Equity Bank), and HelpAge International (who have been involved in programme communication and in the resolution of complaints and queries).

1.1 OBJECTIVE OF THE STUDY

The objective of cost-efficiency analysis of cash transfer (CT) programmes is to measure how much expenditure is incurred to deliver a certain amount of cash to recipients. The cost-efficiency analysis then takes stock of this expenditure and identifies how much has been spent on specific activities and items (Oxford Policy Management (OPM), 2015). For HSNP Phase 2, the main objective of the cost-efficiency study is to ascertain the total costs incurred in setting up and delivering the programme to its intended recipients in the four counties. We also determine the unit cost of delivering a transfer to recipients.

The analysis provides accountability to programme funders regarding how their money has been spent. It informs DFID and GOK about how much the programme has cost to implement under Phase 2 to March 2018, broken down by budget line and activity. Among other things, this is useful to estimate expenditure required for future phases of HSNP, though such an estimation is outside the scope of this report. The analysis further provides a breakdown of expenditure by financing source

[1] Originally, Phase 2 was due to run from November 2012 (when registration began) to March 2018. Because of delays to the start of Phase 3, HSNP Phase 2 has since been extended to March 2019.

to determine the extent of funding from different sources, and the amount spent by each financing agent (the user of the money) on different items and activities. This will assist GOK in considering programme sustainability if the level of donor funding is altered.

1.2 SCOPE OF ANALYSIS

1.2.1 Cost-efficiency *versus* cost-effectiveness *versus* cost–benefit analysis

There are three main types of value-for-money analysis, each of which has a different but related purpose.

- Cost-efficiency analysis looks at the cost of delivering a transfer of a particular size. It calculates the CTR of the programme, which is the ratio of programme administration costs to the total value transferred to a recipient (Ward *et al.,* 2010; White *et al.,* 2013). Cost-efficiency analyses of CT programmes can also provide the unit costs of administering the CT: i.e., what it costs to deliver cash per beneficiary or per transfer.
- Cost-effectiveness analysis looks at the total programme costs relative to the magnitude of outcomes the programme was expected to achieve (O'Brien *et al.*, 2013).
- Cost–benefit analysis attempts to assign a monetary value to the economic costs and benefits of a programme, including items for which the market does not provide a satisfactory value, and to compare the costs to the benefits (White *et al*., 2013).

This study focuses on the cost-efficiency of HSNP Phase 2 using the CTR.

1.2.2 Types of cost

This study focuses on the financial, rather than the broader economic, costs of the programme (OPM, 2015). 'Financial costs' refer to actual costs incurred during the course of programme implementation. 'Economic costs', which include the value of goods or services donated in kind (e.g. time spent by volunteers) and opportunity costs (e.g. the opportunity cost to recipient households of losing a day's wage due to time spent registering for the programme), are not included in this analysis.

- The costs do not include financial costs incurred by recipients to access the cash (e.g. paying for transport to collect cash from the bank agent).
- An estimate of staff costs is included for both PILU and GOK staff at national and county level (which is not recorded in PILU accounts) from FY 2013/14 onwards. PILU staff costs have been apportioned on the basis of the total contract value allocated to staff costs (long- and short-term).[2] GOK staff costs have been calculated on the basis of an estimate of the time they have spent on HSNP activities every month. Salary scales for each job level were provided by the NDMA.
- Staff costs have not been included for DFID and FSD. HelpAge International's staff costs are included in the total contract value of its contract with DFID.
- Other unspecified costs paid to the implementing consortium are included in the analysis. These are derived by deducting staff costs and operational expenditure from the total amount paid by DFID for management and monitoring in each financial year.
- The costs are expressed in nominal terms, as the duration of the study is short.

[2] There are 29 full-time PILU staff members.

- The costs of assets purchased are included in full during the year of purchase and not discounted over a number of years.

1.2.3 Timing

The study analyses all expenditure incurred for Phase 2 of HSNP between November 2012 up to the end of March 2018, which was the original timeframe for this phase of the programme.[3] Expenditure on HSNP Phase 2 began from November 2012, with the start of registration. It is important to note that activities related to the roll-out of Phase 2 (including registration, targeting, and enrolment) were undertaken while Phase 1 was still ongoing. The analysis does not include any Phase 1 costs incurred during the same period. Hereafter in the report, the abbreviation HSNP will be used to refer to HSNP Phase 2, unless specified otherwise.

Translating this period to the GOK's financial calendar, the study therefore covers the following financial years: November 2012–June 2013 (part of FY 2012/13); July 2013–June 2014 (complete FY 2013/14); July 2014–June 2015 (complete FY 2014/15); July 2015–June 2016 (complete FY 2015/16); July 2016–June 2017 (complete FY 2016/17); and July 2017–March 2018 (part of FY2017/18). Costs are analysed by financial year where relevant.

1.3 METHODOLOGY

OPM collected raw cost data from DFID, PILU, NDMA, and FSD.

The data in this report were collected in two rounds. The first ran from the start of HSNP Phase 2 until March 2016 (Bahri and O'Brien, 2016), and the second ran for the next two years until March 2018. Between the first and second round of data collection some of the organisations involved changed their accounting practices, which led to different coding assumptions in some cases for the later period (these are detailed in Annex B Coding guide). These changes included the following:

- from April 2016, NDMA began maintaining its own accounts, whereas in the first round, until March 2016, both GOK and DFID expenditure was recorded by PILU. From April 2016 to March 2018, GOK expenditure was collected from NDMA accounts;
- from July 2016, PILU accounts were not maintained in the QuickBooks software but on Excel, using a different methodology; and
- staff timesheets were not maintained by PILU after November 2016, so staff time has been apportioned based on interviews conducted with PILU staff members and activities undertaken during this period. Up to March 2016, DFID provided data by GOK FY, in both British pounds and KES. During the second round, data were provided according to the January to December calendar year and only in British pounds. This was apportioned into the GOK FY by dividing expenditure for each year equally into quarters. Yearly exchange rates for 2015/16, 2016/17, and 2017/18 were used to convert expenditure data from British pounds to KES.[4]

[3] HSNP Phase 2 has since been extended to March 2019; see Footnote 1.

[4] For April–June 2016, we used the same exchange rate used by DFID from July 2015–March 2016: £1 = 148 KES. For FY 2016/17 we used an exchange rate of 134 KES as of 01 July 2016; for FY 2017/18, we used and 135 KES as of 01 July 2017, as derived from https://www.xe.com/currencyconverter/.

PILU's accounts, the majority of which use software called 'QuickBooks', only begin from June 2014. For cost data before June 2014 (i.e., for FY 2012/13 and FY 2013/14), costs have been acquired from DFID. DFID records, however, do not provide a breakdown by line item, and these costs have thus been recorded as a lump sum.

DFID's accounts provide lump sum totals that have been used to fund expenditure on programme implementation each year from FY 2013/14 to FY 2017/18 (up to March 2018) under the 'management and monitoring' budget line. This lump sum comprises staff costs, operational expenses (DFID-financed PILU costs), and other implementation fees.

Similarly, expenditure on the external evaluation of HSNP by OPM, and on the rights and grievances processes of HelpAge International, are provided as lump sum totals. For FY 2016/17 and FY 2017/18, only 60% of DFID's expenditure on HelpAge has been included as HSNP expenditure. This is because, from April 2016, the scope of HelpAge's role within the programme changed, and 40% of the organisation's time was spent on non-HSNP activities, including NSNP.[5]

FSD records the expenditure of Equity Bank and FSD. This includes 'infrastructure costs', 'operational costs', and 'transfer fees'. Infrastructure costs include the set-up costs of buying equipment, setting up agents, bank cards, and personalisation equipment. Operational costs refer to expenses associated with ensuring cash gets disbursed to recipients each payment cycle. Transfer fees are the commission paid to bank agents for each transfer made.

In line with regular accounting procedures, expenditure records generally show what item was purchased (staff salaries, fuel for vehicles, office supplies, etc.) and when money was spent. This is useful for accountability purposes. What is useful when reviewing how well the programme has been running, however, is to associate these figures with the activities they were used for: how much was spent on registration? How much was spent on the payment process?

For this reason, as specified in the HSNP Phase 2 inception report, the cost data collected were coded according to the activity on which the money was spent (Table 1). Costs related to external monitoring and evaluation have been included in the analysis below using figures from DFID accounts.

While in some cases the costs were clearly marked in the accounts as relating to specific activities, assumptions had to be made to correctly code others (listed in Annex B Coding guide). These assumptions were primarily based on the activity timeline (Annex A) and on interviews with PILU and NDMA staff members. For training and workshops, attendance sheets were used to ascertain the purpose of the training/workshop. Staff timesheets maintained by PILU from May 2015 were used to code staff costs to specific activities; staff costs before May 2015 were coded based on the activity timeline. NDMA staff costs were coded based on information about their roles gathered from face-to-face interviews and email exchanges. Those costs that were coded to 'non-HSNP' activities have not been included in the final expenditure calculations. This last category allowed for the fact that staff or resources hired for the project might sometimes be applied to non-HSNP purposes.

[5] Interviews with DFID and HelpAge provided data on the proportion of time and expenditure HelpAge spent on HSNP *versus* other activities.

TABLE 1: CODING OF COSTS BASED ON ACTIVITY

Activity code		DFID cost reporting category	Stage of the HSNP operations cycle, as per the operations manual
01	PROGRAMME DESIGN	Start-up	N/A
02	REGISTRATION	Roll-out	Step 1 – Registration
03	TARGETING	Roll-out	Step 2 – Beneficiary selection Step 3 – Community validation Step 6 – Notification, targeting of complaints
04	ENROLMENT	Roll-out	Step 4 – Identification of recipients Step 5 – Preparation of bank accounts Step 7 – Bank account opening and distribution
05	PAYMENT	Ongoing operations	Step 8 – Payment and reconciliation
06	CASE MANAGEMENT	Ongoing operations	N/A (dealing with complaints and updates)
07	MONITORING/ REPORTING	Ongoing operations	N/A (monitoring implementation)
08	MANAGEMENT/ COORDINATION	Ongoing operations	N/A (linkages with other programmes and authorities, committee meetings, recruitment, general admin)
09	EMERGENCY SCALE-UP	Start-up	N/A (design of the emergency scale-up mechanism)
		Ongoing operations	N/A (implementation of the scale-up mechanism in the event that it is triggered)
00	NON-HSNP ACTIVITY	N/A	N/A

Source: OPM (2015). Notes: (1) 'Programme design' includes one-off costs that usually happen at the start of the programme, such as induction training for staff and capital expenditure. (2) Expenditure under the DFID category of 'external monitoring and evaluation' does not need its own code, as this is simply the value of the OPM contract.

1.4 FUND FLOW

Funds for HSNP Phase 2 have been provided primarily by DFID and GOK. The government started contributing to HSNP in July 2013 and has committed to increase its funding ever year; this budget has been approved by the Ministry of Finance. The way in which funds are allocated is governed by a memorandum of understanding between DFID and GOK. At the roll-out stages of HSNP, the Australian aid agency AusAid (now the Department for Foreign Affairs and Trade) also provided funding to the programme, although this was disbursed and managed through DFID. For the purpose of this analysis, therefore, AusAid funding is classified under DFID as the financing source. The EU also provided funds for emergency transfers in FY 2016/17.

Some indirect support is also provided to HSNP by the World Bank under NSNP. This is not accounted for in this analysis, as the focus is on direct financial costs.

2 Costs

This chapter provides a breakdown of total programme costs, including transfer and administrative costs. The term 'administrative costs' refers to the costs incurred to run the programme. 'Transfer costs' refers to the cash that is transferred to recipient households.

Section 2.1 presents the total programme costs of HSNP Phase 2. The administrative costs are broken down by financing source (who provides the money) and financing agent (who spends the money) in Section 2.2; they are broken down by activity in Section 2.3. Section 2.4 analyses the transfer costs. The CTR and unit cost of delivering HSNP Phase 2 are outlined in Section 2.5.

2.1 TOTAL PROGRAMME COSTS

Between November 2012 and March 2018, HSNP Phase 2 spent approximately KES 22.57 billion (£168.49 million)[6] on implementing this programme in four counties in northern Kenya (see Table 2 below). The majority of this expenditure (76%, a little over KES 17.1 billion) was spent on transfers to households, including both regular and emergency transfers. The remaining 24% of known expenditure up to the end of March 2018 was spent on administrative operations to set up the programme and deliver those transfers to beneficiaries.

TABLE 2: TOTAL COSTS

TOTAL COSTS	KES (MILLIONS)
Total transfers to beneficiaries	17.14
Total administrative costs	5.43
Total programme costs	22.57

The trends in administrative expenditure and Group 1 and Group 2 transfers are shown in Figure 1. The dip in expenditure for Group 1 and administrative costs categories in 2018 is because the data only includes expenditures until March 2018, leaving a quarter of the financial year. Group 1 transfers constitute the largest share of expenditure and have risen steadily over the years as more beneficiaries are enrolled in the programme. This reflects the programme team's efforts to reach the 100,000 beneficiary mark, a target that was achieved in November 2017. Group 2 transfers oscillate depending on the drought situation suffered by the four HSNP counties over the years. The first emergency payments were made to Group 2 in April 2015. Since that time, various rounds of emergency payments have been made across the HSNP areas. An extreme drought crisis (declared a national emergency in February 2017) occurred between late 2016 and mid-2017, which accounts for the spike in Group 2 transfers in that year. *Circa* KES 1.25 billion were distributed as emergency payments in that financial year. Administrative costs have not fluctuated to the same degree as transfer costs, but have remained fairly constant on an annual basis. Administrative costs show a steady downward trend from November 2012 to FY 2015/16, followed by a sharp increase of about 37% in 2016/17. This increase was primarily due to re-registration and re-targeting activities that commenced in that FY.

[6] The exchange rate used is for 2017/18, at £1 = KES 134.

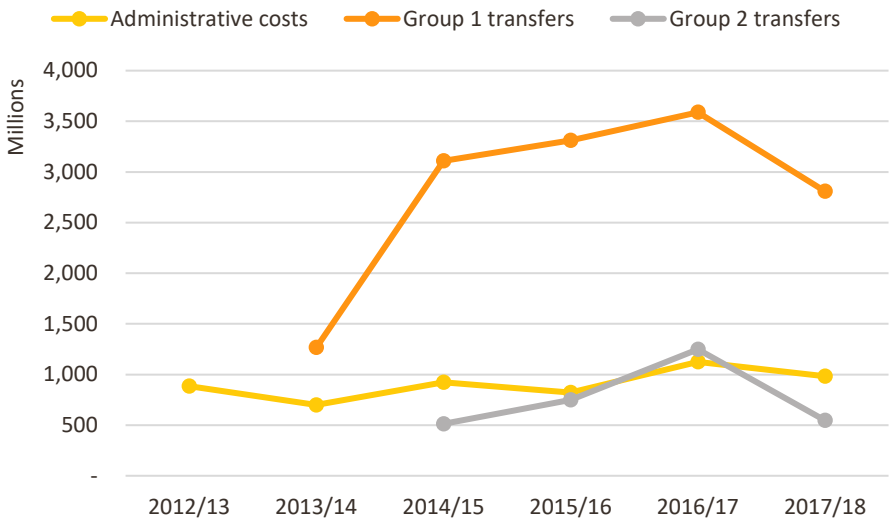

Figure 1: Trends in administrative and transfer expenditure

2.2 ADMINISTRATIVE COSTS BY FINANCING SOURCE AND FINANCING AGENT[7]

We now turn to the analysis of the KES 5.43 billion of administrative costs to ask who provided these funds and how the expenditure was distributed among the agencies implementing the programme.

The two main funders ('financing sources') of HSNP Phase 2 are DFID and GOK. While DFID contributions began in 2012 with the roll-out of Phase 2, the government's own expenditure started in FY 2013/14. Table 3 provides a detailed breakdown of their administrative costs, while Figure 2 shows the amounts spend by GOK and DFID each FY.

In total, DFID has funded 84% of all programme administrative costs, worth approximately KES 4.57 billion. The remaining 16% of administrative costs were covered by the GOK, worth approximately KES 866 million. As can be seen from Figure 2, GOK contribution to administrative expenditure has consistently increased every year, thereby reducing the dependence on DFID funds, which have in some years shown a declining trend. In the last complete financial year (2016/17), GOK provided KES 380 million, amounting to around 34% of all administrative costs.

[7] We use the terms 'financing source' and 'financing agent' in line with the convention of national health accounts. 'Financing source' denotes the originators of the funds. This contrasts with the 'financing agents', which are the agencies that spend the money. In the case of HSNP, for example, FSD is a financing agent (it spends money on the programme) but not a financing source, as its money is supplied by DFID.

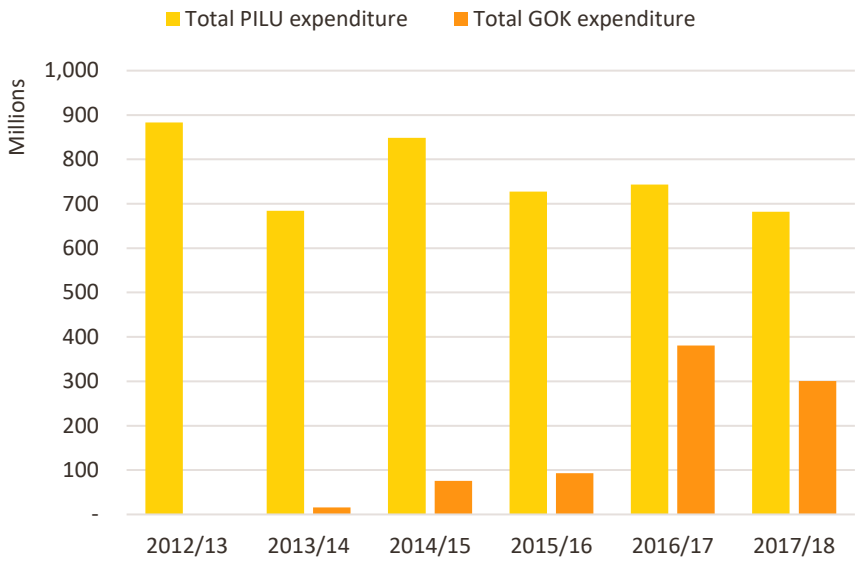

Figure 2: Administrative expenditure by source

Administrative costs under HSNP Phase 2 for FY 2012/13 are solely related to registration activities carried out by the four non-governmental organisations (NGOs): Oxfam, World Vision, Care, and Save the Children. FY 2013/14 saw a dip in expenditure, as registration was mostly complete, but transfers to beneficiaries did not begin until the last quarter of the year, and PILU set-up activities did not start until the next financial year.

So far, administrative costs have been highest in FY 2016/17 (approximately KES 1.124 billion), when re-registration activities began. This is not surprising, as rolling registration activities were taken up in addition to the day-to-day running of the programme. Registration expenses included hiring, training, and managing enumerators, as well as all the logistics and equipment required to conduct the data collection. Costs shown for FY 2017/18 do not cover the full financial year. Expenditure for this year should be similar or higher than those for the previous year.[8]

[8] So far, administrative expenditure in FY 2017/18 is 87% of what it was in FY 2016/17. Given that these data comprise 75% of the financial year, if spending is evenly distributed throughout the financial year, one would expect it to be higher than during the previous year. However, if spending is not evenly distributed throughout the year (with higher spending concentrated earlier), one might expect spending to be similar or even lower.

TABLE 3: ADMINISTRATIVE COSTS UNDER HSNP PHASE 2, NOVEMBER 2012–MARCH 2016, BY FINANCING SOURCE AND FINANCING AGENT (KES MILLION)[1]

CATEGORY	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
Administrative expenditure funded by DFID							
NGOs (registration)	883.5	117.5					1,000.9
HelpAge Intl. (rights and grievances)		240.3	181.8	193.3	53.5	16.6	685.5
FSD (payments)		272.1	461.2	245.8	292.8	356.3	1,628.2
PILU (implementation unit)		54	197.8	197.1	279.4	219.2,	947.6
OPM (external evaluation)			7.9	9.1	117.6	90.1	306.9
Total DFID	883.5	684	848.8	727.4	743.3	682.3	4,569.2
Administrative expenditure funded by GOK							
NDMA (staff)		0.52	0.63	0.63	0.63	0.63	3
NDMA (implementation unit)		15.1	74.6	92.3	380.2	300.3	862.6
Total GOK		15.6	75.3	92.9	380.8	300.9	865.6

Source: OPM, from administrative data sources listed above, plus own calculations. Notes: (1) DFID's expenditure records from April 2016 were in the January to December calendar year and had to be adjusted to the GOK financial year (July to June). (2) PILU expenditure includes staff costs, operational expenditure, and other unspecified costs; refer to Annex B to understand how these were calculated. (3) While PILU in its current state was formed in June 2014, implementation activities and expenditure related to HSNP Phase 2 that occurred before that date in FY 2013/14 are also included under PILU costs. (4) Smaller review pieces have also been commissioned independently by DFID, such as a review of the targeting process. All expenditure information for HSNP Phase 2 provided by DFID has been included in this analysis.

The single largest user of administrative costs over the six financial years has been FSD, which manages expenditure for itself and Equity Bank (Table 3). Its KES 1.6 billion expenditure to date includes operational costs and infrastructure fees, as well as the transfer fees (or commission) paid to the payment agents who disburse the transfers to recipients in the four HSNP counties. FSD expenditure accounts for approximately 36% of all DFID administrative costs. HelpAge International's expenditure on rights, grievances, and communication—including the organisation of the network of local-level rights committees across the four counties—amounts to 15% of the DFID-funded administrative costs, while PILU's expenditure on operations and management accounts for about 21% of DFID administrative costs. The mass registration exercise for Phase 2 cost just over KES 1 billion, amounting to some 22% of total administrative costs.

As explained in Section 1.3 above, DFID's expenditure on PILU can be divided into three components: staff costs, operational costs, and other implementation costs. Other implementation costs refers to the difference between total DFID PILU

expenditure as provided and the sum of staff and operational costs.[9] Information on how other implementation costs are used has not been provided, but is understood from interviews with DFID and PILU staff to be consortium management and other executive expenditure, including DFID's internal expenditure on HSNP Phase 2 (such as on short-term, *ad hoc* consultancy services). This category of costs is noteworthy as (relative to other components) its share of total PILU implementation costs has been increasing over the years, from 5% in FY 2014/15 to 17% in FY 2017/18 (in FY 2013/14 it was 99%, but that was because PILU had not yet been created, so almost all costs were recorded in this category). As we do not have an insight into exactly what this expenditure is used for, we cannot comment on why its share has been rising.

Operational expenses funded by DFID have declined from KES 35 million to (a projected) KES 17 million from FY 2014/15 to FY 2017/18, while staff costs remained fairly constant until FY 2016/17, when they rose by some 41% as a result of re-registration activities commencing that year. In FY 2017/18, they are projected to reach *circa* KES 225 million.

GOK spends some of its resources for HSNP through the NDMA in Nairobi, and disburses some to counties for HSNP expenditure at county and sub-county levels in the form of authorities to incur expenditure (AIEs). As stated in the methodology above, staff costs have been estimated for the NDMA at both national and county level by estimating the number of days spent by relevant NDMA staff on HSNP per month based on information provided by interviews. Expenditure on implementing unit operations includes head office costs, AIEs to counties, and fixed asset acquisition.[10] Expenditure on implementing unit operations in Table 3 is higher than expenditure shown in NDMA records. There are two reasons for this. First, staff costs have been calculated and included that are not shown in the NDMA accounts. Second, to calculate total AIEs, the amount *disbursed* to counties is recorded in PILU accounts, rather than *actual* expenditure; the analysis assumes that AIEs disbursed to counties are fully spent. This could potentially be updated if a breakdown by expenditure per county was provided by NDMA.

2.3 ADMINISTRATIVE COSTS BY ACTIVITY

One of the main objectives of this cost-efficiency study is to understand what activities the KES 5.43 billion of administrative costs incurred to date has been spent on, to help understand where the cost drivers in delivering the programme lie. As stated in Section 1.3, there are four main categories of activity: start-up; roll-out; operations; and external evaluation.[11] We have added a fifth, 'emergency payments', to highlight the cost of running the extra component of the HSNP that allows for scale-up of the programme to additional beneficiaries in the event of a drought or other shocks. This component itself also comprises start-up, roll-out, and operational activities, but it is more useful to consider it separately than to combine it with the analysis of the routine payment, to assist in identifying the running costs of the HSNP in the absence of this mechanism. Figure 3 and Table 4 break down administrative expenditure by these activities.

[9] The proportion of expenditure on each category was provided by DFID: 68% on long-term staff, 9% on short-term experts, and 22% on other project expenses, including reimbursables.

[10] The government's operational expenditure has been calculated using PILU accounting records for FY 2014/15 and FY 2015/16. For AIEs to counties, PILU records provide the total amount that has been disbursed, which may be different from the actual expenditure incurred at county level. For FY 2013/14, PILU records do not exist, and the final overall expenditure figure from the NDMA has been used. There is no breakdown for FY 2013/14 by head office, AIE, and acquisition, so these expenses have been classified under the NDMA office expenses budget line.

[11] This breakdown accords with the method developed by OPM for the cost-efficiency analysis of Kenya's Cash Transfer for Orphans and Vulnerable Children (see Ward *et al.*, 2010) and subsequently adopted by DFID.

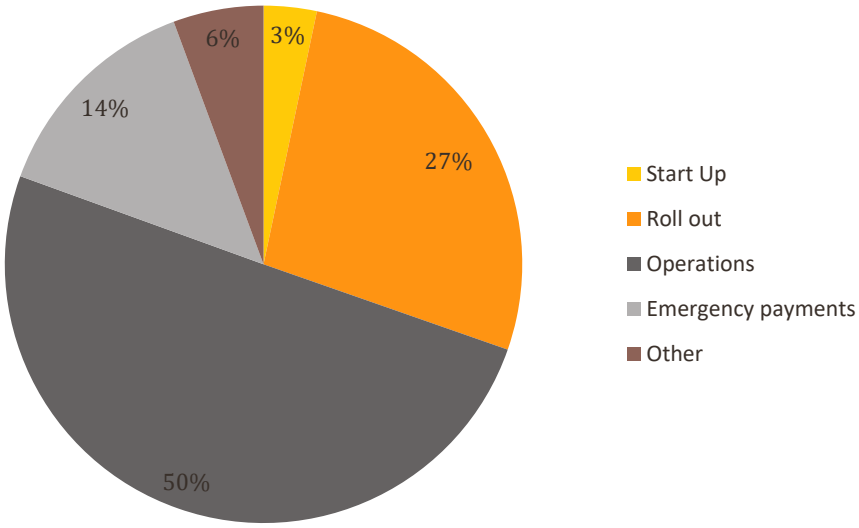

Figure 3: Administrative expenditure by activity

Source: OPM, from administrative data sources listed in Section 1.3, plus own calculations. Note: (1) Design costs prior to April 2015 are recorded under 'Start-up' rather than 'Emergency payments' as it was not possible until that date to distinguish in the accounts between the design of the emergency payments and other consultancy work. The total cost of the emergency payment may therefore be slightly underestimated here.

2.3.1 Start-up costs

Start-up costs refers to costs that are undertaken as a one-off event for the programme, usually at the start of the programme. These include programme design, but also costs related to capital expenditure, induction training, and related travel. They may also be incurred later in the programme due to staff turnover (new staff require induction training and take time to reach full capacity) or due to changes in programme design. For HSNP Phase 2, start-up costs are fairly low, at 3% of total administrative costs. This is probably due to the fact that the analysis for Phase 2 of the programme and the majority of the programme design occurred during Phase 1, apart from that pertaining to the scale-up/emergency payments component. There is also a probable underestimation of staff costs related to programme design as short-term consultant costs have not been shared for FY 2012/13 and FY 2013/14, which is when the registration and targeting methodology was designed for Phase 2.[12] Time spent on conceptualising and designing emergency payments has been included in this category as it was not simple to distinguish it in the accounts from other design work (see footnote to Figure 3).

2.3.2 Roll-out costs

Roll-out activities refers to activities undertaken to register, target, and enrol beneficiaries in the CT programme. They make up 27% of all administrative costs (Figure 3). Registration costs cover the majority (81%) of roll-out costs.[13] Targeting and enrolment form 7% and 12% of roll-out costs respectively.

[12] This can be revised if DFID is able to share the relevant staff costs.

[13] Accounts for the NGOs conducting registration are not available, so we have not analysed how these costs were spent in more detail.

The majority of this expenditure for HSNP Phase 2 was incurred in FY 2012/13 and FY 2013/14, when mass registration, targeting, and enrolment for Phase 2 recipients were undertaken. As expected, roll-out expenditure decreased in later years, although it did not cease completely as rolling registration, targeting, and enrolment activities continued to be undertaken during the later years of the programme to reach the 100,000 beneficiary mark. In FY 2016/17 and onwards, roll-out expenditure increased again due to the introduction of rolling registration and targeting following the success of the NSNP registration pilot conducted in FY 2015/16 to test the new NSNP registration and targeting tool.

Rolling registration is now envisioned as a continuous activity, to be undertaken throughout the course of programme implementation and not just at the start, to ensure continuous updates to the registration data. After the success of the pilot, the rolling registration process began with training in four counties in April 2017 and data collection in May 2017 for a period of six months. After a short break, data collection was expected to resume in April 2018.[14] While registration and targeting is carried out, the beneficiary list is not updated, for a variety of reasons. A recertification strategy is in the process of being developed that aims to ensure the beneficiary database is regularly refreshed and updated.

While nearly all households in northern Kenya were registered in HSNP's database in the mass registration process, they did not all immediately receive a bank account; the costs for this are coded to enrolment. In an initial stage, account opening was carried out for Group 1 recipients who had been selected to receive the bi-monthly transfer. Approximately 47,000 Group 1 households had accounts opened during this initial roll-out, well below the target of 100,000. A second round of account opening was then undertaken from November 2014 to open 300,000 accounts across the four counties for remaining Group 1 households and priority Group 2 households that might sometimes receive emergency payments. In FY 2015/16, a comprehensive case update and removal and replacement exercise was carried out to ensure that Group 1 recipients included in the programme were still eligible and to investigate cases of eligible yet unenrolled households. A joint operation was carried out with the National Registration Bureau to provide identity cards to those who needed them to make their bank accounts functional. In November 2017 the 100,000 household target was finally achieved.

2.3.3 Operational costs

Operational activities refer to the day-to-day activities undertaken to implement the programme and comprise the largest share of total administrative expenditure to date, at 50% (Figure 3). Operations include payments, case management (dealing with complaints and updates), internal monitoring and reporting, and management and coordination. Operational costs begin from FY 2013/14, as there were no recipients enrolled in the programme before this time. PILU and NDMA staff at the county and national level are engaged primarily in operational activities. In FY 2015/16, for instance, PILU staff reported spending 44% of their time on case management, 11 % on monitoring, and 35% on management. NDMA staff time was dedicated to either management or monitoring activities over the five financial years (2013–2018).

[14] Data for this report were collected in early April 2016, at which point registration activities were yet to restart.

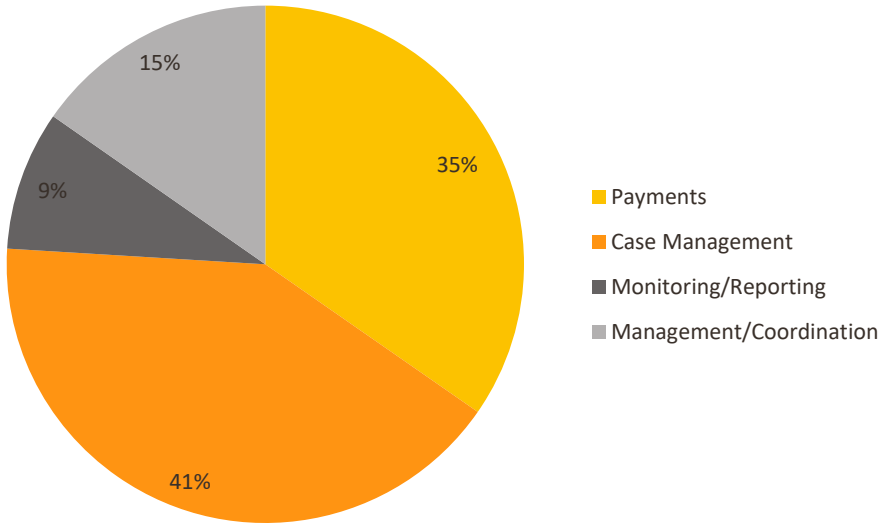

Figure 4: Expenditure

Source: PILU, NDMA, FSD, and DFID

The largest share of operational expenditure is on case management, at 41% (Figure 4). This relates to the organisation of the large network of community-level rights committees by HelpAge International, for handling updates and queries (and previously for communication activities) and the additional support in this area from PILU. In FY 2016/17 and FY 2017/18, HelpAge only spent 60% of its time on HSNP. HelpAge expenditure included in the analysis has therefore been apportioned accordingly. Considering the reduction in HelpAge's role, PILU staff members spent additional time on case management and introduced a number of new initiatives, including a toll-free SMS and helpline number in late 2016. A large communication campaign on grievance redressal was also conducted in early 2018. However, since staff timesheets were not maintained by PILU FY 2016/17 onwards, there is no record of how time was adjusted between different activities as a result of this increased time on case management. Therefore, while staff time has been calculated based on historical timesheets and interviews with PILU staff, it is possible that their time on case management has been underestimated relative to other operational activities, such as monitoring and management.

It also possible that operational costs have been slightly overestimated, while roll-out costs may have been slightly underestimated. This is because, first, in FY 2013/14, HelpAge also spent part of its time and budget on roll-out activities, although it is not possible to calculate exactly how much. Second, in FY 2017/18, due to a change in accounting practices within PILU, a number of costs (especially related to communication) that do not specify an activity have been included under management, as per the coding guide (Annex BCoding guide). The activity timeline (Annex AActivity timeline) indicates some of these communication expenses were most likely related to registration and targeting, although it is not possible to identify to what extent.

2.3.4 External evaluation costs

External evaluation costs include payments made to OPM to evaluate HSNP Phase 2. This does not include any other external/independent evaluation studies carried out by other agencies. There have been smaller evaluation studies carried out by HTSPE, but it is unclear where the costs related to these are classified in DFID accounts.

2.3.5 Administrative cost of the emergency payment mechanism

We have noted above the innovation of introducing a flexible 'emergency scale-up' mechanism to HSNP Phase 2, which allows temporary expansion of the programme to reach additional households (from among the Group 2 households referred to in Section 1) when drought conditions are classified as severe or extreme. Emergency payments are triggered by thresholds in a Vegetation Condition Index (VCI) maintained by the NDMA's early warning unit, which looks at the extent of vegetation cover as an indicator of drought.[15] As at March 2018, 23 tranches of emergency payments had been made (one of which was made in anticipation of El Niño, rather than severe or extreme drought). Up to March 2016, only seven emergency payments had been made. From November 2016, the onset of an extreme drought crisis triggered monthly emergency payments in all four counties until February 2018. These transfers did not go to every Group 2 household, but only to a proportion, calculated to enable the programme to scale up to 50% or 75% of households in affected sub-counties, depending on the severity of the drought.

The emergency scale-up mechanism builds on the start-up, roll-out, and operational activities of the regular transfer. In particular, the mass registration of all households in the north was a large expense. We have not counted it as part of the cost of the emergency payment mechanism, because mass registration may have happened even without the decision to make use of the data on households that did not qualify for the routine transfer. Naturally, if the emergency payment mechanism were instituted as a standalone programme, then these costs would have been incurred.

Some costs were, however, specific to the delivery of these emergency payments.[16] These include:

- design of the payment mechanism: mostly the cost of technical assistance to determine how the emergency funds should be triggered, who should receive them, and how much they should receive;
- training and workshops for staff, rights committees, and officials to explain how the emergency payment mechanism works;
- opening bank accounts and distributing bank cards to nearly 300,000 Group 2 households;
- monthly analysis of data from the NDMA's early warning unit to calculate the VCI and decide whether payment has been triggered;
- time spent by HSNP staff overseeing the implementation of the emergency transfer, and related travel expenses;
- communications activities associated with the emergency payments; and
- a share of general office expenses for administrative support.

Up to March 2018, the emergency payment mechanism constituted 14% of administrative expenditure under HSNP Phase 2, at an estimated KES 751 million (Figure 3). This covers all the activities listed above, apart from the costs of technical assistance for designing the mechanism prior to April 2015, which could not be distinguished in the accounts from other consultancy activities prior to that date. The emergency payment mechanism takes advantage of the data collected routinely by the NDMA's early warning unit to determine whether a payment should be issued to drought-affected households. The costs of data collection and compilation by the NDMA's early warning unit and its associated consultants are therefore not counted as part of the cost of the mechanism, because these data are being collected anyway.

[15] For more details on the VCI and calculation of Group 2 beneficiaries, see the options paper on the scaling up of HSNP cash transfers prepared by PILU in 2015, and Farhat *et al*. (2017) 'Evaluation of the Kenya Hunger Safety Net Programme Phase 2: Emergency payments deep dive study', Oxford Policy Management.

[16] See Annex B Coding guide for details of the budget lines included in these costs.

2.4 TRANSFER COSTS

As of March 2018, the sum of KES 17.14 billion has been disbursed to households under HSNP Phase 2 (see table below; see also Section 2.1).

The sum paid to recipient households increases at the start of each financial year in line with inflation. In FY 2013/14, the transfer for Group 1 recipients stood at KES 4,700 per household, paid every two months (equivalent to KES 2,350 per month). In July 2014, this increased to KES 4,900, and in July 2015 it increased again to KES 5,100. The transfer for Group 2 households is the same, but only the value of a single month, rather than the bi-monthly amount, and is paid for each month that drought conditions are present.

TABLE 4: EXPENDITURE ON GROUP 1 AND GROUP 2 TRANSFERS UNDER HSNP PHASE 2 TO MARCH 2018, BY RECIPIENT GROUP AND FINANCIAL YEAR (KES)

COUNTY	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
Group 1	1,265,644,000	3,107,629,050	3,312,783,715	3,588,032,950	2,810,388,200	14,084,477,915
Group 2		512,709,050	750,013,650	1,248,315,300	547,335,900	3,058,373,900
Total transfers (Groups 1 and 2)	1,265,644,000	3,620,338,100	4,062,797,365	4,836,348,250	3,357,724,100	17,142,851,815.00

Source: PILU

Both Group 1 and Group 2 transfers have steadily increased over the past five years. FY 2017/18 figures only include data to March 2018, which explains the dip in the trend of the current FY (Figure 5). Some four-fifths of the expenditure on transfers (82%)—just over KES 14 billion—has been paid to Group 1 households, which receive the routine transfer (Table 5), while about KES 3 billion has been disbursed to Group 2 households, who receive emergency payments.

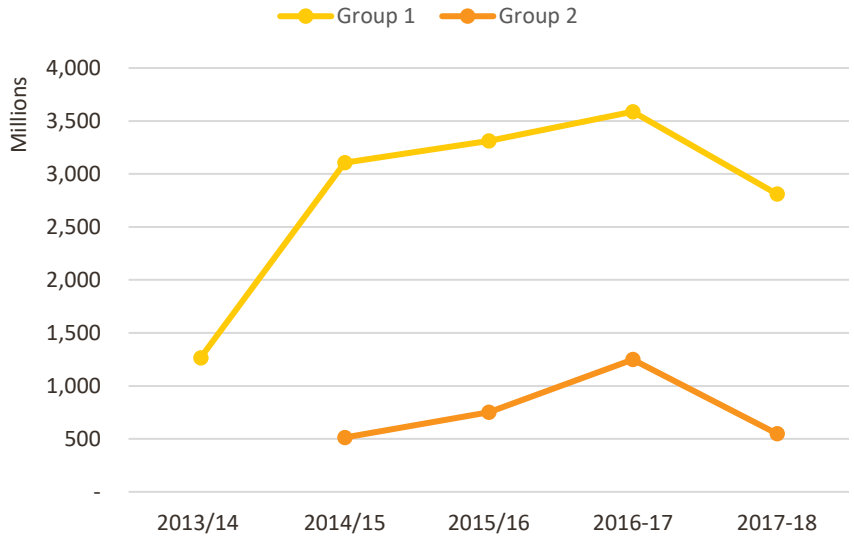

Figure 5: Trends in Group 1 and Group 2 transfers

Source: PILU.

The steady increase in Group 1 payments can be attributed to efforts made by the programme to reach 100,000 routine beneficiaries. By March 2018, 100,620 households had been reached as part of Group 1. The first HSNP Phase 2 transfer was made to Group 1 households in March 2014. Thirty-three bi-monthly transfers had been made to Group 1 beneficiaries up to March 2018.[17] Enrolment of Group 1 beneficiaries has been ongoing during HSNP Phase 2. Figure 6 shows the trend in the changing number of households receiving transfers through different months of the programme. Thus, the bi-monthly transfers increase each cycle due to a rise in the number of recipients.

Serious efforts were undertaken throughout the course of HSNP Phase 2 implementation to reach this target by tracing households that have never activated their accounts or collected their funds. This target was finally achieved in the November–December 2017 transfer cycle. The number of households with active accounts will be an important consideration when determining funding requirements for Phase 3 of the programme. Currently, there are approximately 313,000 households with active accounts across the four counties.

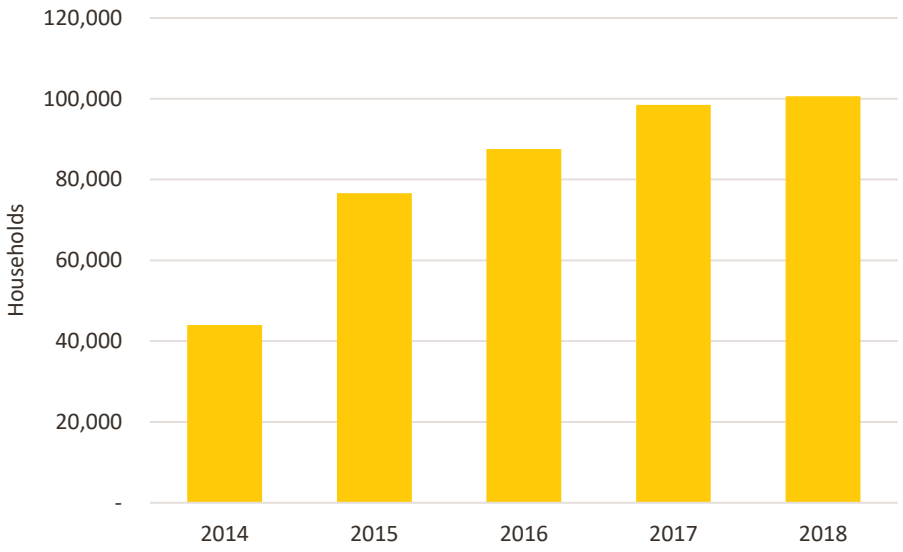

Figure 6: Transfers to Group 1 households (thousands)

Source: PILU

Group 2 transfers, including both the emergency drought and El Niño payments, constitute the remaining 18% of transfers disbursed to date, worth just over KES 3 billion (Table 5) across 23 payments. As explained above, the largest share (41%) of these payments were made in FY 2016/17 in response to the extreme drought emergency of that year.

The majority of payments to households are funded by GOK and DFID, with a relatively small EU contribution made in response to the FY 2016/17 drought (see Figure 7 and Table 5 below). GOK only funds Group 1 transfers, while DFID contributes to both Group 1 and 2 transfers. The EU funded Group 2 transfers in one financial year and made no contribution to Group 1. DFID funds the majority of all transfers at 68%, which amounts to KES 11.7 billion. This is followed by GOK at KES 4.77 billion, or 28% of all transfers. The EU contributed a total of KES 638 million towards Group 2 payments in FY 2016/17, 4% of the total funding for transfers to date.

[17] As per the HSNP design, six Group 1 transfers are made each year.

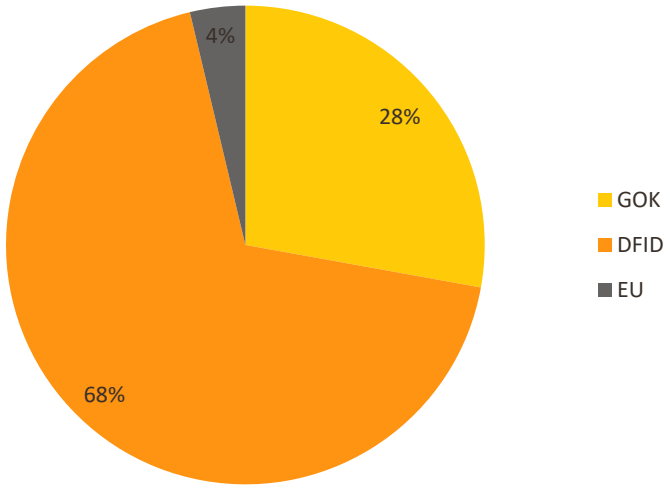

Figure 7: Funding of transfers by source

Source: PILU

TABLE 5: TRANSFERS TO HOUSEHOLDS BY SOURCE AND FINANCIAL YEAR UNDER HSNP PHASE 2 UNTIL MARCH 2018 (KES MILLIONS)

CATEGORY	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
GOK	212.6,	566.1,	800.2	2,338.3	855.5	4,772.7
DFID	1,053.0	3,054.3	3,262.6	1,859.0	2,502.3	11,731.3
EU				638.96	-	638.96
Total	**1,265.6**	**3,620.3**	**4,062.8**	**4,836.3**	**3,357.9**	**17,142.94**

Source: PILU

As can be seen from the table above, financing for transfers by both GOK and DFID has been increasing every year, with the exception of GOK funding in FY 2017/18. As mentioned above, the figures for FY 2017/18 are incomplete because this study ends in March 2018. GOK's approved budget for transfers for FY 2015/16 is KES 1.1 billion, of which only KES 800 million (72%) had been spent by March.

As there are plans for full handover to GOK by the end of HSNP Phase 3, these expenditure shares require careful consideration. Funding plans for Group 2 payments will also need to be carefully considered by DFID, GOK, and other development partners.

2.5 COST-EFFICIENCY

2.5.1 The CTR

In the six years during which HSNP Phase 2 has been implemented up to March 2018, some KES 17.14 billion has been disbursed as transfers, with administrative costs amounting to approximately KES 5.43 billion. This means that, for every 1

KES received by a household so far under Phase 2, the programme has spent 0.32 KES in delivering it. This figure (0.32) gives the CTR of the programme (Table 6).

TABLE 6: CTR UNDER HSNP PHASE 2 TO MARCH 2016, BY FINANCIAL YEAR

HSNP 2 CTR/YEAR	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
Administrative costs (KES million)	883.5	699.6	924.1	820.3	1,124.2	983.2	5,434.8
Total transfers (KES million)	-	1,265.6	3,620.3	4,062.8	4,836.3	3,357.7	17,142.9
Cumulative CTR	-	1.25	0.51	0.37	0.32	0.32	
CTR (single-year)	-	0.55	0.26	0.20	0.23	0.29	0.32

Source: OPM, from administrative data sources listed in Section 1.3, plus own calculations

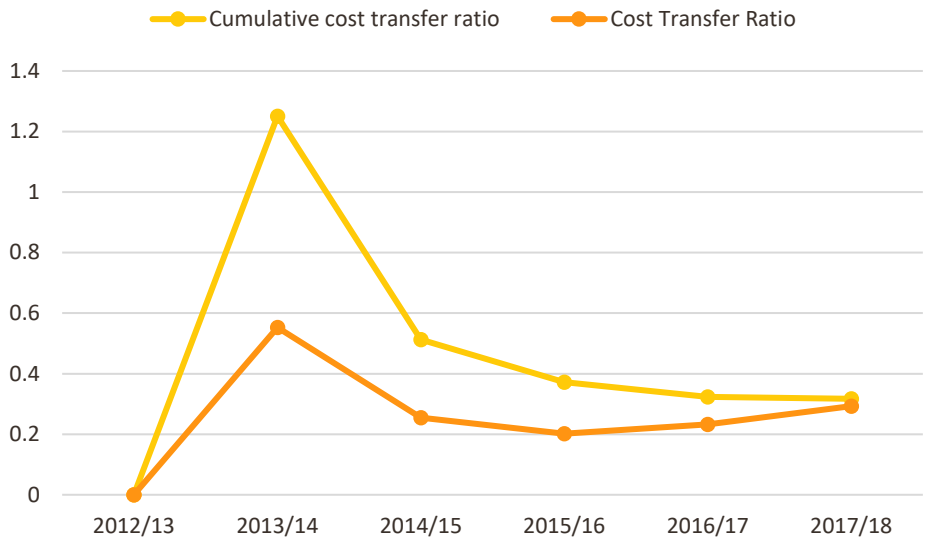

Figure 8: Trends in CTR and cumulative CTR

Source: Authors' calculations, based on data received from PILU, DFID, FSD, and NDMA

Figure 8 presents the trends in the CTR and cumulative CTR for the HSNP under Phase 2. It clearly shows a declining trend overall, albeit with a slight upturn in CTR in 2016/17 and 2017/18.

It is natural for the cumulative CTR of a stable long-term CT programme to decrease with each year of its operation. This is because the high start-up costs associated with registration and enrolment of beneficiaries are increasingly offset as more and more transfers are delivered over time (Ward *et al.*, 2010; White *et al.*, 2013). As the figure shows, there were no transfers for the first year and a half of Phase 2 because the focus was on registering, targeting, and enrolling beneficiaries in the programme. The decrease in the CTR—from 1.25 in FY 2013/14 to 0.32 in FY 2017/18—is thus precisely because the early set-up and roll-out costs were progressively offset by the increase in the total value of the transfers disbursed. It is very important to recognise, then, that the CTR of 0.32 is not the 'final answer' to the question of how much it costs to deliver a programme like HSNP: this value will (potentially) keep declining as the programme continues to disburse cash. However, given the 100,000 beneficiary mark has been reached, it is expected that the cumulative CTR for HSNP Phase 2 should

remain stable, provided that new one-off costs are not incurred. This can already be seen, because the cumulative CTR for FY 2016/17 and FY 2017/18 remained the same at 0.32.

This said, it is important to note that, while the cumulative CTR has declined each year, the single-year CTR increased from 0.20 in FY 2015/16 to 0.23 in 2016/17, then increased again to 0.29 in FY 2017/18 (Figure 8). This is because in FY 2016/17 and FY 2017/18, the planned re-registration exercise began to be undertaken and was added to overall administration costs. The re-registration has been included as a Phase 2 cost rather than a Phase 3 cost, as it has been designed as an activity to be conducted on a continuous basis throughout the life of the programme, rather than as a one-off start-up cost. In the long term, PILU envisages rolling registration to be a more cost-efficient and effective approach by improving the quality and currency of data. It would eliminate large one-off registration costs in future, while achieving core programme objectives by reaching the most vulnerable, ensuring minimal inclusion and exclusion errors and continuous updates to the beneficiary list without causing social tension. In addition, improving the currency and quality of the registration data would increase the value, and therefore the chance, of other programmes utilising those data.

The effect of the emergency payment mechanism on overall cost-efficiency also bears careful consideration, especially in light of its innovative nature. The mechanism is triggered when a pre-defined drought threshold is reached. If the climate is favourable, no drought is declared, and therefore there is no payment. Paradoxically, then, a positive outcome for households would be for HSNP to have incurred the substantial administrative costs on setting up the mechanism (so that they have a safety net) without the programme ever needing to make a payout. To the extent that the payment is determined by the weather, HSNP cannot be considered to be inefficient for 'failing' to pay emergency transfers. This contrasts with the situation for a routine long-term CT, for which one would hope that administrative costs are offset by numerous payments to households spread over a long period.

For the sake of comparison, Table 7 presents the CTR for the emergency payment mechanism alone. It is a little lower than the CTR for the programme as a whole, although not by much: to deliver 1 KES of emergency transfers to recipients, it has cost the programme 0.25 KES.

TABLE 7: CTR FOR EMERGENCY PAYMENTS

	VALUE
Administrative costs—emergency payments (KES million)	751
Total transfers to Group 2 (KES million)	3.06
CTR	0.25

Source: OPM, from administrative data sources listed in Section 1.3, plus own calculations. Note: Please see caveats to the earlier tables regarding the slight underestimation of design costs of the emergency payment mechanism, which mean that the CTR may also be slightly underestimated.

Interpretation of the lower CTR for emergency transfer requires careful consideration. The administrative costs related to emergency payments do not account for costs related to other HSNP Phase 2 activities such as registration, case management, monitoring/reporting, and management/coordination that also help in the implementation of Group 2 transfers. In particular, the huge cost of the mass registration exercise conducted at the start of Phase 2 is wholly apportioned to the routine transfers. Were some of this cost apportioned to the emergency payments, the CTR of the emergency payments would increase to reflect this. While there is an argument to do this, it is difficult to define exactly how to apportion this expenditure between the two types of transfer.

If the calculation of the ratio of emergency transfers to the cost of setting up and running the emergency payment mechanism is a rather blunt instrument for policy-making, it may be valuable for HSNP to consider comparing the costs and benefits of the mechanism without reducing its analysis to a single number. We cite two examples for consideration. First, the number of Group 2 households is considerably larger than the number of households in Group 1. The administrative costs of Group 2 could, in principle, have been reduced by enrolling fewer households, although this would defeat its objective of creating a database that can serve as a resource for other programming to use, including emergency programming—i.e. for programmes run by actors other than HSNP—without having to undertake their own registration process.[18] Second, since the maximum number of recipients of the transfer in an extreme drought is 75% of all households in affected areas, it is predominantly the case that 25% will never receive any transfer under HSNP. We say predominantly the case as, in fact, HSNP has already made a blanket scale-up payment to the entire Group 2 cohort with functioning bank accounts in response to El Niño (using a so-called 'no regrets' policy), and could potentially make others in response to as yet undefined future shocks. To what extent is it possible to evaluate the benefit of opening bank accounts for the wealthiest 25% of households if they are not used for HSNP? This is an assessment this cost-efficiency analysis is not in a position to address.

2.5.2 Cost per transfer

The unit cost of delivering transfers to recipients is the total administrative cost divided by the number of transfers. The number of transfers are calculated as the total number of beneficiaries paid in every payment cycle, as per PILU records. Taking the number of transfers directly from HSNP's records in this way, we find that, by the end of March 2018, HSNP had issued about 2.1 million transfers to Group 1 households, and just over 1.1 million transfers to Group 2 households. In total, between Group 1 and Group 2, approximately 3.2 million payments were made during the six years of HSNP Phase 2 implementation covered by this study. Dividing KES 5.43 billion of administrative costs by this number results in an administrative cost of KES 1,695 for every transfer delivered. The cost per transfer for just Group 1 transfers and administrative costs comes to KES 2,264 per transfer. For Group 2, the cost per transfer is KES 660. The much lower cost per transfer for Group 2 should be interpreted with caution. First, as discussed above, the administrative costs for emergency payments of KES 751 million do not reflect the full costs incurred in other HSNP Phase 2 activities that the delivery of emergency payments also relied upon; in particular the mass registration of all households, but also more routine tasks, such as case management. If we applied some assumptions about the proportion of total value of administrative costs to be associated with the routine and emergency payments respectively, and then apportioned some value of the cost of registration (and potentially other administrative costs, such as case management) to the emergency payments in our calculations, we would obviously see the cost per transfer for emergency payments increase, while the same ratio for routine transfers would decrease correspondingly. Thus, while looking at cost per transfer for routine and emergency transfers individually provides some insight, it is best to stick to consideration of the overall cost per transfer, as this treats the programme as a package of interventions working together in a coherent way.

A small proportion of the unit cost depends on the value of the transfer itself, as it consists of the commission to the pay agent. Most of the unit cost, however, is independent of the size of the transfer, as costs such as enrolment, account opening, staff time, etc., are unrelated to the amount given to each household. The number of recipient households is more of a determinant of administrative expenditure than of the size of the transfer.

[18] Other studies carried out under this evaluation have discussed the degree to which other programme shave utilised HSNP's systems, including its registration data, and the advantages and challenges of utilising those. See Gardner *et al*. (2017) 'Evaluation of the Kenya Hunger Safety Net Programme Phase 2: *The legacy of HSNP Phase 2: systems, practices and lessons learned*, Oxford Policy Management.

3 Conclusion

Between November 2012 and March 2016, HSNP Phase 2 cost nearly KES 22.6 billion. This total comprises some KES 17.1 billion of cash distributed to recipient households, and about KES 5.4 billion in administrative costs to deliver it. At the moment of analysis, therefore, for every KES 1,000 delivered to households, the programme has spent about KES 320 to get the money to them (cumulative CTR = 0.32). As we would expect, the cumulative CTR has decreased over time. This is because the phase necessarily began with a long period of planning and registration of beneficiary households, an initial administrative cost that has been progressively offset over time against a larger total value of transfers delivered. The annual CTR also declined between FY 2013/14, when transfers began, and FY 2015/16, but then rose slightly from FY 2016/17 into FY 2017/18 as the cost of rolling re-registration raised the cost of administering the programme.

This is a necessary expense, as regular updates of the registration data are required to meet the objectives of the programme and, beyond that, to maximise the value of the registration data itself, which is (and should increasingly be) used by programmes other than HSNP. PILU envisage that rolling registration will be a more cost-efficient approach to maintaining more current and higher quality data than single mass registration exercises conducted every five years or so. There is thus a strong rationale to sustain a slightly higher CTR by incorporating ongoing registration activities into the routine administration of the programme. Over the longer term, NSNP should explore moving to a predominantly on-demand registration system, alongside outreach facilities to ensure those who are unable to respond to on-demand registration are not excluded, with clear rules for eligibility and periodicity of support for all its programmes. This should reduce the cost of delivering these programmes to a stable level, while providing the conditions for maximising the quality of service delivery.

Operational activities comprised the highest proportion of administrative costs as at March 2018 (50%), and their share in total expenditure will increase over time, since these are the costs of the day-to-day running of the programme after it has been set up. Within operational activities, the largest expenditure has been on case management (41%), a system that has been improved since the last costing study. Since then, HelpAge International's role has diminished while HSNP staff and local officials' roles have increased, and a number of new initiatives have been introduced, including a toll-free SMS and helpline number in late 2016 and a large communication campaign on grievance redressal conducted in early 2018. Roll-out activities make up another significant portion of administrative costs (27% of expenditure to date), given the intensive mass registration and enrolment activities that took place at the start of Phase 2, followed by continuous follow-up registration and enrolment activities undertaken to reach 100,000 routine recipient households (under the 'leave no-one behind' philosophy), followed by the introduction of rolling registration (currently ongoing).

The emergency payment mechanism has added about KES 751 million to programme administrative costs under Phase 2 (around 14% of total administrative costs), with over KES 3 billion disbursed to Group 2 households in transfers. The full cost of the emergency payments mechanism is no doubt under-represented here, with a corresponding over-representation of the cost of administering the routine transfers—because the cost of the mass registration is apportioned in these accounts wholly to the routine transfers, when an argument can be made that some of that should go to the emergency payments (although precisely what proportion is a matter of debate). Acknowledging this, it is important to consider the programme as a whole, first because it was conceived of and functions as a package of complimentary interventions, including the facility to support other programmes beyond HSNP, and second because it is in any case not possible to disentangle all administrative costs between routine and emergency payments, so the cost of each component will always reflect the assumptions used to distinguish these costs to a larger or smaller degree. Thus, while it is simple to distinguish the cost of transfers between routine and emergency payments, disaggregating the administrative costs in this regard is much more complex; nor is it necessarily instructive given that results inevitably reflect only whatever assumptions are used to do it.

How do these figures compare with other cash transfer programmes?

Several cash transfer programmes have published the ratio of their administrative expenditure to the amount disbursed. Programmes that have been running for several years, or that have very large numbers (millions) of beneficiaries, tend to report lower CTRs than those presented here for HSNP Phase 2. This is because their design costs are offset against a greater number of enrolments and/or payments. After three years of operation, in 2006 Brazil's *Bolsa Familia* programme was reaching 11 million households with an annual budget of US $5 billion. At this stage, its administrative budget was 4% of total spending, or around US $200 million per year. HSNP is unlikely ever to reach those economies of scale, because the number of households reached by the Brazilian programme exceeds the total number of households in Kenya. In some cases, also, programmes may appear cheaper because the implementer may not think of reporting its full running costs: for instance, a government may not cost the time of its staff, since it may view these as sunk costs that it would be paying regardless of whether the programme was in place.

Kenya's Cash Transfer Programme for Orphans and Vulnerable Children was evaluated for cost-efficiency during its pilot phase, when it operated with United Nations Children's Fund and DFID funding between 2006 and 2009. This may provide a more useful comparison. Over the three years, the programme was designed and rolled out in seven districts, starting with 500 beneficiary households and eventually reaching over 15,000. During this time, the programme spent US $9.96 million, of which US $4.91 million was disbursed to households and US $5.04 million was spent on administration, giving it a CTR of 1.03 (Ward *et al*., 2010).

OPM assessed the cost-efficiency of several emergency cash transfers implemented in Kenya between 2009 and 2011 (O'Brien *et al*., 2013). Oxfam's 18-month programme of support to 2,800 households experiencing food insecurity in Nairobi delivered US $565,000 of transfers at an administrative cost of US $362,000, yielding a CTR of 0.64. The design and set-up of the programme contributed to a substantial portion of the administrative costs; so, too, did the institutional arrangements—time spent establishing relationships and securing funding commitments from key stakeholders—and advocacy activities to raise awareness of the crisis. In contrast, SOS Children's Villages Kenya ran an eight-month emergency electronic food voucher programme for families in Marsabit in 2011–2012, with a CTR of 0.15. The low ratio was achieved in part because the value of each monthly transfer was very high (KES 6,000 in e-vouchers and KES 1,000 cash per month), offsetting the administrative costs, and in part because the payment provider heavily discounted its prices as it was keen to get experience in delivering emergency cash.

These reflections illustrate the pitfalls of trying to compare CTRs across different types of programme (with different objectives, delivery modalities, transfer values, etc.) and at different stages in their implementation history. For example, HSNP has built a database containing information on the whole population of four northern counties, both for the purposes of its own package of interventions and with the intention of facilitating other programmes by acting as an effective social registry. HSNP will necessarily increase its CTR accordingly, while lowering those of other programmes that piggyback on its infrastructure. More usefully, a programme may analyse changes in its own CTR over time, which should, at a given point, stabilise at an annual rate once all start-up costs have been completed, and as long as its core parameters remain the same (design of the intervention, transfer value, number of beneficiaries, etc.). In the case of HSNP, the emergency scale-up facility to respond to drought will always imply an oscillating CTR to some extent, dependent on the degree of drought suffered each year. Considering rolling multi-year averages may thus be useful to monitor the costs of administering the programme.

It is worth reiterating that a higher CTR, relative to other similar programmes, should not be interpreted by itself as meaning that any costs are too high and therefore wasted. There are several reasons for this. First, one of the primary drivers of the CTR is the stage in the programme's implementation at which the cost-efficiency study is undertaken, as it depends heavily on the number of transfers disbursed. In a year's time, the cumulative CTR for HSNP is likely to be lower than it is at present, continuing the downward trajectory shown in Figure 8. Any comparison of this CTR with that of other programmes would need to be made cautiously, as the respective timing of the studies in relation to the programmes they analyse is a major determining factor of their results.

Second, as discussed in Section 2.5, HSNP has the specificity of the emergency payments component, which is triggered in the event of a drought, releasing funds to additional households. The ideal scenario is for there not to be a drought, and

therefore for those households not to be in a position where they require extra financial assistance. This means that, for the emergency scale-up component, a 'high' CTR is in fact a good outcome. Similarly to an insurance scheme, one would hope to invest resources in setting up the system without ever having the misfortune to need a payout. From this perspective, a straightforward subjective consideration of whether the money has been well spent might provide more insights than an analysis of cost-efficiency.

Third, a programme with finite resources has to make a decision about the trade-off between the number of households enrolled and the amount of money given to each. A programme with half the number of beneficiaries, but delivering twice the transfer to each, will inevitably appear more cost-efficient. However, it might not be politically acceptable and would not achieve the same objectives. This demonstrates that pursuit of cost-efficiency alone is not necessarily advantageous; much depends on the objectives a programme is trying to achieve.

Fourth, the objective of HSNP Phase 2 is not just to deliver cash, but also to achieve human development outcomes, which could include complex activities (Ward *et al.*, 2010; Caldes *et al.*, 2014 a). The effectiveness of a programme is not always related to its cost-efficiency, and a higher administrative cost may be required to improve the human and social outcomes of the programme. Thus, the cost-effectiveness of the programme must also be considered. This is outside the scope of this analysis.[19]

Fifth and finally, HSNP has made a conscious effort to build a database containing information on the entire population of the counties in which it operates, to facilitate other programmes beyond its own package of interventions. In effect, HSNP has constructed what amounts to a nascent social registry, potentially reducing costs for multiple other interventions. This represents the potential to considerably increase value for money, albeit at the expense of raising its own administrative costs (thus giving it a higher CTR). Looking at the CTR alone would not account for this value and so is not advocated by the authors of this study. Instead, we advise analysing the CTR in conjunction with other considerations and as a tool to monitor the costs of a programme internally over time.

[19] A cost-effectiveness analysis may be possible if the impacts of the programme are assessed within a timeframe that allows the identification of a point in time at which the impact occurred, so that costs up to that point can be analysed.

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Annex A Activity timeline

Year		Month	Event
Calendar	FY		
2012	2012/13	Nov	Start of Phase 2 registration
		Dec	
2013		Jan	
		Feb	
		Mar	
		Apr	
		May	
		Jun	Registration completed
	2013/14	Jul	Registration data synchronisation
		Aug	Data cleaning/targeting
		Sep	Targeting
		Oct	Targeting
		Nov	Enrolment begins; beneficiary list finalised and given to Equity Bank
		Dec	
2014		Jan	Round 1: account opening and last Phase 1 payment cycle
		Feb	
		Mar	First Phase 2 payment
		Apr	
		May	
		Jun	Inception phase starts with DAI consortium and account opening completed; 46,000 accounts opened and Phase 1 arrears payment
	2014/15	Jul	
		Aug	
		Sep	Training on Operations Manual
		Oct	
		Nov	Round 2: account opening and Phase 1 arrears payment
		Dec	Induction of HSNP programme officers
2015		Jan	Account opening complete (300,000 accounts approx.)
		Feb	
		Mar	Phase 1 arrears payment
		Apr	
		May	
		Jun	Phase 1 exit payments
	2015/16	Jul–Sep	Comprehensive updates exercise
		Oct	
		Nov–Jan	Removal and replacement exercise
		Dec	Phase 1 exit payments

Year		Month	Event
Calendar	FY		
2016		Jan	ID registration
		Feb	ID registration
		Mar	NSNP pilot in Turkana
		Apr	Case Management System updates management taken over from HelpAge International
		May	NSNP harmonised registration pilot ends
		Jun	SMS query service, SMS mass communication
		Jul	
		Aug	
		Sep	Voice messaging mass communication
		Oct	Programme Officers, Programme Managers, and HSNP drivers move on NDMA contracts
		Nov	
		Dec	
2017		Jan	CMS (complaints and updates) taken over from HAI
		Feb	
		Mar	Pilot for toll-free SMS complaint registration
		Apr	Training in counties for registration teams
		May	Harmonised registration rolled out
		Jun	Harmonised registration, auto SMS feedback for feedback on cases
		Jul	Harmonised registration
		Aug	Harmonised registration
		Sep	Harmonised registration
		Oct	Harmonised registration
		Nov	Harmonised registration Collection of monitoring data by Programme Officers
		Dec	Start of comms campaign on case management Introduced a helpline through Infobip Introduced a web based complaint form Voice messaging rolled out Complaint registration through toll-free SMS number Harmonised registration
2018		Jan	Harmonised registration
		Feb	Harmonised registration stopped, but to resume again through NDMA support from April
		Mar	End of comms campaign on case management and other aspects of operations

Source: OPM, from discussions with PILU

Annex B Coding guide

The following section provides an overview of which costs have been included under each budget line in the analysis worksheets, and how they have been coded to specific activities. Between the first and second round of the costing study there was a change in accounting practices in PILU and NDMA, which has resulted in some changes in coding. Such changes have been highlighted separately below.

B.1 DOMESTIC TRAVEL

Includes airfares, *per diems*, and HSNP field expenses, as per PILU budget lines. Airfares and *per diems* for county staff, including *per diems* for Nairobi, have been reallocated to training/workshops as spent. All other airfare and *per diem* expenditure come under AIEs.

- Where, for Nairobi county travel, no reference can be found, classified under monitoring/reporting (assuming most field visits are for monitoring and reporting). Logically also assume that the trips will not be for case management or management, as the personnel responsible for that are already in the field.
- Airfares do not include international permits (permits are classified under staff).
- Expenditure under the following budget headings: (1) county expenses + (2) monitoring and evaluation expenses + (3) CT beneficiary registration (field expenses heading) are included in domestic travel as other expenses.

B.2 TRAINING AND WORKSHOPS

Includes air fares for county staff (County Drought Coordinator and County Commissioner) under airfares, as well as venue/organisation costs and *per diems* for county staff. These are coded according to the activity for which they were expended/purchased.

B.3 COMMUNICATION

Includes all expenses included under communication in PILU accounts, as well as courier costs. Website expenses for FY 2015/16 have also been included under communication. Those communication expenditures that cannot be classified to a specific activity have been coded against Management/administration. This particularly applies to communication expenses in FY 2017/18 due to changes in accounting. B.4 Office expenses

Office expenses are divided equally between all activities, except start-up and non-HSNP costs. Whether these expenses are divided equally between activities or divided according to staff time spent on each activity for the year the distribution of costs between activities remains largely the same.

- NDMA office supplies include all NDMA office costs, including refreshments and other expenses.
- Office supplies include printer toner, ink, printing paper, and stationery.
- PILU expenses include cash, repairs, other expenses, and refreshments.
- IT office supplies include internet and recurrent management information system supplies.
- Office support, including support staff wages, is included under staff.
- Field security falls under office expenses.

B.5 CAPITAL EXPENDITURE

- Capital expenditure has been classified as start-up costs, as these are one-time costs incurred by the programme.
- IT includes computer equipment and accessories, management information systems, software, firewalls, and licences.

B.6 VEHICLES AND FUEL

- Where no reference can be found for field trips/travel allowances, costs are classified under monitoring/reporting, as visits of staff from Nairobi to counties are usually for monitoring purposes.
- Fuel and rental services in Nairobi will be classified under management/administration.
- Vehicle insurance/vehicle repairs will be equally divided between activities.

B.7 COUNTY-LEVEL EXPENDITURE

- Unless otherwise specified, county expenditure is equally divided between case management, monitoring, and management and administration.
- Registration expenditure by GOK is classified under AIEs, unless specified in the accounts for any other item. For FY 2017/18, 83% of GOK registration expenditure is classified under registration and 17% under targeting, since one-sixth of time was spent on targeting and community validation.

B.8 PERSONNEL

- Interns were coded by activity.
- PILU support staff divided equally between the eight activities, excluding start-up.
- Staff timesheets were not recorded for FY 2016/17 and FY 2017/18. Staff time (both short- and long-term) during these financial years has been coded based on previous years' timesheets and an understanding of the major activities undertaken during this time.
- Long-term staff (NDMA under GOK, PILU under DFID—same budget line): costs start from FY 2013/14 for both PILU and GOK. For PILU staff, since timesheets are not available for FY 2012/13 and FY 2013/14, costs before July 2013 are not included to ensure any HSNP Phase 1 costs are not included in the costing analysis. HSNP Phase 2 work in FY 2012/13 was primarily carried out by the NGOs responsible for registration and short-term consultants. NDMA staff involvement only began in FY 2013/14.
- Short-term staff—DFID: these costs are only available from FY 2014/15 to FY 2017/18, although timesheets were only maintained for the first two years.
- Support staff are reclassified from office expenses in PILU accounts to personnel.
- Enumerators have been classified as short-term staff.

B.9 FSD EXPENDITURE

- Operational fees for Group 1: allocated under payments in operational expenses.
- Operational fees for Group 2: allocated under emergency payments.
- FSD management fee: from April 2016, accounts classify operational expenses as management fees. These have been divided between Group 1 and Group 2 based on the proportion of Group 1 *versus* Group 2 payments each year.
- Equity fixed overhead costs have been allocated under start-up costs.

- Infrastructure fees:
  - FY 2013/14: divided equally between payments and enrolment.
  - FY 2014/15: divided equally between enrolment, payment, and emergency payment.
  - FY 2015/16: divided equally between enrolment, payment, and emergency payment.
  - FY 2016/17: divided equally between enrolment, payment, and emergency payment.
  - FY 2017/18: divided equally between enrolment, payment, and emergency payment.

  This is because there were no emergency payments in FY 2013/14. Enrolment and regular payments have been carried out every year.
- Transfer fees:
  - these are divided between Group 1 and Group 2 payments, according to the proportion of total payments each of them constitutes; and
  - in the accounts, a large chunk of transfer fee payments shown as incurred in FY 2015/16 were probably incurred across FY 2013/4, FY 2014/15, and FY 2015/16.

B.10 IMPLEMENTATION EXPENDITURE BEFORE JULY 2014

- GOK expenditure only starts from FY 2013/14. This is coded under NDMA expenses, divided equally between seven activities (excluding start-up and emergency payments).
- There is no detailed budget breakdown for FY 2012/13 and FY 2013/14 from DFID—only lump sum amounts paid to NGOs for registration, but no details on how they were used.
- We assume DFID's evaluation expenditure includes HTSPE and OPM.

B.11 OTHER UNSPECIFIED IMPLEMENTATION COSTS

- These have been calculated as the difference between total expenditure on management by DFID and PILU staff and operational expenses. The proportion of total spending on staff has been specified by DFID (68% long-term staff, 9% short-term staff, and 22% other project expenses, including reimbursables).
- Other unspecified implementation costs are expected to include consortium management and other executive expenditure, including internal DFID expenditure on management and implementation of HSNP Phase 2.
- Between FY 2014/15 and FY 2017/18, other costs are calculated as the difference between PILU expenditure (including staff costs) and DFID's total expenditure on management and monitoring.
- For FY 2014/15, the management fees are divided between nine activities. For FY 2015/16, FY 2016/17, and FY 2017/18, the management fees are divided between eight activities (start-up is not included). For FY 2013/14, the management fees are divided equally between seven activities (start-up and emergency payments are not included).