Hunger Safety Net Programme

Evaluation of the Kenya Hunger Safety Net Programme Phase 2

HSNP Phase 2 Cost-Efficiency Analysis

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COST-EFFICIENCY ANALYSIS

Acknowledgements

This report has been prepared by Shweta Bahri and Clare O'Brien, both consultants in the social policy programme at Oxford Policy Management (OPM). It is one of several reports being produced as part of the Evaluation Component of the Hunger Safety Net Programme (HSNP). HSNP is financed by the Government of Kenya and the UK Department for International Development (DFID). Financing of the Evaluation Component is being provided by DFID.

The team would like to acknowledge the support and cooperation they have received from members at the HSNP's Programme Implementation and Learning Unit (PILU), Financial Sector Deepening Trust (FSD) Kenya, the Government of Kenya's National Drought Management Authority (NDMA) and HelpAge International during the course of this study. This cooperation was instrumental in helping us to collect and analyse the necessary cost data. Valuable inputs were also provided by Anthony Njage at DFID, Kenya.

Any errors in the report remain the responsibility of the authors.

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Abbreviations

AIE	Authority to incur expenditure
AusAid	Australian Aid
CTR	Cost–transfer ratio
DFID	UK Department for International Development
FSD	Financial Sector Deepening Trust
FY	Financial year
HSNP	Hunger Safety Net Programme
KSH	Kenyan Shillings
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 Kenyan Shillings (KSH), in line with PILU and the Government of Kenya's accounts. For reference, at present $1 (US) = 101 KSH, approximately. The exchange rate has fluctuated over the last few years and steadily increased from 85 KSH in early 2013 to 101 KSH today. Interpretation of reported expenditure in US$ must therefore be cautious.

1 Introduction

The Hunger Safety Net Programme (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, it 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 the Government of Kenya and the programme's largest funder, the United Kingdom Department for International Development (DFID), as implementation of the programme was brought into the government's National Drought Management Authority (NDMA). In 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 reviewed, revised and greatly expanded, with the intention of reaching 100,000 households (the 'Group 1' households, in HSNP's terminology). Remaining households were assigned to a separate group (Group 2) that had the possibility of receiving *ad hoc* financial support in the event of a drought emergency, thanks to a newly introduced 'emergency scale-up mechanism'. The value of the regular payments to households has increased annually to reflect increasing living costs.

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 are funds spent on? How do these costs compare with the amount of money that reaches recipient households? This report aggregates and summarises the operational costs of HSNP Phase 2 by activity. The study is intended to be retrospective, rather than forward-looking, in nature. It measures the actual costs, not the hypothetical future costs that might be incurred if the programme were to be scaled up or its design amended. The accuracy and level of analysis has been dependent on the data that were provided by the various HSNP Phase 2 funding and implementing agencies, which include the Government of Kenya (including the NDMA), the HSNP's Programme Implementation and Learning Unit (PILU), DFID, Financial Sector Deepening (FSD) Kenya—who oversee the distribution of the payment by Equity Bank—and HelpAge International, who have been involved in programme communication and the resolution of complaints and queries.

1.1 OBJECTIVE OF THE STUDY

Put simply, the objective of cost-efficiency analysis of cash transfer 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 to set up and deliver 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 as to how their money has been spent. It informs DFID and the Government of Kenya about how much the programme has cost to implement under Phase 2 to date, broken down by budget line and activity. This will be useful to estimate expenditure required for HSNP Phase 3, though such an estimation is outside the scope of this report. The analysis further provides a breakdown of expenditure by financing source 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 the Government of Kenya in considering programme sustainability if the level of donor funding is altered.

1.2 SCOPE OF ANALYSIS

1.2.1 Cost-efficiency vs. cost-effectiveness vs. cost–benefit analysis

There are three main types of value-for-money analysis, all of which have an interrelated but differentiated purpose.

- Cost-efficiency analysis looks at the cost of delivering a transfer of a particular size. It calculates the cost–transfer ratio (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 cash transfer programmes can also provide the unit costs of administering the cash transfer: 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 will be focusing on the cost-efficiency of HSNP Phase 2 using the CTR.

1.2.2 Types of cost

As stated in the HSNP Phase 2 inception report the study focuses on the financial, not economic, costs of the programme (OPM, 2015). 'Financial costs' refers 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 (OPM, 2015).

- 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 Government of Kenya staff at national and county level (which is not recorded in the PILU accounts) from financial year (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) [1]. The Government of Kenya's 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. This is 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 in nominal terms as the duration of the study is short.
- The costs of assets purchased are included in full during the year of purchase and not discounted over a number of years.

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

1.2.3 Timing

The study analyses all expenditure incurred for Phase 2 of HSNP. 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 that were incurred during the same time period. Hereafter in the report, HSNP will be used to refer to HSNP Phase 2 unless specified otherwise.

This report analyses HSNP cost data from November 2012 to March 2016. According to the Government of Kenya's calendar, this 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) and July 2015–March 2016 (part of FY 2015/16). Costs are analysed by financial year where relevant.

1.3 METHODOLOGY

OPM collected raw cost data from DFID, PILU, NDMA and FSD. PILU's accounts, which use software called 'QuickBooks', only begin from June 2014 and record both the Government of Kenya's and DFID's expenditure related to PILU. For cost data before June 2014 for FYs 2012/13 and 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 for FYs 2013/14, 2014/15 and 2015/16 (up to January 2016), 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.

FSD records the expenditure of Equity Bank and FSD. This includes 'infrastructure costs', 'operational costs' and 'transfer fees'. Infrastructure costs include set-up costs of buying equipment, setting up agents, bank cards and personalisation equipment. Operational costs refers 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 convert these figures into 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 money was spent on (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 in order to correctly code others. These assumptions were primarily based on the activity timeline (Annex A) and 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 interviews and emails. 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 need to be used for non-HSNP purposes.

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 the Government of Kenya. The government started contributing to HSNP in July 2013 and has made a commitment 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 the Government of Kenya. 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, though this was disbursed and managed through DFID. Thus, for the purpose of this analysis AusAid funding is classified under DFID as the financing source.

Some indirect support is also provided to HSNP by the World Bank under the National Safety Net Programme (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.

We start by presenting the total programme costs of HSNP Phase 2, in Section 2.1. The administrative costs are broken down by financing source (who provides the money) and by financing agent (who spends the money), in Section 2.2; and 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 below.

2.1 TOTAL PROGRAMME COSTS

Between November 2012 and March 2016 HSNP Phase 2 spent approximately KSH 11.38 billion implementing the programme in four counties in northern Kenya (see Table 2 below). **The majority of this expenditure, a little over KSH 8 billion, was on transfers to households enrolled in the programme, which accounts for 72% of total programme expenditure to date.** The remainder was spent on operations undertaken to set up the programme and to deliver the transfers to beneficiaries. **Thus, administrative costs account for 28% of known expenditure up to the end of March 2016.**

TABLE 2: TOTAL EXPENDITURE UNDER HSNP PHASE 2, NOVEMBER 2012–MARCH 2016, BY FINANCIAL YEAR (KSH MILLION), AND SHARE OF TOTAL (%)

Item	2012/13	2013/14	2014/15	2015/16[1]	Total	Share of total (%)
Transfers to recipients	-	1,265	3,620	3,257	**8,143**	72
Administrative costs	883	700	924	730	**3,237**	28
TOTAL EXPENDITURE	**883**	**1,965**	**4,544**	**3,987**	**11,380**	**100**

Source: OPM, from administrative data sources listed above plus own calculations. Note: (1) Expenditure for 2015/16 runs to March.

2.2 ADMINISTRATIVE COSTS BY FINANCING SOURCE AND FINANCING AGENT[2]

We now turn to the analysis of the KSH 3.2 billion of administrative costs and ask, 'Who provided these funds? And how is expenditure distributed among the agencies implementing the programme?'

The two main funders ('financing sources') of HSNP Phase 2 are DFID and the Government of Kenya. While DFID contributions began in 2012, with the roll-out of Phase 2 of the programme, the government's own expenditure started in FY 2013/14. Table 3 provides a detailed breakdown of their administrative costs. DFID has funded a little over KSH 3 billion, out of the KSH 3.2 billion total spent on programme administration to date. The remaining administrative costs were

[2] 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 is not a financing source, as its money is supplied by DFID.

covered by the Government of Kenya, at approximately KSH 160 million. Approximately 95% of administrative costs have been covered by DFID.

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

Financing agent	Responsibility	2012/13	2013/14	2014/15	2015/16	Total
Costs funded by DFID		*883.5*	*684.0*	*848.8*	*660.4*	***3,076.6***
NGOs	Registration process	883.5	117.5			**1,001.0**
FSD	Managing payments		272.1	461.2	198.7	**932.0**
HelpAge Intl.	Rights and grievances		240.3	181.8	241.5	**663.7**
PILU[2,3]	Operations / management		54.0	197.8	145.4	**397.2**
OPM[4]	External evaluation			8.0	74.7	**82.7**
Costs funded by Government of Kenya			*15.6*	*75.3*	*69.5*	***160.4***
NDMA	Staff costs		0.5	0.6	0.6	1.8
NDMA	Implementing unit operations		15.1	74.6	68.9	158.6
TOTAL ADMIN COSTS		883.5	699.6	924.0	729.9	3,237.0

Source: OPM, from administrative data sources listed above plus own calculations. Notes: (1) DFID's expenditure records for monitoring and management for FY 2015/16 were up to January 2016 at the time of writing. Thus, costs reported here are lower than what had actually been spent by March 2016. (2) PILU expenditure includes staff costs, operational expenditure and other unspecified costs; refer to Annex B to understand how these were calculated. It is not clear what the other unspecified costs relate to. It may be reasonable to assume that they include administrative fees paid to the consortium managing the implementation unit. (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 in FY 2013/14 are also included under PILU costs. (4) Smaller review pieces have also been commissioned independently by DFID: for example, a review of the targeting process. Clarity is needed from DFID on where this is accounted for.

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 till the last quarter of the year, and PILU set-up activities till the next financial year. So far, administrative costs have been highest in FY 2014/15, at approximately KSH 924 million. This is not surprising since set-up activities kicked off with the establishment of PILU in its current state in July 2014. Emergency payments were also introduced from this year. Costs shown for 2015/16 at the moment do not cover the full financial year: expenditure for the year should be approximately the same or higher than the previous year.

The single largest user of administrative costs over the four financial years has been FSD, which manages expenditure for itself and Equity Bank (Table 3). Its KSH 932 million expenditure to date includes operational costs and infrastructure fees, as well as the transfer fees, or commission, that are paid to the payment agents who disburse the transfers to recipients in the counties. FSD expenditure accounts for approximately 30% 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 21% of the DFID-funded administrative costs, while PILU's expenditure on operations and management accounts for about 17% of DFID administrative costs.

The Government of Kenya 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. Expenditure on implementing unit operations includes head office costs, AIEs to counties and fixed asset acquisition[3]. Expenditure on 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 which are not shown in the NDMA – HSNP accounts. Second, in order to calculate total AIEs, the amount *disbursed* to counties is recorded in PILU accounts, rather than actual expenditure. This can be updated once a breakdown by expenditure per county is provided by the NDMA for FYs 2013/14 and 2014/15.

2.3 ADMINISTRATIVE COSTS BY ACTIVITY

One of the main objectives of this cost-efficiency study is to understand what the KSH 3.2 billion of administrative costs incurred to date has been spent on. As stated in Section 1.3 above, there are four main categories of activity: start-up; roll-out; operations; and external evaluation[4]. 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. This component does itself comprise 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, in order to assist with identifying what the running costs of the HSNP might be in the absence of this mechanism. Table 4 breaks down administrative expenditure by these activities.

TABLE 4: ADMINISTRATIVE COSTS UNDER HSNP PHASE 2, NOVEMBER 2012–MARCH 2016, BY ACTIVITY (KSH MILLION AND %)

Activities	Expenditure (KSH million)					Share of total (%)
	2012/13	2013/14	2014/15	2015/16	Total	
Start-up	-	-	33	5	38	1
Roll-out	883	189	49	35	1,157	36
Registration	883	127	3	9	1,024	
Targeting	-	10	7	6	22	
Enrolment	-	52	39	20	111	
Operations	-	433	485	507	1,426	44
Payments	-	163	107	108	377	
Case management	-	250	241	308	798	
Monitoring	-	10	40	32	81	
Management	-	10	99	60	169	
External evaluation	-	-	8	75	83	3
Emergency payments[1]	-	77	348	108	534	16
TOTAL ADMIN COSTS	883	700	924	730	3,237	100

[3] The government's operational expenditure has been calculated using PILU accounting records for FY 2014/15 and 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 2013/14, PILU records do not exist and the final overall expenditure figure from the NDMA has been used. There is no breakdown for 2013/14 by head office, AIE and acquisition so these expenses have been classified under the NDMA office expenses budget line.

[4] This breakdown is in accordance 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.

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 cost of the emergency payment may therefore be slightly underestimated here.

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 be incurred during later years of the programme as well, due to staff turnover or changes in programme design. For HSNP Phase 2 start-up costs are fairly low, at 1% of total administrative costs. This is probably due to the fact that the analysis is for Phase 2 of the programme and the majority of the programme design occurred during Phase 1, apart from 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 FYs 2012/13 and 2013/14, which is when the registration and targeting methodology was designed for Phase 2[5]. Time spent on conceptualising and designing emergency payments has also been included in this category as it could not be distinguished in the accounts from other design work (see footnote to Table 4).

Roll-out costs make up 36% of all administrative costs (Table 4). Roll-out activities refers to activities undertaken to register, target and enrol beneficiaries in the cash transfer programme. The majority of this expenditure for HSNP Phase 2 was incurred in 2012/13 and 2013/14, when mass registration, targeting and enrolment for Phase 2 recipients were undertaken. As expected, roll-out expenditure decreased in later years, though it did not cease completely as rolling registration, targeting and enrolment activities were undertaken during the later years of the programme as well. Registration costs cover 88% of all roll-out costs[6].

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 (costs for which are shown in the 'enrolment' line in Table 4). In a first 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 'Group 2' households who might sometimes receive emergency payments. In 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. Efforts are currently taking place to reach and enrol 100,000 Group 1 households. A joint operation has been ongoing with the National Registration Bureau to provide identity cards to those without them, to make their bank accounts functional. A pilot registration programme also started in Turkana in March 2016, to test the new NSNP registration and targeting tool. Rolling registration using the new tool is expected to begin in October 2016 covering all four counties over the following 18-month period.

Ongoing operations comprise the largest share of total administrative expenditure to date, at 44% (Table 4). Operational activities refer to the day-to-day activities undertaken to implement the programme. Operations include payments, case management (dealing with complaints and updates), internal monitoring and management, and administration (Table 4). Operational costs begin from FY 2013/14 as there were no recipients enrolled in the programme before this time. PILU and NDMA staff at county and national level are engaged primarily in operational activities. In 2015/16, for instance, at the time

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

[6] Accounts for the NGOs conducting registration are not available so we have not analysed how these costs were spent.

of writing, PILU staff report having spent 44% of time on case management, 11 % on monitoring and 35% on management. NDMA staff time is dedicated to either management or monitoring activities over the three financial years (2013–2016).

Just over half of this operational expenditure (56%) is on case management. 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. It must be noted that in 2013/14 HelpAge International also spent part of its time and budget on roll-out activities, though it is not possible to calculate exactly how much. Thus, it is most likely that case management and hence operational costs are slightly overestimated, while roll-out costs are similarly underestimated.

External evaluation costs include payments being 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 in DFID accounts the costs related to these are classified.

2.3.1 The 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 horizontal expansion of the programme to reach additional households—from among the Group 2 households referred to above—in an area when conditions can be classified as severe or extreme drought. Emergency payments are triggered by thresholds based on data collected and calculations made for a Vegetation Condition Index (VCI) by the NDMA's early warning unit, which looks at the extent of vegetation cover as an indicator of drought[7]. As at March 2016, six tranches of emergency drought payments had been made. One transfer was also made in October 2015, owing to the risks from the El Niño extreme weather event. These transfers do not go to every Group 2 household, 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 mechanism builds on the start-up, roll-out and operational activities of the regular transfer. In particular, for HSNP, 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 it would 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 are, however, specific to the delivery of these emergency payments[8]. These include:

- the design of the payment mechanism. This is 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;

[7] For more details on the VCI and calculation of Group 2 beneficiaries refer to the Options paper on scaling up HSNP cash transfers, prepared by PILU in 2015.

[8] See 0 for details of the budget lines included in these costs.

- monthly analysis of data from the NDMA's early warning unit to calculate the VCI and decide whether the payment has been triggered;
- time spent by HSNP staff overseeing the implementation of the emergency transfer, and related travel expenses;
- communications activities, including to communities when the emergency payment was introduced and also at the time when it is triggered; and
- a share of general office expenses for administrative support.

Up to March 2016, the emergency payment mechanism had constituted 16% of administrative expenditure under HSNP Phase 2, at an estimated KSH 534 million (Table 4). This covers all the activities listed above, apart from the costs of technical assistance for design of the mechanism prior to April 2015, which could not be distinguished in the accounts from other consultancy activities until that date. The emergency payment mechanism takes advantage of the data collected routinely by the NDMA's early warning unit in order 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 the data are being collected anyway.

2.4 TRANSFER COSTS

We noted in Section 2.1 that, as at March 2016, KSH 8.14 billion had been disbursed to households under HSNP Phase 2. Most of the expenditure on transfers—just over KSH 7 billion—has been paid to the Group 1 households, who receive the routine transfer (Table 5).

The sum paid to recipient households increases at the start of each financial year in line with inflation. In 2013/14 the transfer for Group 1 recipients stood at KSH 4,700 per household per bi-monthly transfer (equivalent to KSH 2,350 per month). In July 2014 this increased to KSH 4,900, and in July 2015 it increased again to KSH 5,100. The transfer for Group 2 households is the same, but they may only receive a transfer for a single month, rather than the bi-monthly amount, depending on the number of months in which it is considered that there is a drought.

TABLE 5: TRANSFERS TO HOUSEHOLDS UNDER HSNP PHASE 2 TO MARCH 2016, BY RECIPIENT GROUP AND FINANCIAL YEAR (KSH MILLION)

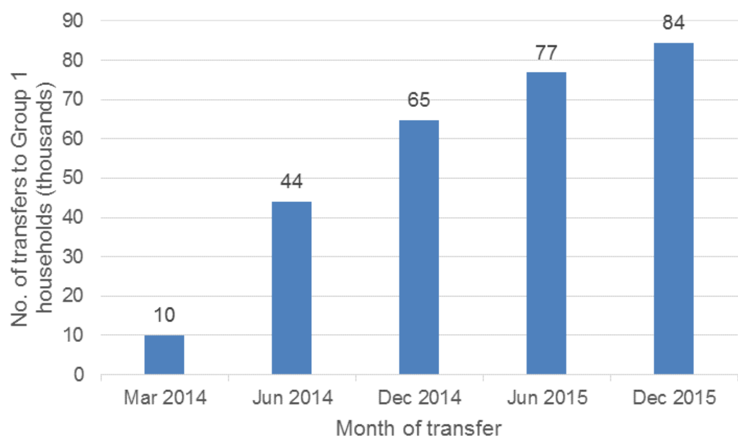
County	2013/14	2014/15	2015/16 (to Mar)	Total
Group 1 recipients	1,265	3,108	2,690	7,064
Mandera	304	651	523	1,478
Wajir	273	546	623	1,442
Marsabit	50	881	556	1,487
Turkana	638	1,030	989	2,657
Group 2 recipients	-	513	567	1,080
Mandera	-	140	123	263
Wajir	-	269	169	438
Marsabit	-	91	81	172
Turkana	-	12	194	206
TOTAL TRANSFERS	1,266	3,620	3,257	8,142

Source: PILU.

COST-EFFICIENCY ANALYSIS

By March 2016, 84,623 households had been reached as part of Group 1. The first HSNP Phase 2 transfer was made to Group 1 households in March 2014. Seventeen bi-monthly transfers had been made to Group 1 beneficiaries up to March 2016, which involved approximately 788,000 transfers to households[9]. Enrolment of Group 1 beneficiaries has been ongoing through the course of HSNP Phase 2. Figure 1 below 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 an increase in the number of recipients. This trend is expected to continue till the target of 100,000 Group 1 households is reached. At the time of writing serious efforts are underway to reach this target, by tracing households that have never activated their accounts or collected their funds. The number of households with active accounts will be an important consideration when determining funding requirements for Phase 3 of the programme.

Figure 1: Transfers to Group 1 households (thousands)



Source: PILU.

Group 2 transfers, including both the emergency drought and El Niño payments, constitute the remaining 13% of transfers disbursed to date, at just over KSH 1 billion (Table 5). As noted above, there have been seven emergency payments to date: six emergency drought payments and one El Niño payment. These comprise over 400,000 transfers to households.

The payments to households are funded partly by the Government of Kenya, and partly by DFID (Table 6). As at March 2016 the Government of Kenya had contributed some 19% of the total cost of the transfers, all for Group 1 households. All emergency transfers, to Group 2 households, are financed by DFID.

TABLE 6: TRANSFERS TO HOUSEHOLDS UNDER HSNP PHASE 2 TO MARCH 2016, BY FINANCING SOURCE AND FINANCIAL YEAR (KSH MILLION)

Financing source	2013/14	2014/15	2015/16 (to Mar)	Total	Share of total (%)
DFID	1,053	3,054	2,457	6,564	81
Government of Kenya	213	566	800	1,579	19
TOTAL TRANSFERS	1,266	3,620	3,257	8,143	100

[9] As per the HSNP programme design six Group 1 transfers must be made each year.

Source: PILU.

Financing for transfers by both the Government of Kenya and DFID has been increasing every year. FY 2015/16 figures shown are less than the previous year as FY 2015/16 is incomplete at the time of writing: the Government of Kenya's approved budget for transfers for FY 2015/16 is KSH 1.1 billion, of which only KSH 800 million (72%) had been spent by March. Phase 3 of HSNP has plans for progressive handover to the government and this expenditure increase has to be accounted for. Funding plans for Group 2 payments will also need to be considered by the government.

2.5 COST-EFFICIENCY

2.5.1 The CTR

We have seen that during the first three and a half years across which HSNP Phase 2 has been implemented, up to March 2016, some KSH 8.14 billion has been disbursed as transfers, and administrative costs of approximately KSH 3.27 billion have been incurred. **This means that for every 1 KSH received by a household so far under Phase 2, the programme has spent 0.4 KSH in delivering it; this is the CTR of the programme** (Table 7).

TABLE 7: CTR UNDER HSNP PHASE 2 TO MARCH 2016, BY FINANCIAL YEAR

	2012/13	2013/14	2014/15	2015/16	Total
Administrative costs (KSH million)	884	700	924	730	**3,237**
Total transfers (KSH million)	-	1,265	3,620	3,257	**8,142**
Therefore CTR:					
CTR (single year)	n/a	0.55	0.26	0.22	
CTR (cumulative)	n/a	1.25	0.51	0.40	**0.40**

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

It is natural for the cumulative CTR of a stable long-term cash transfer programme to decrease with each year of its operation, as it does here. There were no transfers for the first year and a half of Phase 2 since the focus was on registering, targeting and enrolling beneficiaries in the programme. The decrease in the CTR—from 1.25 to 0.40—is primarily because the early set-up and roll-out costs are progressively offset by the increase in the total value of the transfers disbursed, which is line with lessons from other cash transfers (Ward *et al.*, 2010; White *et al.*, 2013). It is very important to recognise, then, that the CTR of 0.40 is not the 'final answer' as to how much it costs to deliver a programme like HSNP: this value will keep declining as the programme continues to disburse cash, provided that new one-off costs are not incurred. In contrast, the planned re-registration exercise to be undertaken this year will add to the overall administrative costs[10].

The effect of the emergency payment mechanism on overall cost-efficiency bears careful consideration, 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 would be 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 it ever needing to make a pay-out. So, to the extent that the payment is determined by the weather,

[10] For analytical purposes this would be likely to be counted as part of the roll-out of a Phase 3, rather than part of the cost of administering HSNP in its current Phase 2 form.

HSNP cannot be considered to be inefficient for 'failing' to pay emergency transfers. This contrasts with the situation for a routine long-term cash transfer, 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, in Table 8 we present the CTR for the emergency payment mechanism alone. It is a little higher than the CTR for the programme as a whole, though not by much: **to deliver 1 KSH of emergency transfers to recipients it has cost the programme 0.49 KSH.**

TABLE 8: CTR FOR EMERGENCY PAYMENTS

	Value
Administrative costs—Emergency payments (KSH million)	534
Total transfers to Group 2 (KSH million)	1,079
Therefore CTR:	0.49

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.

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 can cite two examples for consideration. First, the number of Group 2 households is considerably larger than those in Group 1. The administrative costs of Group 2 could, in principle, have been reduced by enrolling fewer households, but this would defeat its objective of creating a database that can serve as a resource for future emergency programmes—even those not run by HSNP—to use, without having to undertake their own registration process. Second, since the maximum number of recipients of the transfer in an extreme drought is 75% of all households in affected areas, it is clear that 25% will never receive any transfer under HSNP. 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? These are entirely subjective assessments which a 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. This indicator may not be very relevant in the case of HSNP, because for Group 1, HSNP's records appear to count a bi-monthly payment as one transfer, while for Group 2 households, it considers a single monthly payment to be a transfer. We are seeking clarification from HSNP on this distinction as the value of the transfer to both groups is the same.

Taking the number of transfers directly from HSNP's records in this way, we find that by the end of March 2016 HSNP had therefore issued about 1.2 million transfers: almost 790,000 (double payments) to Group 1 households, and just over 430,000 single-month payments to Group 2 households. Dividing the KSH 3.23 billion of administrative costs by this number results in an administrative cost of KSH 2,654 for every transfer delivered. The unit costs per transfer appear much higher for Group 1 than for Group 2 because the number of transfers is half what one might expect. A small proportion of the unit cost depends on the value of the transfer itself, as it consists of commission to the pay agent. Most of the unit cost, though, 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 the size of the transfer.

3 Conclusion

We have seen that between November 2012 and March 2016 HSNP has cost nearly KSH 11.4 billion under Phase 2. This comprises some KSH 8.1 billion of cash distributed to recipient households, and about KSH 3.2 billion in administrative costs to deliver it. This means that, at the moment of the analysis, for every KSH 1,000 delivered to households the programme has spent about KSH 400 to get the money to them (cumulative CTR = 0.40). As we would expect, the CTR has been decreasing each year. This is because the phase necessarily began with a long period of planning and re-registration of beneficiary households, an administrative cost that becomes more efficient over time as the registered households receive more transfers and that initial expense is offset against a larger total value of transfers.

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 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 of Brazil's *Bolsa Familia* programme (in 2006) it was reaching 11 million households, with an annual budget of $5 billion. At this stage its administrative budget was set at 4% of total spending, or around $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. Meanwhile, in some cases 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 whether or not 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 $9.96 million, of which $4.91 million was disbursed to households and $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 that were 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 $565,000 of transfers at an administrative cost of $362,000, giving 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 2011–12, with a CTR of 0.15. The low ratio was achieved in part because the value of each monthly transfer was very high (KSH 6,000 in e-vouchers and KSH 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.

Operational activities comprised the highest proportion of administrative costs as at March 2016 (44%), and their share in total expenditure will increase over time since these are the costs of the day-to-day running of the programme once it has been set up. Within operational activities the largest chunk of expenditure has been on case management, a process which is under review by HSNP at the time of writing. Roll-out activities also make up a significant proportion of administrative costs (36% of expenditure to date), given the intensive registration and enrolment activities that have been—and are still being—undertaken to reach 100,000 routine recipient households. By March 2016 the programme had reached about 85,000 of its target households. It is reasonable to expect that the effort to 'leave no-one behind', by tracking down the final intended beneficiaries, will add to both the total cost and the average cost of enrolment. In future, this expenditure could be expected to become more stable once the NSNP tool is used for continuous enrolment from later this year.

The emergency payment mechanism has added about KSH 534 million to programme administrative costs under Phase 2, with about KSH 1.1 billion disbursed to Group 2 households.

It is worth reiterating that a higher CTR, relative to other similar programmes, should not be interpreted by itself as meaning any costs are too high and therefore wasted, for several reasons. 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 that we saw in Table 7. Any comparison of this CTR with that of other programmes would need to be cautious as the respective timing of the studies in relation to the programmes they analyse is a major determining factor of their results.

Second, as we 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 are requiring extra financial assistance. This means that, for the emergency scale-up component, a 'poor' 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 pay-out. 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 a finite amount of 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. We are not advocating this as a strategy, but simply demonstrating that pursuit of cost-efficiency alone is not necessarily advantageous.

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 maybe 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[11].

[11] 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.

References

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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 + last Phase 1 payment cycle
		Feb	
		Mar	First Phase 2 payment
		Apr	
		May	
		Jun	Inception Phase starts with DAI consortium + account opening completed – 46,000 accounts opened) + Phase 1 arrears payment
	2014/15	Jul	
		Aug	
		Sep	Training on Operations Manual
		Oct	
		Nov	Round 2 – Account opening + 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
2016		Jan	ID Registration
		Feb	ID Registration
		Mar	NSNP pilot in Turkana

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.

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 as 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 personnel responsible for that are already in the field.
- Airfares do not include international permits (permits are 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 (CDC and CC) from under airfares, as well as venue/organisation costs and per diems for county staff. These are coded according to the activity they were expended/purchased for.

B.3 COMMUNICATION

Includes all expenses included under communication in PILU accounts, as well as courier costs. Website expenses for 2015/16 have also been included under communication. Those communication expenditures that cannot be classified to a specific activity have been coded against Management / Admin.

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 – printer toner, ink, printing paper, stationery.
- PILU expenses include cash, repairs, other expenses and refreshments.
- IT office supplies – internet and recurrent management information system supplies.
- Office support – including support staff wages is included in staff.

- Field security falls under office expenses.

B.5 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 system + software + firewalls and licences.

B.6 VEHICLES AND FUEL

- Where for field trips / travel allowances no reference can be found, costs are classified under monitoring / reporting as visits of staff from Nairobi to counties are usually for monitoring purposes.
- Fuel, rental services in Nairobi will be classified under management / admin.
- 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.

B.8 PERSONNEL

- Interns were coded by activity.
- PILU support staff divided equally between the eight activities, excluding start-up.
- Long-term staff (NDMA under Government of Kenya, PILU under DFID – same budget line). Long-term staff costs start from FY 2013/14 for both PILU and Government of Kenya. For PILU staff, since timesheets are not available for FY 2012/13 and 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 for FYs 2014/15 and 2015/16.
- Support staff is reclassified from office expenses in PILU accounts to personnel.

B.9 FSD EXPENDITURE

- Operational fees for Group 1 – allocated under payments in operational expenses.
- Operational fees for Group 2 – allocated under emergency payments.
- Infrastructure fees:
  - 2013/14: divided equally between payments and enrolment.
  - 2014/15: divided equally between enrolment, payment and emergency payment.

  - 2015/16: divided equally between enrolment, payment and emergency payment.

  This is because there were no emergency payments in 2013/14. An element of enrolment and regular payments has 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.
  - All of the transfer fee payments are shown as incurred in 2015/16 but these were probably incurred across 2013/4, 2014/15 and 2015/16.

B.10 IMPLEMENTATION EXPENDITURE BEFORE JULY 2014

- Government of Kenya 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 2012/13 and 2013/14 from DFID – only lump-sum amounts paid to NGOs for registration but no details on how that was used.
- Assuming the DFID's evaluation expenditure includes HTSPE and OPM.

B.11 OTHER UNSPECIFIED IMPLEMENTATION COSTS

- For 2014/15 and 2015/16, this is the difference between PILU expenditure and DFID's total expenditure on management and monitoring.
- For 2014/15 the management fees are divided between nine activities. For 2015/16, between eight (start-up is not included); and for 2013/14, divided equally between seven activities (start-up and emergency payments are not included).