



unrwa
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DRAFT

PROJECT PROPOSAL

**Activity Based Costing
for UNRWA**

UNRWA PROJECT CODE: XXXXXX

LOCATION: Amman

DURATION: Six Months

BACKGROUND

UNRWA provides an array of services to meet its mandate to provide assistance to Palestine refugees. Such services include the provision of education, health, relief and social services, camp improvement and infrastructure, and microfinance. Through its management reform programme, entitled “Organisational Development (OD)” (undertaken between 2007 and 2009), UNRWA introduced a series of programme support mechanisms to improve its approach to programme development. As part of OD, UNRWA developed a Medium Term Strategy (MTS) and introduced Programme Cycle Management tools and processes to enable planning in accordance with clearly defined objectives defined in the MTS.

Despite significant improvements made to its programme planning capacity, the Agency acknowledges that further reforms are required in this area. As of now, the Agency has not been able to fully cost the MTS and does not have a comprehensive list of its disaggregated activities. Furthermore, part of the spectrum of activities carried out by the Agency are not quantified by clear performance metrics. As such, the Agency is keen to undertake an Activity Based Costing exercise. This exercise will allow the Agency to demonstrate where it currently provides services in a cost-efficient manner, and, importantly, identify further areas where cost effectiveness may be achieved. Furthermore, the Agency is keen to compare the cost-effectiveness of its service delivery with that of host countries.

RATIONALE

To further improve programming, an Activity Based Costing exercise would benefit the Agency by addressing information gaps present in its suite of activities and providing the basis for a more comprehensive understanding of cost allocations for such activities. Such information will enable UNRWA to identify efficiencies within service delivery and to assess areas for improvement in Agency support functions. .

A detailed and professionally constructed Activity Based Costing model would provide the Agency with:

- a) A clearer understanding of UNRWA's suite of activities;
- b) Information to liaise with donors and other interested parties on a regular (ideally monthly or at least quarterly) basis. Such information would include expenditure reports, performance metrics associated with listed activities, and full costing of all activities; and
- c) An agreed listing of activities and associated performance metrics and costs which will be used in the update of Field Implementation Plans (FIPs), Headquarter Implementation Plans (HIPs) and the MTS.

A fully costed MTS and the availability of comparable data from host governments will enable the Agency to advocate for the most efficient and effective use of funding to serve Palestine refugees. Furthermore, the project will allow the Agency to refine current and envisaged programme and management reforms and will feed into future biennium budgets.

PROJECT DESCRIPTION

The Activity Based Costing exercise has three interrelated components, all to be addressed during three stages of delivery.

First, the exercise will address the lack of information regarding ongoing service delivery by UNRWA. To this end, a **financial model** will be developed, thus enabling the Agency to list its discrete activities, align such activities with performance metrics, and cost all activities.

Second, the exercise will assess the **total cost of the MTS**. This will facilitate future programming of resources.

Third, the exercise will assess **comparative costs** of service delivery between UNRWA and host governments (or if not available with governments of middle income countries).

During the **first stage**, the main focus will be to clearly define the main activities of UNRWA that need to be costed, and to assess the information already available. To define activities, a thorough review will be conducted to improve existing performance definitions. The project team will use the reform documentation as a starting point, and meet with all relevant stakeholders in headquarters and the fields.

During the **second stage**, once the activities have been clearly defined the project team will be able to assess which costs can be allocated to the main activities. The activities selected can then be used to assess what it would take to bring the quality and quantity of delivery up to the standard described in the MTS and to assess the impact of salary increases on the total cost of delivery. The activities will also be used to identify comparable activities in government service delivery.

In the **third stage** the information generated will be used to build a module in the Agency current information management system, RAMCO. This module will hard code the information into the system so that managers within UNRWA can assess quickly the total cost of activities.

The exercise will **draw extensively on the work already conducted during the reform process** in UNRWA, including the reviews of health, education and relief and social services. The project will also consider previous attempts made to understand cost structures of service delivery in the Agency.

The Activity Based Costing exercise will have **three main deliverables**:

- 1) An extension to the Financial Management System which would allow for hard coding of support costs into the system. The cost of all activities will balance back to the aggregate General Fund costs as reported monthly in the General Ledger. This extension will address the issues of: (a) comprehensive identification and definition of the suite of UNRWA activities; (b) identification and calculation of the performance metrics of the suite of activities; and (c) calculation of the full absorption cost of UNRWA activities. It is planned that the outcomes of the Activity Based Costing Model would be reported each month.
- 2) A documentation of methodologies used to develop Activity Based Costing, to cost the MTS and to develop cost comparisons, and
- 3) A final report will provide a clear analysis of the deliverables associated with the main activities of UNRWA and the associated costs, describe the annual cost of delivering the MTS and compare the cost of main activities in UNRWA with the cost of host governments.

ASSUMPTION AND RISK MANAGEMENT

The project is an integral part of continued reforms in UNRWA. It should be noted that an exercise of this complexity and scale has never been undertaken in UNRWA, and therefore will be a considerably challenging endeavour. Further challenges are foreseen given the size and scope of UNRWA and the limited IT systems presently available in the Agency. The Agency will also need to work closely with host governments to ensure that desired comparisons in service delivery can be produced. If relevant information is not available, the comparison will have to use similar middle income governments.

PROJECT MANAGEMENT

The project will be implemented by a small multidisciplinary team lead by a project manager, who will also be the lead expert. The team will consist of the project manager (an expert in Activity Based Costing in public service; full time), two sector specialists that will liaise with fields and headquarters departments to understand the cost structure of UNRWA service delivery (full time), a model builder (four month), and a RAMCO consultant (two month). An off-the-shelf Activity Based Costing Model will also need to be purchased. The team will have its own administrative support to allow effective delivery of results. Given that the expertise sought is highly specialized and that there is some uncertainty regarding the availability of data both internally and externally a significant contingency should be included in the budget.

The team will be based in the Programme Coordination and Support Unit to ensure a close link with overall programming efforts, and will closely liaise with the Finance Department and the ERP team / Information

Service Department, as well as with all field offices and headquarter departments. The team will report regularly to the Executive Office. The full time team members will need to travel to all of UNRWA areas of operation to assess the methodology of service delivery at the field level.

SUSTAINABILITY

The proposed project will develop tools and methodologies for improve planning and advocacy for UNRWA. During the lifetime of the project, the team will be expected to document approaches and methodologies used. These approaches and methodologies, where sound, may be used by the Agency for similar future interventions. With the improved capacity in planning, budgeting and advocacy, it can be reasonably expected that the improvements introduced during the project will be maintained and expanded.

CROSS CUTTING ISSUES

While the project will not specifically address crosscutting issues; there is a significant indirect effect supporting the integration of crosscutting issues. With full Activity Based Costing, it will be possible to assess the cost effectiveness of interventions to mainstream crosscutting issues with greater accuracy.

ANNEX I: LOGFRAME

INTERVENTION LOGIC	INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
Goal: Improving cost efficiency of the UNRWA service delivery	UNRWA presents advocacy material with a comparative analysis of the UNRWA cost structure and that of Governments in similar situations	ERCD material	Cost efficiency can be demonstrated Donor Agenda will continue to be driven by cost efficiency
Outcome(s): 1. UNRWA can clearly articulate its cost structure	UNRWA is able to present a revised cost structure. The FMS will provide Activity Based Costing	Financial Management System	UNRWA will continue to deliver roughly the same type of services in the future This initiative will have the full support of UNRWA management
Project Output(s) 1.1. Costed suite of activities 1.2. Total cost of existing MTS 1.3. Cost comparison with other providers in the Region and worldwide	UNRWA core activities have been costed according to Activity Based Costing	Project documentation	Access to costing Ability to generate meaningful data from the FMS
Project Activities:			
1.1.1. Define a comprehensive list of UNRWA activities 1.1.2. Assess existing models in the Agency 1.1.3. Cost (full absorption costing) all activities 1.1.4. Build model to link to ERP 1.2.1. Define the quality enhancements described in the MTS and the reform agenda 1.2.2. Cost quality enhancements 1.2.3. Cost salary increases and inflation 1.3.1. Collect data on delivery of similar service units in the region and worldwide 1.3.2. Select the most appropriate comparison			

ANNEX II: WORKPLAN

REF.	ACTIVITY	TIME FRAME					
		M1	M2	M3	M4	M5	M6
1.1.1.	Define a comprehensive list of UNRWA activities	■					
1.1.2.	Assess existing models in the Agency	■					
1.1.3.	Cost (full absorption costing) all activities		■	■	■	■	■
1.1.4.	Build / adapt model to link to ERP			■	■	■	■
1.2.1.	Define the quality enhancements described in the MTS and the reform agenda		■				
1.2.2.	Cost quality enhancements			■	■		
1.2.3.	Cost salary increases and inflation			■	■		
1.3.1.	Collect data on delivery of similar service units in the region and worldwide				■	■	
1.3.2.	Select the most appropriate comparison						■

ANNEX III: PROJECT BUDGET BREAKDOWN

Description	Amount USD
Project Manger (1 person full time six month)	80 000
Liase with Field and Headquarters departments to define list of activities (2 persons full time six month)	150 000
Activity Based Costing Model	60 000
RAMCO consultant (2 month)	30 000
Travel / Administrative support	45 000
Contingency	38 000
Total	403 000

united nations relief and
works agency for palestine
refugees in the near east

unrwa amman headquarter
bayader wadi seer
p.o. box 140157
amman 11814
jordan

t +962 6 5808100

f +962 6 5808335

www.unrwa.org