

# PROGRAM CYCLE

## ADS 201 Additional Help COST ANALYSIS

### Policy

The Automated Directives System (ADS) establishes the requirements regarding evaluation. [ADS 201.3.6.4](#) specifies that, "*all impact evaluations<sup>1</sup> must include a cost analysis of the intervention or interventions being studied.*" This additional help defines cost analysis and its purpose and identifies resources to help Operating Units (OUs) comply with the requirement.

### What are cost and cost analysis?

Cost is the monetary value of all resources required to develop and implement an intervention. These include funding from USAID, funding from partners, the value of in-kind contributions to the intervention, or the costs of program participation paid by beneficiaries. Cost is different from expenditure, which refers to the amount of monetary resources spent, and from price, which is the monetary value exchanged in a market transaction for one unit of a good or service.<sup>2</sup> *Cost analysis* is a framework for systematically examining the costs of carrying out an intervention or activity within a given timeframe. Cost analysis requires cost data on all the inputs to launch and run an intervention.

### Why pair cost analysis with impact evaluations?

While an impact evaluation can measure a specific set of outcomes attributed to an intervention, additional information is needed to determine whether those outcomes were worth the resources needed to achieve them. Cost analysis is useful for comparing the costs of alternate programmatic approaches, and when paired with an impact evaluation, allows for cost-effectiveness analysis. Cost-effectiveness analysis

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<sup>1</sup> As per [ADS 201](#), impact evaluations (IEs) are evaluations that measure the change in a development outcome that is attributable to a defined intervention and requires a credible and rigorously defined counterfactual to control for factors other than the intervention that might account for the observed change. An intervention is a specific action that takes place under an activity, typically performed by an implementing partner.

<sup>2</sup> Walls, Elena, Caitlin Tulloch, and Christine Harris-Van Keuren. 2021. Cost Analysis Guidance for USAID-Funded Education Activities. Washington, DC: United States Agency for International Development ([link](#)).

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*Program Cycle Additional Help documents provide non-mandatory guidance intended to clarify [ADS 201](#). Curated by the Bureau for Policy, Planning and Learning (PPL), these may include "how-to" guidelines, templates, and examples of best practice.*

calculates the change in outcomes measured via an impact evaluation (for instance, an increase in fertilizer use or in student literacy) per input used in the intervention.

### Why does USAID do cost analysis?

Cost analysis allows USAID to:

- **Identify cost drivers.** Cost analysis of evaluated interventions or activities can help USAID identify expenditures that are key to driving impacts and those that are not.
- **Improve resource allocation.** When cost drivers are known, USAID can use alternative ways to deliver the same level of intervention with fewer resources. Cost analysis can also help USAID to project the cost of scaling an intervention or to allocate funding based on an assessment of what is needed to achieve impact.
- **Inform future interventions.** When cost analysis is integrated with impact evaluation, it helps USAID determine whether an outcome that is statistically significant is worth the investment required to achieve it. When multiple cost-effectiveness analyses are available, staff can compare different approaches and select those that represent better value for money.
- **Support partner government funding decisions.** A detailed cost analysis can help partner governments and other stakeholders determine the level of resources required to obtain specific outcomes through a particular programmatic approach.

### What do we need to conduct a cost analysis in an impact evaluation?

1. **High-quality, disaggregated cost data:** Cost analysis requires reliable data that should be collected in real-time during the activity implementation. Cost data should be disaggregated in categories relevant for the cost questions being asked and include ingredient-level details (e.g., labor, travel, materials). As part of a bespoke activity design process, Activity Planners should ensure that cost reporting considerations, in addition to details of interventions and contributions, are addressed in the programmatic reporting requirements. Including cost analysis objectives is helpful for informing the cost data collection plan. Activity planners should include expectations for reporting on volunteer time and third-party contributions to the intervention implementation, as well as the beneficiary time, as part of cost data reporting. Agency staff should review the cost collection and reporting approach during the start-up of the activity and validate it against the impact evaluation questions and their cost components.

2. **Details of the intervention:** Cost analysis requires details of the intervention implementation (schedule of implementation, participant costs, dosage, etc.) that is being evaluated. The evaluator may need to differentiate costs of developing the intervention from the costs of implementing it at scale. Comparing costs of alternative approaches will require consistency in data collection across different interventions in different contexts.
3. **Resources:** When planning an impact evaluation, it is essential to ensure that the implementation award includes cost data collection and reporting requirements, to allow for the appropriate planning and resourcing of such data collection. Additionally, the evaluation budget must include resources for cost analysis as a separate line item.

To ensure that the evaluation team has the skills to do the cost analysis, USAID staff should require that the cost analysis be addressed in the evaluation's Statement of Work and is part of the technical scoring criteria. Alternatively, the cost analysis can be procured separately [using an available buy-in mechanism](#).

### **Where can I find USAID resources on cost analysis?**

For a list of internal and external resources, visit the [USAID Cost Working Group Resources document](#). For more information on this requirement please email [mande@usaid.gov](mailto:mande@usaid.gov).

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