

Guidelines on the use of cost analysis in impact evaluations

-Inspired by USAID's policy: ADS 201 Additional Help: - Cost Analysis ([usaid.gov](https://www.usaid.gov))

Impact evaluations financed by Norad must generally include a *cost analysis*. Below we specify what a cost analysis is and why it contributes to better knowledge.

What are costs and cost analysis?

Costs in a development program are the monetary value of all resources required to develop and implement an intervention. These include funding from Norad and other partners, the value of in-kind contributions, and costs paid by beneficiaries. Cost is different from expenditure, which only refers to the amount of monetary resources spent. A *cost analysis* should systematically examine all the costs of carrying out one or more interventions within a given time frame, associated with both launching and running an intervention.

Why are cost analyses so important in impact evaluations?

While an impact evaluation can measure a specific set of outcomes or effects attributed to an intervention, additional information is necessary to determine whether the measure provided good value for money, often referred to as effect per dollar or cost-effectiveness.

Cost analyses are valuable because they allow us to:

- *Identify cost drivers.* They can help us identify expenditures that are key to driving impacts and those that are not.
- *Improve resource allocation.* Once the cost drivers are known, we can look for alternative ways to deliver the same impact with fewer resources. That is, we can make better priorities.

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

1. *High-quality, disaggregated cost data:* Cost analyses require reliable data that should be collected in real-time during the implementation of an intervention. The data should be disaggregated into categories relevant for the questions asked.

2. *Details of the intervention:* Cost analysis requires details about the implementation of the intervention being evaluated (schedule, participant costs, dosage, etc.). One may need to differentiate between costs of developing the intervention and 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 important to emphasize the need for cost data collection and reporting requirements in the Terms of reference (ToR) and to ensure that this is reflected in the budget. To ensure that those conducting evaluations have the skills to do cost analyses, this requirement should be included in the ToR.