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HOW-TO NOTE

Preparing a Project-Level Cost Estimate

Planning Series

This Note is a practical approach to developing a project-level Cost Estimate.

INTRODUCTION

This "How-To" note provides a suggested practical approach for undertaking a project-level Cost Estimate, a mandatory annex to the Project Appraisal Document (PAD). Unlike an award-level Independent Government Cost Estimate (IGCE) required for acquisition and assistance (A&A) instruments, the project-level Cost Estimate is less detailed and includes multiple mechanisms, as well as other resources critical to achieving the project purpose. The inclusion of multiple mechanisms reflects the broadened scope of a USAID project. The ultimate product is a preliminary but reliable estimate of project funding requirements to ensure overall project feasibility given available resources and external funding limitations.

Please note that the Excel-based example that accompanies this How-To Note is illustrative. Every project is unique, and each design team should define the appropriate composition and number of mechanisms and other line items as needed to achieve the project purpose. Given that USAID's experience with the project-level Cost Estimates is new, this How-To Note will be periodically reassessed and updated based on feedback from Missions implementing this approach.

How-To Notes are published by the Bureau for Policy, Planning and Learning and provide guidelines and practical advice to USAID staff and partners related to the Program Cycle.

BACKGROUND

As part of recent reforms under USAID Forward, the term "project" has been redefined to include a number of implementing mechanisms that contributes to achieving a single, high-level result in a Mission's overall Country Development Cooperation Strategy (CDCS), frequently linked to a CDCS Intermediate Result (IR). These projects are to be based on analytical rigor, using the best available evidence, and reflect a theory of change that is depicted in the form of a "logical framework." The problem analysis, theory of change, implementation plan, and other annexes, including the project-level Cost Estimate, are ultimately authorized in the form of a PAD.

The Cost Estimate is a critical component of this planning document. Unlike a resource budget, this estimate attempts to approximate the actual cost of the project, given the defined parameters. The estimate is a means to verify that the activities can be achieved within these limitations.

The project-level Cost Estimate is distinct from an award-level IGCE with which Missions are very familiar. The estimate precedes the IGCE, is less detailed, and includes not just A&A instruments, but non-A&A instruments such as Government-to-Government (G2G) mechanisms and Development Credit Authority (DCA) partial credit guarantees, as well as USAID Program-funded project management costs; partner country contributions; and other leveraged or matching funds from implementing partners, the private sector or civil society.

The final estimate should have a single total value with identifiable values for all mechanisms authorized within the project. If done well, these estimates will serve as a valuable management tool for setting aside adequate resources for upcoming procurements, planning incremental funding, and facilitating development of the Mission's Resource Request.

Since the project-level Cost Estimate is a preliminary estimate, Missions still need to complete activity-level IGCEs prior to procurement. By the procurement stage, the activity scope should be defined with greater specificity, enabling the development of an IGCE that is even more reliable and more accurate. The Cost Estimate in the PAD should therefore be considered a 'starting point' for a continuous process of budget execution and revision. Should the authorized cost ceiling of the overall project, or any mechanisms within the project, ultimately change by more than 10 percent, the PAD should be amended through an Action Memo to document and track these budget revisions. (See the standardized Mission Order on Project Design for more information regarding different level of PAD amendments for project and mechanism-level changes.)

ILLUSTRATIVE STEPS

Step 1: Complete the PAD Implementation Plan.

A project-level Cost Estimate is derived from the Implementation Plan, another mandatory annex to the PAD. Among other objectives, the Implementation Plan provides a time-phased schedule for initiating, implementing, and modifying mechanisms necessary to achieve the project purpose.

During the process of developing this plan, the project design team will make preliminary decisions to select implementing mechanisms. These decisions will be based on requirements defined during the design process, with consideration given to USAID Forward priorities such as strengthening partner country systems, broadening the partner base, and strengthening partnerships with multi/bilateral donors, among others. The Implementation Plan should also reflect the results of an iterative "portfolio alignment" process that identifies which existing mechanisms support the new project purpose and should be incorporated into the project, and which can be modified to do so. These new and existing mechanisms, their implementation

IMPLEMENTATION PLAN

The Implementation Plan is a mandatory annex to the PAD that defines important implementation actions and decision points over the life of the project. The plan should be more detailed in the first year. A sub-set of the overall Implementation Plan is a procurement strategy that identifies all significant USAID procurement actions and their associated development, implementation, and close-out activities. It also should build in learning and adapting.

timeframes, and their scopes will be important during subsequent development of the project-level Cost Estimate.

Step 2: Develop a unit cost sheet.

There are many different methodologies for developing preliminary cost estimates. However, a popular cost estimation methodology is the "parametric" approach, which uses historical cost data on major measurable units and relates it to the activity being estimated. As a first step, this requires that the Mission invest advance time in pricing a menu of such units as labor-hours, allowances, domestic and international travel costs, training, computers, commodities, office space rental, etc. The Mission's Office of Acquisition & Assistance (OAA), Office of Financial Management (OFM), and Executive Office (EXO) may be able to assist in developing this unit cost sheet. In the example that accompanies this note, the final tab contains the illustrative unit cost sheet.

Another popular approach is "lump sum cost estimating," which is used when one has an educated guess about how much an activity is going to cost, without breaking it into its elements, based on knowledge of the market or previously completed A&A program costs similar to the requirement. The aforementioned example utilizes this methodology for estimating the cost of warehouses for a G2G Fixed Amount Reimbursement Agreement (FARA), under which reimbursement is fixed in advance based on completed construction of each warehouse. Keep in mind that this type of estimate would be insufficient for signing a G2G agreement, and an additional detailed cost estimate based on actual construction costs would be required for the final agreement.

Step 3: Develop preliminary activity-level cost estimates for new procurements.

There are many ways to develop activity-level cost estimates. In the associated example, most of the activity estimates, particularly the A&A mechanisms, are based loosely on standard IGCE categories (see mandatory IGCE at http://inside.usaid.gov/ADS/300/300maa.pdf for more information). In the project cost estimate, the design team should start at a higher level than the activity ICGE, often using loaded rates from the unit cost sheet. Major categories are labor and associated costs such as fringe benefits, overhead, and allowances; other direct costs (ODCs) such as satellite offices and associated life support, commodities, equipment, small grants, training, and travel; general & administrative (G&A) expenses, and profit/fee where applicable. Detailed notes on this example in the Annex below provide information on what is embedded within each of these line items.

ACCRUAL BASED-ESTIMATION

Activity costs should be estimated on an accrual basis, rather than a straight line basis, in order to ensure that the ultimate estimate can be used to manage incremental funding. Accrued activity costs typically take a "bell" shape because the initial growth in costs due to start up is small, then grows with implementation, and tapers off with closeout.

When assembling these estimates, the design team will need to refer constantly to the parameters and scope of the underlying design to make critical assumptions about staffing patterns (numbers of staff, expat versus local, senior versus junior, long-term versus short-term), number of offices, number of commodities, number of trips, etc. Cost estimates are highly sensitive to many of these assumptions, so it's important that they be well considered. Note, however, that standard IGCE categories may not work for all mechanisms, particularly non-A&A mechanisms, so different estimate methodologies should be used as appropriate. For example, DCA partial credit guarantees can often be roughly estimated based on historical leverage ratios in the partner country.

Step 4: Account for pre-existing mechanisms that are being aligned into the project.
Collect the agreement budgets of pre-existing mechanisms that are being incorporated into the project. Some of these mechanisms may need to be modified in order to better align them with the project purpose. The process of aligning these mechanisms should be reflected in the Implementation Plan. Many times, modifications will include a budget realignment, ceiling increase, or even a scaling back of the scope of the activity. These changes which affect the project budget should be reflected as part of this process.

Step 5: Account for Program-Funded Project Management Costs.
Account for all USAID internal costs associated with management of the project and funded through Program dollars (i.e., excluding Operating Expense (OE) costs). These costs include, for example, the percent of staff time of U.S., Third Country National (TCN) or Foreign Service National (FSN) Program-funded Personal Services Contractors (PSCs) devoted to project management, technical assistance, monitoring and evaluation, financial oversight, etc. They may include International Cooperation Administrative Support Services (ICASS), IT, audit, equipment, and other goods or services funded with Program funds for exclusive use by USAID under the project.

Step 6: Account for non-USAID contributions, matching funds, or leveraged funds.
Account for all other non-USAID costs and resources, including in-kind, critical to achieving the project purpose from the partner country government, the private sector, other donors, implementing partners, and civil society. Note that pursuant to ADS 308, the partner country contribution must be at least 25 percent of the total cost of applicable USAID-funded mechanisms.

Step 7: Aggregate activity estimates and other components into summary sheet.
Roll up all of the components of the project-level Cost Estimate into a summary sheet that is broken down by year (left budget in the example) as well as by implementing mechanism (right budget). The rows in the summary cost estimate should be budget categories whose total values balance in both the left and right budgets. In the example, these categories generally align with standard line items for an activity-level A&A IGCE, with additional illustrative categories to reflect non-A&A implementing mechanisms G2G agreements and DCA guarantees; USAID Program-funded project management costs; and non-USAID funding such as contributions by the host/partner country, other leveraged funds, etc.

CONTINGENCY & INFLATION

Both contingency and projected inflation may be embedded within these estimates to account for unknown costs which are indicated as likely to occur by experience, but are not identifiable. Adding contingency and projected inflation increases the probability that the cost estimate will be adequate throughout the life of the project.

Step 8: Check cost estimate against budget availability, and take action as needed.

The process of developing the Cost Estimate should give the project design team a clear idea of the actual cost requirement and fit with available resources. If the team finds that they may require more or less resources to achieve the results, they may need to take action to modify the project design or seek additional funding.

Step 9: Continually update and revise the estimate during implementation.

The initial project-level Cost Estimate authorized in the PAD should be considered as the starting point for a continuous process of budget execution and revision. This estimate will enable the project team to move directly to procurement following PAD authorization; determine how much and what type of funding is needed for the annual Mission Resource Request; and provide a benchmark to assess whether allocated funds have met goals and objectives. It should be expected that these initial plans will be revised and updated based on subsequent IGCEs, the ultimate contractual agreement, and iterative adjustments based on assessments of performance.

ADDITIONAL RESOURCES

The following resources provide more information for developing and utilizing the Cost Estimate:

- Project-Level Cost Estimate Example: https://programnet.usaid.gov/library/how-note-preparing-project-level-cost-estimate

- Mandatory OAA IGCE Template: http://inside.usaid.gov/ADS/300/300maa.pdf

- USAID Agency Directive System (ADS) Chapter 201 on Planning: http://inside.usaid.gov/ADS/200/201.pdf

- Standardization Mission Order on Project Design: https://programnet.usaid.gov/library/standardized-mission-orders-templates-and-instructions

Appendix A: Notes for Cost Estimate Example (Separate from this How-To Note)

Available at https://programnet.usaid.gov/library/how-note-preparing-project-level-cost-estimate

EXCEL TAB 1: COST ESTIMATE SUMMARY

USAID A&A (Rows 5-14). Refers to USAID-funded costs associated with A&A mechanisms (Contracts, Cooperative Agreements, Grants), either local or U.S., regardless of size.

- **Direct Labor – Expat Salaries (fully burdened) (Row 5).** Includes salary, fringe, overhead and allowances (as applicable) for long-term and short-term expatriate (U.S. and Third Country National) staff, including both field-based as well as home office staff that backstops the project. (Note that how home office staff are charged direct or indirect, depends on what is included in the firm's Negotiated Indirect Cost Rate Agreement (NICRA). For purposes of this example, selected home office staff members are directly charged.)

  Salary Rates: The Reference Sheet provides illustrative salaries by category of employment for U.S. staff. The senior U.S position is estimated at the current USAID maximum daily rate of $636. The mid-level U.S. position is estimated at the GS 14-10 daily rate. The low-level U.S. position is estimated at the equivalent of a GS-11-10 rate. Third Country Nationals (TCNs) are estimated at a mid-level of $400/day.

  Fringe and Overhead: The Reference Sheet applies separate fringe benefit and overhead rates to field-based staff versus home office staff, and long-term versus short-term field-based staff.

Labor Category	Base	Expatriate		
		Long-Term Field	**Short-Term Field**	**Home Office**
Fringe	Direct Labor in applicable category	35%	0%	29%
Overhead	Direct Labor + Fringe in applicable category	25%	25%	20%

  - Fringe benefits on long-term staff include: annual leave, sick leave, holiday leave, employer contributions to taxes, medical insurance, pension contributions, workers' compensation insurance and disability. Fringe benefits on short-term staff assumes that no taxes are withheld on behalf of the short-term employee. Actual practice may vary.
  - The home office overhead pool includes: rent, utilities, communications, support staff, support services (HR, accounting and payroll, contracts).
  - Field overhead pool includes: local insurance, fees, printing, local services, legal costs, building maintenance, support services (human resources, accounting and payroll, contracts), miscellaneous.

Allowances: The Reference Sheet estimates allowances for all long-term expatriate staff on a contract or grant. Family size is estimated as two adults and two school-age children. Allowances include: post differential, education allowance, medevac insurance, pre-departure expenses, household effects, packing and storage, shipping of UAB and sea freight, shipping of personally-owned vehicles, consumables, post travel (airfare, lodging and per diem en route, excess baggage), rest and recuperation (R&R), home leave, temporary lodging allowance, and housing and all of its associated costs.

- **Direct Labor – Local Salaries (fully burdened) (Row 6).** Includes salary and fringe benefits (as applicable) for both long-term and short-term local staff.

  - Salary Rates: The Reference Sheet provides illustrative salaries by category of employment for local staff – high, mid and low. The Mission will modify these in accordance with local compensation practice.

    Fringe and Overhead: The Reference Sheet applies a fringe benefit rate for local long-term salaries. In many countries, termination costs for local staff can be quite substantial and should be reflected in this rate. No overhead is applied in this example. Each Mission should modify assumptions based on the actual practice in their country.

Labor Category	Base	Local	
		Long-Term	Short-Term
Fringe	Direct Labor in applicable category	65%	0%
Overhead	Direct Labor + Fringe in applicable category	Indirect calculated on grand total, see below	Indirect calculated on grand total, see below

- **Local Office (Row 7).** This category includes annual office leases and utilities, office equipment & maintenance, supplies, communications, motorcycles/mopeds, 4WD vehicles (delivered), maintenance and gas. Office leases are estimated at $5,000/month for a fully furnished office suite in a modern building (see Reference Sheet: Office Lease & Utilities – Large). Small or shared office space (under the GDA mechanism, for example) is estimated at a reduced rate. Office equipment includes furnishings as well as computers, photocopiers, telephones, etc. Office supplies are standard items such as paper, pens, markers, staplers, etc., and supplies for running the purchased equipment such as toner, ink, and so forth. This category also includes miscellaneous costs such as service fees, maintenance & repairs, petty cash, etc. Estimates for these figures can be found in the Reference Sheet tab.

- **Commodities/Equipment (Row 8).** In this example, the project supports the subsidized distribution of production technologies under the U.S.-based contract and research station equipment under the local contract.

- **Training (Row 9).** In this example, there are four generic categories of training, which may be altered to suit the Mission's purposes. They are: a) participant training via a graduate degree at a U.S. accredited University for 2 years; b) sponsorship to an in-country (host country) university graduate program for two years, c) in-country short-term training, at a lump sum of $250 per trainee, and d) venue rental for partner-organized ad hoc training activities.

- **Sub-grants/Sub-contracts (Row 10).** In this example, this category refers to a small Grants under Contract (GUC) mechanisms for local NGOs, to be managed by the implementing partners under the U.S.-based contract and the GDA mechanism. Sub-grants are estimated at $25,000 per grant awarded.

- **Travel (Row 11)**. Travel costs are broken down by international and local (in-country) travel of long-term staff as well as short-term US, Third Country National (TCN) or local technical assistance experts. The Reference Sheet provides estimated costs per trip for a 14-day international trip or a 5-day local (in-country) trip. Costs include lodging, meals, incidentals, other expenses (for example medevac insurance), airfare or other transportation costs (bus, train, rented vehicle, etc.).

- **Security (Row 12)**. Security costs may address high crime, conflict, or terrorist threat environments. They are estimated as a lump sum, to cover guard service, security devices, radios, bullet-proofing for vehicles, etc. Note: This example has been developed for a country that is not a high security threat environment.

- **Other Indirect Costs (G&A) (Row 13).** General & Administrative indirect costs are captured through a G&A rate applied to total direct costs (excluding the portion of sub-grants and subcontracts in excess of $25,000, pursuant to the ADS) on contracts awarded to U.S. firms or consortia. Depending on the individual firm's NICRA, the G&A typically covers such costs as: audits (pursuant to Circular A133 for U.S. non-profits), corporate salaries, applicable fringes, bid and proposal costs, accounting, advertising, board expenses, computer supplies, depreciation, dues and subscriptions, equipment and furniture rental, insurance, legal expenses, maintenance/repairs, office supplies, postage & shipping, recruiting, taxes and licenses, and temporary staff.

  An illustrative "indirect" rate is also applied to total direct costs of local contracts. This is just an estimate and will vary widely, as many local firms capture the majority of their costs directly.

- **Profit/Fee (Row 14)**. An estimated profit of approximately 5% is applied to US contracts, and a nominal estimated profit of 3% is applied to local contracts.

USAID, NON-A&A (Rows 15& 16). Refers to USAID-funded implementing mechanisms that are not acquisition or assistance based. This example includes a Development Credit Authority (DCA) partial credit guarantee (Row 15), as well as funding through the partner country system, also known as a G2G agreement (Row 16).

- The DCA "subsidy cost" refers to estimated provisions for expected loan losses on a DCA partial credit guarantee that is made as a one-time, upfront contribution to the DCA program account. DCA is the tool that provides USAID Missions the authority to issue loan guarantees to private lenders, particularly for loans of local currency. These guarantees cover up to 50% of the principal in loans to projects that advance USAID's international development objectives. While there is great variation between countries and between projects, on average one dollar in subsidy cost from the U.S. Government leverages an average of $28 in loans. (See "Other Leveraged Funds/Matching Funds" below where an estimate of the value of private sector loans leveraged through DCA is captured.)

- The G2G agreement in this example is for construction of warehouses for storage of agricultural inputs related to the project. This example assumes a Fixed Amount Reimbursement Agreement (FARA), under which reimbursement is fixed in advance based upon cost estimates by 'unit' or warehouse. While this preliminary estimate may (in many cases) be based on local market knowledge or previous Mission experience similar to the current requirement, keep in mind that this type of estimate would be insufficient for signing a G2G agreement, and an additional detailed IGCE based on actual construction costs would be required for the final agreement. Also, since reimbursement for FARAs is made only upon the completion of a 'unit' (i.e., the warehouses), a separate contract with a local engineering firm would likely be necessary to inspect and certify that work. However, for sake of simplicity, this separate contract has not been included in this example.

USAID PROJECT MANAGEMENT: PROGRAM-FUNDED PROJECT MANAGEMENT COSTS (Rows 17 & 18). Refers to all USAID internal costs associated with management of the project and funded through Program dollars (i.e., excluding Operating Expense (OE) costs). This category includes, for example, the percent of staff time of US, Third Country National (TCN) or Foreign Service National (FSN) Program-funded Personal Services Contractors (PSCs) devoted to project management, technical assistance, monitoring and evaluation, financial oversight, etc., as well as their associated International Cooperation Administrative Support Services (ICASS) costs. (Row 17). This category also includes IT and other equipment for exclusive use by USAID under the project, as well as procurement of audit services for local organizations funded by the project (Row 18).

USAID FUNDING TOTAL (ROW 19). This line sums up USAID Program-funded costs under the project, by year (left budget) and by implementing mechanism (right budget).

NON-USAID (Rows 20 & 21). Refers to funds contributed to the project (or leveraged by the project) from the partner country, private sector, civil society, other donors, or other sources.

- **Other Leveraged Funds/Matching Funds (Row 20)**. This row includes funds leveraged by the private sector, non-profit sector, civil society, or other donors. In this example, private sector capital is expected to be leveraged through two activities: 1) the Global Development Alliance (GDA)

Cooperative Agreement, in which a private sector export partner agrees to match USAID's contribution to the NGO resource partner on a 1:1 basis (through local procurement of low-cost tractors); 2) the DCA, where the assumption is that the guarantee will catalyze private sector banks to disburse loans (that would have not otherwise been made) to marginalized smallholder farmers; and 3) additional funds leveraged through a World Bank activity that contributes to the USAID project purpose (and which USAID is supporting through a PIO). This row may also include matching funds under cooperative agreements, if applicable.

- **Host Country Contribution (Row 21).** The host (partner) country contribution is the in-kind cost for the host country government to provide support for and commitment to achievement of the project purpose. Pursuant to ADS 308, this contribution must be at least 25 percent of the total cost of applicable USAID-funded activities. In this example, the partner country government commits to fund four full-time Ministry of Agriculture staff, contributes the operating costs of 45 Extension Offices to support the project, and training costs for the extension workers and team members. These costs should be documented and reported by the partner country.

GRAND TOTAL (ROW 22). Refers to the sum of all USAID program funds plus non-USAID funds to be applied toward achievement of the project purpose.

OTHER NOTES

- **Inflation.** Local inflation is built into all applicable line items in the budget at 7% per year. U.S. inflation is built into all applicable line items at 3% per year.

- **Contingency.** Contingency should be considered when calculating line item costs.

- **Evaluation.** Pursuant to USAID's Evaluation Policy and ADS 203, each USAID operating unit should allocate 3% of total program funds across the entire operating unit for external evaluations, and experience has shown that five to ten percent of total program resources should be allocated for both Monitoring and Evaluation. The percent of funds that is allocated to M&E for a particular project will depend on a variety of factors, including whether or not the project is required to be evaluated. In this example, the design anticipates the procurement of a Task Order under a Washington-based Evaluation IQC. However, other projects may opt to provide for evaluation subcontracts within implementation activities (but only for non-required evaluations). In this case, a separate line item for evaluation should be added in order to separately account for these costs.