

Somalia Evaluation Society (SOMES)

Annex 5 — Cost Recovery Guide

Methodology for calculating overheads, pricing services and allocating unrestricted funds

1. Purpose

This guide sets out how SOMES calculates indirect (overhead) costs, prices fee-based services such as training and consultancy, and decides how unrestricted funds are allocated across programmes. Consistent cost recovery protects SOMES's financial sustainability and ensures every grant and service contributes a fair share toward the shared costs of running the organisation.

2. Direct vs indirect costs

Direct costs	Indirect (overhead) costs
Costs attributable to one specific programme or grant — facilitator fees, venue hire, participant travel, programme-specific materials.	Shared costs that support the whole organisation and cannot be tied to one programme — core staff salaries, office rent and utilities, audit fees, governance and board costs, shared IT and communications.

3. Calculating the overhead (indirect cost) rate

The indirect cost rate is reviewed annually alongside the approved budget, using the formula:

Indirect cost rate = Total indirect costs ÷ Total direct costs (or total direct salary costs, per the chosen base)

SOMES applies this rate to grants and contracts that do not specify their own indirect cost policy. Where a donor caps recovery below the calculated rate (for example, the 10–15% de minimis rate common among international donors), the donor's cap applies and the shortfall is covered from unrestricted funds or absorbed as a cost-share.

4. Pricing fee-based services

For training, certification, consultancy and other fee-based services, the price is built up as:

- Direct delivery costs — facilitator time, venue, materials, travel;
- A pro-rated share of indirect costs, applied at the approved overhead rate;
- A modest contingency (typically 5–10%) for cost overruns; and
- Where relevant, a small surplus margin to build reserves, reviewed by the Board Finance Committee.

Member rates are discounted from the full-cost price per the schedule in the Membership policy; non-member and institutional rates recover full cost plus margin.

5. Allocating unrestricted funds

Unrestricted income (membership dues, donations, and any surplus from fee-based services) is allocated in the following priority order, decided annually by the Board:

1. Cover any shortfall between donor-capped overhead recovery and actual indirect costs;
2. Fund core functions with no restricted-grant coverage (governance, membership administration, this website);
3. Seed new or under-funded priority areas identified in the strategic plan (e.g. the Young & Emerging Evaluators programme);
4. Build an operating reserve, targeting a minimum of three months of core costs;
5. Co-finance grant proposals that require matched funding.

6. Review

The Board Finance Committee reviews the indirect cost rate and this guide at least annually, and whenever a new major donor requires a different cost-recovery methodology.