

# **Social and Economic Enhancement Programme-SEEP**

## **OVERHEAD COST POLICY**

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## **Background**

Overhead costs are the expenses incurred by the organization as a result of the project but that are not easily identified with the specific project. Generally, overhead costs are defined as administrative or other expenses that are not directly allocable to a particular activity or project; rather they are related to overall general operations and are shared among projects and/or functions. (Overhead costs are sometimes referred to as “Indirect costs” and more recently as “facilities and administrative costs.”) Examples include executive oversight, accounting, grants management, legal expenses, utilities, technology support, and facility maintenance. All unallowable costs as per the SEEP direct cost policy are also unallowable costs as components of overhead costs. SEEP’s position is that, whenever possible, specifically allocable costs of the organization’s project should be requested and justified in the proposal as direct costs. While the definition of overhead costs is subject to some interpretation, SEEP has listed certain Overhead costs (this is not an exhaustive list) which are contained in Attachment A.

## **Introduction**

SEEP has been working on hope and change since its inception in 1985. For decades, SEEP has been passionately championing the causes of Child Rights and Welfare, Education, livelihood, skills development, Street Children, Resilience, Climate Change, Risk Reduction, Disaster Management, Women's rights, Humanitarian Response, and an array of other noble intervention areas with skilled manpower and volunteers in different types of projects and activities including urban risk reduction, child rights, technical education, emergency response, disease awareness etc.

Thematic Areas:

Theme 1: Child protection & child rights governance

Theme 2: Climate action & humanitarian response

Theme 3: Education & skill development

Theme 4: Livelihood, food security & decent work

Theme 5: Health and nutrition

Theme 6: Water, Sanitation and Hygiene (WASH)

The organization aims to structure grants in a way that makes sense from a financial perspective while also receiving funding from donors for the cost of delivering results efficiently, supported by open and honest dialogue about the resources required. The intent is to utilize sufficiently fund actual costs, not to generate financial surpluses for it. SEEP will receive grants for expenses that are directly attributable to project activities, output and outcomes as direct costs and expenses associated with the general running of the organization as indirect costs or overhead costs.

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## **Direct costs**

Direct costs are the expenses required to complete a grant that is directly attributable and can be reasonably allocated to the project. Project staff salaries, travel expenses, materials, and consultants required to execute the grant are examples. Costs that would not be incurred if the grant did not exist are often indicative of direct costs.

## **Overhead costs**

Indirect costs are general overhead and administration expenses that support the entire operations of the organization and that may be shared across projects. Examples include facilities expenses, e.g. rent, utilities, equipment for the organization’s headquarters, associated information systems and support and administrative staff such as HR, general finance, accounting, IT, and legal. Expenses that would be incurred regardless of whether the grant is funded are often indicative of indirect costs. While these costs may not be directly attributable to a project; they are real and necessary to operate as an organization.

### **Overhead Cost Rate**

As a general guidance, the overhead cost rate is a maximum of 15% when the approved budget includes all field staffing costs, conveyance and other required furniture and equipment.

While the approved budget excludes all field staffing costs, conveyance and other required furniture and equipment, the overhead cost rate may be above the general rate for the organization. The requirements and activities of each project should be considered when determining direct and indirect costs. SEEP reviews the budget and cost categorizations on a grant-by-grant basis and can decide to make specific agreements regarding the indirect cost rate. Considering all cases, the rate cannot be more than 40%.

### **Allowable overhead costs**

SEEP will demand overhead costs as follows:

- **In case the grantee/ organization has a well-documented overhead cost rate:** SEEP shall demand the documented overhead cost rate subject to the maximum rates contained in the rates section below. No fees or profits should be included in the overhead costs. The organization will charge direct costs as per the cost allocation policy of the organization. SEEP reserves the right to call for the cost allocation policy of the organization during the budget review process. If the documented overhead costs rate in any year falls below the maximum rates specified by SEEP, the organization will claim the documented indirect/overhead rate.
- **In case the grantee/ organization does not have a well-documented overhead cost rate:** The organization/grantee will develop a documented overhead cost rate for the SEEP grant. No fees or profits should be included in the overhead costs. SEEP reserves the right to verify the calculation of the SEEP cost rate from the audited financial statements of the grantee/ organization.

### **Special Rules for receiving sub-grants, subcontracts, equipment, and others**

Sub-grants and subcontracts

Direct costs include those related to receiving sub-grants and subcontracts. Receiving the subgrants will also be governed by the same policies as above applicable to the prime grantee concerning overhead/indirect costs rate.

The grantee will claim the overhead cost on the total direct cost excluding the sub-grantee costs. (For an example of this calculation, please see Attachment B)

Finally, sub-grantees and subcontractors may not charge the organization for overhead costs or indirect costs at rates that are more than the limitations provided above.

### **Equipment**

When SEEP receives a grant that includes purchases of equipment, the organization cannot recover “depreciation” related to that equipment because SEEP, rather than the applicant, is paying for the equipment. SEEP does not allow an overhead cost rate to be applied to equipment purchases.

### **Other issues**

In the grant proposal, prospective SEEP must specifically speak to their overhead-cost assumptions and attach (a) The documented overhead cost rate of the organization or (b) In case of no documented overhead cost rate, the basis of arriving at the overhead cost rate with audited financial statements.

### **Rates**

To the extent that overhead costs apply from a grant to SEEP, such costs are subject to the following limitations:

- Up to 10% for governmental agencies, other private foundations and for-profit organizations
- up to 15% for all other non-governmental organizations (NGOs), and international organizations
- Overhead cost rates (and the limitations) apply both to the primary applicant organization and any sub-applicants and/or sub-contractors that are part of the proposal (please see the special rules for sub-applicants and sub-contractors, below).

These rates are the maximum rates allowed under SEEP’s policy; they are not to be interpreted as norms. If an applicant has an overhead- cost rate lower than the maximum provided above, the applicant should not increase the funding request to the maximum.

### Attachment A

Examples of overhead cost (not exhaustive list)

1. Facilities not acquired specifically and exclusively for the project
2. Utilities for facilities not acquired for and not directly attributable to the project.
3. Information technology equipment and support not directly attributable to the project.
4. General administrative support not directly attributable to the project. Examples are as follows:
  - Executive administrators
  - General ledger accounting
  - Grants Accounting
  - General financial management
  - Internal audit function
  - IT support personnel
  - Facilities support personnel
  - Scientific support functions (not attributable to the project)
  - Safeguarding personnel
  - Human resources (Core)
  - Information support
  - Shared procurement resources
  - General logistics support
  - Material management
  - Executive management (ED, DED, etc.)
  - Other shared resources not directly attributable to the project
  - Institutional legal support
  - Research management costs
  - Business development planning cost
5. Depreciation on equipment.
6. Security and Insurance.

### Attachment B

SEEP may charge the following rate (Maximum) of overhead on different sizes of grants for different duration projects.

Size of Grant (BDT)	Project Duration	Nature of Budget	Rate of Overhead
Up to 2 million	Any	Including project staff and conveyance	15%
		No project staff and conveyance	40%
2 million to 10 million	Any	Including Furniture, project staff salary and conveyance, HO monitoring	12%
More than 10 million	Any	Including Furniture, project staff salary and conveyance, HO monitoring	10%

This guideline will be updated as per requirement.