



Cooperation with Eastern Europe

Where do the funds go and how much is spent on administration?

Key facts

It is not just the media and the public that are increasingly calling for information on the use of funds for cooperation with Eastern Europe and the amount spent on administration. Even Parliament is now asking similar questions. The aim of this analysis is to provide greater transparency regarding this issue.

Administrative costs are often perceived as unnecessary by the general public. However, it is often overlooked that such expenditure is normally required to implement projects and can significantly enhance the quality and sustainability of cooperation activities in Eastern Europe. If the objective were to minimise overheads, development cooperation would be reduced to merely transferring payments to funds and other recipients.

The ZEW Foundation (the Swiss certification authority for charitable, fundraising organisations) has developed a method for calculating the administrative expenses. Basically, ZEW terminology distinguishes between "direct project expenses" and "administrative expenses". The administrative expenses consist of "project support expenses" and "other administrative expenses". Taking due account of the special features of cooperation initiatives in Eastern Europe, a third category of administrative expenses has been defined for the purposes of this analysis: "expenditure on programme management, coordination and political dialogue".

Wide range of cooperation projects in Eastern Europe

In 2008, the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO) spent around CHF 159 million on cooperation with Eastern Europe excluding payments made in respect of Switzerland's contribution to EU enlargement. Switzerland maintains a local presence in 13 countries and supports approximately 350 different projects (construction, consultancy, education etc.) in diverse fields, with the total financial outlay per project varying significantly from CHF 10,000 to 16 million. Fifty of these projects are small-scale SDC operations ranging in value from CHF 10,000 to 50,000. Five case studies have shown that projects are so diverse, with such marked variations in implementation, management and support, that generalisations are not possible.

Projects primarily implemented by third parties

The SDC and SECO are the agencies responsible for cooperation with Eastern Europe. Together they define the strategy for resource deployment, manage the country programmes and facilitate the implementation of projects through Cooperation Offices in the partner countries and head office staff. Project management and support encompasses the planning and tender process, the awarding of contracts for implementation, monitoring progress, allocating resources and, where necessary, adjusting plans and evaluating results. However, actual implementation is delegated to Swiss and international relief agencies, consultancy and engineering firms, international organisations, local government agencies and NGOs.

30% of funds for Eastern Europe cooperation spent in Switzerland

As a general rule, funds are initially paid into the head office bank accounts of the agencies in charge of implementation and only at a later stage to the projects. The cash flow analysis, which includes data supplied by implementation agencies on approximately CHF 30 million deployed for Kyrgyzstan, Macedonia and Serbia in 2008, indicates that 31% of funds are distributed within Switzerland and 69% to other countries. It is important to note that the 31% distributed in Switzerland are also spent on know-how or project investment.

Over 80% of funds for Eastern Europe cooperation invested in projects

A portion of the funds distributed in Switzerland relates to project expenditure. In effect, 84% of funds are ultimately spent on projects or can be defined as direct project expenditure. The remaining 16% are administrative expenses incurred by the SDC/SECO and the implementation agencies. These break down as follows:

10% "project support expenses", 2% "expenditure on programme management, coordination and political dialogue" and 4% " other administrative expenses".

The 16% figure for administrative costs would have been slightly higher if the total overheads of the SDC and SECO head offices (management, IT support, communication etc.) had been factored into the calculation. However, precise figures on these overheads were not obtained.

Varying project support costs

The organisations in charge of implementation have supplied detailed information on 36 projects in Kyrgyzstan, Macedonia and Serbia on which a total of CHF 19 million was spent in 2008. The data analysis shows that both the shares of expenditure by category and the percentages of funds spent in Switzerland vary according to agency and project type.

Administrative expenditure incurred at various levels

Administrative costs relating to cooperation in Eastern Europe are incurred at the level of SDC and SECO headquarters, the Cooperation Offices in partner countries and the implementation agencies. In order to capture all administrative expenses, it was necessary to collect data at all three levels. Given the excessive expense and effort that would be required for a full data enquiry, the analysis was confined to Kyrgyzstan, Macedonia and Serbia. Firstly, it was necessary to obtain information by questionnaire from the implementation agencies on cash flow and levels of expenditure under the various categories. SECOndly, SDC and SECO head office staff responsible for projects in Kyrgyzstan, Macedonia and Serbia and Swiss staff employed at the Cooperation Offices in these countries recorded their hours over a 12-month period. Due to the absence of any cost accounting model, no cost allocation was made in respect of total administrative expenses incurred by the SDC and SECO.

No evidence of excessive administrative costs

The Swiss Federal Audit Office had assumed that the widely divergent geographical locations and profiles of cooperation activities in Eastern Europe would result in higher administrative expenses. However, the analysis performed did not show any evidence of excessive administrative expenses in respect of cooperation in this region.

The SDC and SECO have delivered their responses to the report. Their comments support the findings that administrative expenditure is essential to effective project implementation, quality assurance and sustainability. They also find it significant that the analysis showed no evidence of excessive administrative costs and note that the report provided useful information on the apportionment of costs relating to cooperation with Eastern Europe. They recognise the importance of high quality cooperation and cost control and confirm their intention to improve information and transparency regarding their activities.

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