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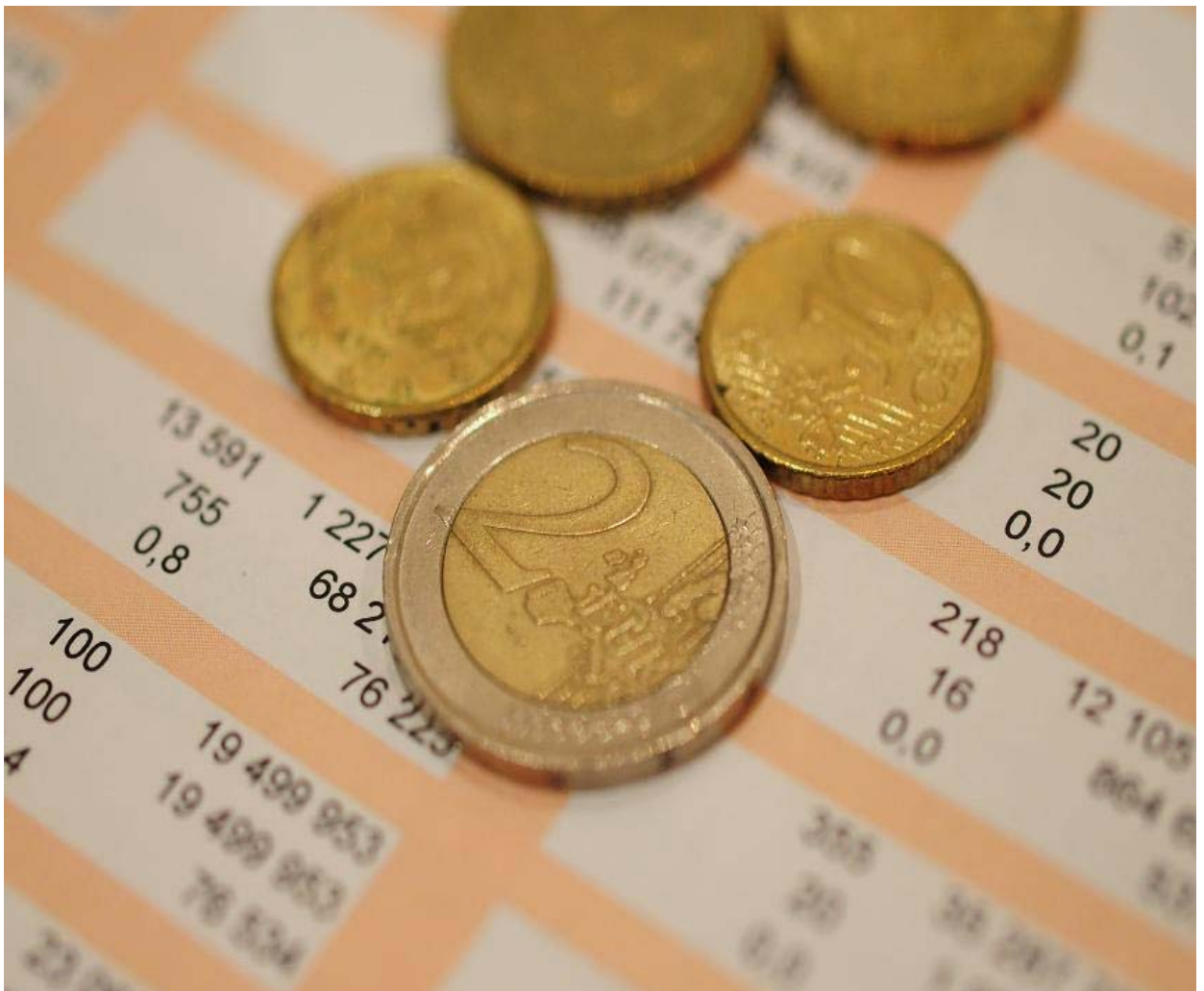
**Deliverable 7 – Revised Final Report**

**Regional governance in the context of globalisation**

**Contract No 2008.CE.16.0.AD.056 / CCI No 2008CE160AT090 – 092**

**Regional governance in the context of globalisation:  
reviewing governance mechanisms & administrative costs**

**Administrative workload and costs for Member State public authorities  
of the implementation of ERDF and Cohesion Fund**



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*This is the revised final deliverable of the study on regional governance in the context of globalisation, commissioned by DG Regional Policy (Contract No 2008.CE.16.0.AD.056 / CCI No 2008CE160AT090 – 092).*

### **The team**

*The study was led by SWECO and began in January 2009. The first version of the final report was submitted in March 2010 and has been improved in accordance with comments by DG Regional Policy. This is the first study to provide systematic evidence based information on the administrative workload and costs of EU Cohesion Policy, bringing together the results of a literature review and both quantitative and qualitative analyses carried out for this study.*

*The report was prepared by SWECO based on the earlier contributions to this study prepared by EPRC (deliverable 2), Archidata (deliverable 4) and SWECO (deliverables 1, 3, 5 and 6). In all cases, the underlying information has been collected in cooperation with national experts in each EU Member State. These experts are ADT Consulting (FR), Archidata (IT), AUREX (SK), Berman Group (CZ), BGI Consulting (LT), ECORYS (NL), E-Cubed (MT), EPRC (IR, UK), EUROREG (PL), Infyde (ES), IPoP (SI), LG Consulting (RO), LKN (CY, GR), LogiPlan (HU), NetEffect (FI), ÓIR (AT), PhDB Consultant (BE), ProInfraConsult (BG), Spatial Foresight (LU), SWECO (DK, EE, SE), TAURUS-ECO (DE, PT), University of Latvia (LV).*

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Annex 1: Overview of administrative costs by task

Annex 2: Methodology



## Executive summary

This is the first study to provide systematic information on the administrative workload and costs of the implementation of ERDF and CF for Member State public authorities. Analysis of the quantitative and qualitative data collected has enabled the creation of an evidence-based picture of the administrative workload and costs in relation to different structures, functions, tasks and programme types.

### Scope

This study reviews the governance and administrative structures and costs at national and regional levels for European Regional Development Fund (ERDF) and Cohesion Fund (CF) programmes over the 2007-2013 programming period. The administrative workload and costs are analysed on a structural, functional and territorial basis. The study began in January 2009. The first version of the final report was submitted in March 2010 and has been improved in accordance with comments by the Commission Services.

The study started with an extensive literature review of the administrative costs of EU Cohesion Policy as well as the administrative costs of comparable policies and fields of activity.

The core of the study comprised a collation of quantitative data for all the ERDF and CF programmes. For 46 individual administrative tasks, data was collected on workload, administrative budgets, types of personnel involved, evolution of workload over time, external costs, involvement of Intermediate Bodies, and share of cost associated with national regulations. At a more general level, information was also collected on the total eligible budgets, staff costs, overhead costs, the use of Technical Assistance budgets, and the share of the administrative costs paid for via ERDF and CF. If the data were presented in full for all the programmes, it would amount to more than 1,000,000 pieces of data or individual cells in an Excel file.

The data collected encompassed the full programme cycle from the preparatory tasks to the final closure of the programmes. The overall response rate was 60%. The detailed response rates were 93% for the national coordination level, 52% for the programme preparation, 61% for the programme management, 65% for the programme certification and 57% for the programme audit. The collected data provides a sound and balanced sample. However, it needs to be noted that the data was collated at the start of the programming period. Covering the full programme cycle, i.e. until the closure of the programmes implies a certain level of estimation with regard to the anticipated workload. These estimations were generally made by personnel currently working within the ERDF and CF administration. The report is based on responses received by the 1<sup>st</sup> of October 2009, with a last update in November 2009, and a final polishing after the second plausibility check in February 2010.

This quantitative exercise was complemented by 45 qualitative sample studies which provide background information on the quantitative figures, comparisons to the previous programming period and personal reflections on the main bottlenecks and possible areas for improvement.

The study focused on the administrative costs to public administrations in the Member States. However, a limited amount of qualitative and quantitative data was also collected on beneficiaries, giving some initial indications regarding costs to beneficiaries including variations linked to the theme of interventions.

## Administrative costs and workload

During 2007-2013, total eligible expenditure amounts to 390 billion EUR, 270 billion EUR of which are ERDF and CF funding and the remainder are national and private co-funding. A detailed list of the available funding by Member State is presented in figure 5 (chapter 4).

**170,000 person years<sup>1</sup>, respectively 12.5 billion EUR.** It is estimated that the total workload for the administration of ERDF and CF in the Member States over the full programme cycle accounts for approximately 170,000 person years (not including externally purchased services). Total administrative costs, including costs for administrative staff, external services and consultancies and overheads, are estimated to be approximately EUR 12.5 billion out of a total eligible expenditure of EUR 390 billion. In relation to the overall provision of funding, this corresponds to 0.44 person years or 32,050 EUR per million EUR of total eligible expenditure, or 0.63 person years or 46,600 EUR per million EUR of ERDF and CF funding (see figure 1).

Figure 1: **Administrative workload and costs by function**

	Share		Total		Per million EUR total eligible expenditure		Per million EUR ERDF and CF funding	
	Person years	EUR*	In person years	In million EUR*	In person years	In EUR*	In person years	In EUR*
<b>Total</b>	100 %	100 %	170 000	12 500	0.44	32 050	0.63	46 600
<b>National Coordination</b>	3.4 %	6.4 %	5 800	800	0.01	2 000	0.02	3 000
<b>Programme preparation</b>	2.1 %	3.0 %	3 500	370	0.01	950	0.01	1 400
<b>Programme management</b>	80.0 %	77.6 %	136 000	9 700	0.35	24 900	0.51	36 100
<b>Certification</b>	6.2 %	4.6 %	10 600	580	0.03	1 500	0.04	2 200
<b>Audit</b>	8.3 %	8.4 %	14 100	1 050	0.04	2 700	0.05	3 900

\* Figures in EUR incl. administrative costs for staff, external services and overheads. The monetary figures in this report are provided in 2009 prices. For countries outside the Euro zone with floating currency not fixed to the Euro, the average exchange rate for the period 03.01.2007 to 17.11.2009 has been used.

Analysing the administrative workload and costs based on the implementation structures, the following picture emerges:

- **National coordination activities** create 3% of the total workload of the ERDF and CF administration, and generate 6% of the total costs. The greatest administrative workload and costs relate to national coordination activities covering different Structural Fund programmes. The administrative workload and costs related to the preparation of the National Strategic Reference Framework (NSRF) and the National Strategic Reports (NSRs) are comparably small. On

<sup>1</sup> Throughout the study, workload is presented in person years. One "person year" is the equivalent of one person working full time for one year. Two examples illustrate this: if 12 persons each work one month over the entire programming period, their joint contribution is reported as one "person year"; if one person works for two months every year over six years of the programming period, his/her workload is one "person year".

average, the national coordination level requires EUR 27 million per country and involves 200 person years in total.

- **Programme preparation** accounts for 2% of the total workload of the ERDF and CF administration, and 3% of the total costs. The workload is dominated by the drafting of the programming document, followed by the creation of the management and control systems. On average, the programme preparation stage requires EUR 1 million and utilises 10 person years. These 10 person years usually comprise a wide range of people, each of whom are involved perhaps only for a few weeks in the preparation process.
- **Programme management** attracts the lion's share of the administration of the ERDF and CF, accounting for 80% of the workload and 78% of the costs. In some countries, programme management involves hundreds of different bodies. The most time-consuming tasks here are project selection and the verification of deliverables. The median workload for programme management is 0.6 person years, or about 30,000 EUR, per million EUR of total eligible expenditure.
- Activities associated with **certification** take up 6% of the workload and 5% of the cost of the ERDF and CF administration. The certification of statements of expenditure is the most resource-intensive task in this area. The median workload for programme certification is about 0.015 person years per million EUR of total eligible expenditure, with the median costs correspondingly about EUR 1,250 per million EUR of total eligible expenditure. These figures might appear high in relation to the audit figures presented below. However, it has to be noted that these figures do not cover the administrative workload and costs of the Certification Authorities alone but also of the other bodies involved in the various certification tasks.
- **Audit functions** require 8% of both the workload and the costs of the ERDF and CF administration. Resources in this area are needed mainly for the audit of samples and the system audits. The median workload for the programme audit is about 0.025 person years per million EUR of total eligible expenditure, with the median costs correspondingly about EUR 1,300 per million EUR of total eligible expenditure. The figures relating to audit and certification are mainly based on estimations as these activities had not generally started at the point of data collection.
- **Differences between individual tasks.** The analysis allows us to discern considerable differences between the individual tasks of (a) national coordination (b) programme preparation (c) programme management (d) programme certification and (e) programme audit. In countries where national coordination activities have been undertaken, the lion's share of the administrative work in this area is associated with the domestic coordination of different programmes rather than the preparation of the National Strategic Reference Framework (NSRF) and National Strategic Reports (NSRs). In terms of programme management, the project selection and the verification of deliverables are clearly the most time consuming tasks. The certification task with the highest associated workload is the certification of statements of expenditures and, within the area of audit, the greatest workloads are the sample audits followed by the audits of the management and control systems. In addition to the above-mentioned tasks, more than 40 other tasks have been studied and reveal considerable variations with regard to their administrative workload and costs.

## Reasons for the variation of costs

The workload and costs for the administration of EU Cohesion Policy (focusing on ERDF and CF) show considerable variation across programmes. While variations in cost patterns are affected by the salary levels in the countries concerned, the workload figures are more comparable. The comparative analysis, therefore, builds mainly on the data for person years.

- **Financial volume makes a difference.** The overall financial volume of a programme, as well as the number and financial scope of the funded projects, clearly influences the administrative workload. Programme administration includes a number of tasks which are unit costs (per programme or funding decision) and therefore do not vary considerably in relation to the overall financial volume. This implies that programmes with a relatively small financial volume spend a higher share of their budget on these basic administrative tasks than programmes with a large financial volume. A similar logic applies to the project level. However, it appears that very large projects can generate additional administration which can offset the administrative advantage associated with the higher financial volume.
- **The thematic orientation affects administrative costs.** Different thematic orientations are clearly associated with different cost patterns, both at programme and at project level. In general, programmes with a focus on infrastructure, environment and research & development have lower administrative workloads than general regional development programmes or programmes focusing on technical assistance or administrative capacity building.
- **No major differences between management systems.** In a comparison between various types of management and implementation systems, there do not appear to be significant differences in the administrative workload. In general, centralised systems have a somewhat lower median administrative workload than regionalised and mixed systems, and differentiated systems have a somewhat lower median administrative workload than aligned or integrated systems. These differences are however very minor. Larger differences in median workload can be observed between EU12 and EU15, with EU15 having the lower median workload. Territorial cooperation programmes display the highest administrative workload figures due to the complexity and specificities of these programmes.

The above factors are decisive for understanding the variations of the administrative workload and costs among the various ERDF and CF programmes. They explain also why territorial cooperation programmes have considerably higher administrative costs per EUR of total eligible expenditure than other ERDF and CF programmes. The reasons for this lie in their complex management structures involving actors in different countries, their thematic orientation and the relatively small financial volume associated with these programmes. These three factors result in comparably higher administrative costs per EUR of total eligible expenditure.

## Overall findings

### *The administrative costs of cohesion policy are reasonable*

- Based on an overall response rate of 60%, **total administrative costs (including overheads) are estimated at 3-4% of total eligible expenditure**, with the highest proportion of administrative costs associated with the work of the Managing Authorities, in particular with regard to project selection and verification of deliverables.



- **Low administrative costs compared to other policy fields.** A screening of the literature on comparable data for other policy fields and programmes shows that most have considerably higher administrative costs than EU Cohesion Policy. Examples include the World Bank's global and regional partnership programmes and a range of other bilateral aid programmes. The European Bank for Reconstruction and Development (EBRD) has broadly comparable management and implementation structures and roughly similar general administrative expenses (4.5 percent). However, any comparison with other policy fields must to be treated with great care as different definitions of administrative costs have been employed for each of the assessments found in the literature. In addition, the data presented in this report should be viewed as a first systematic attempt to identify administrative costs and, as such, still contains a substantial number of estimations and cannot be considered completely definitive.
- **Intangible benefits.** A significant number of actors recognise that the ERDF and Cohesion Fund programmes are more transparent and effective than many other comparable programmes. Furthermore, in some cases, the administrative tools and approaches of ERDF and Cohesion Fund can usefully be applied to other national policy fields.

***However, there are a number of elements which may contribute to bottlenecks and where there is scope for improvement***

- **Time dimension.** The evolution of the workflow is front-loaded during the current programming period and relates mainly to the creation of structures and the initiation of activities. Furthermore, if the time overlaps between the past, current and future programming periods are taken into account, it becomes increasingly clear that 2009 and 2015 represent extreme or 'peak' years.
- **National regulations and 'gold plating'.** Some adaptations are inevitable in the implementation in order to comply both with EU and national regulations. In the quantitative analysis, respondents indicated that about 2% of the workload within the programme management is due to national regulations. However, the qualitative sample studies showed that national practice and 'gold plating' through the national interpretation of EU regulations is perceived to increase considerably the administrative workload.
- **Uncertainties and interpretation.** The 'gold-plating' referred to above can sometimes be the result of uncertainty regarding interpretation of EU regulations and the desire to anticipate a possible future narrowing of interpretation. The qualitative sample studies reveal a number of areas affected here, for example, the rules relating to the declaration of overhead costs. Other factors cited as increasing administrative complexity and uncertainty are a lack of flexibility within the system and the 'frequent' revision of the regulatory framework. This last was also referred to as increasing administrative costs and workload: savings due to small changes to the current system are seen as marginal overall, in particular when inertia and the cost of change are taken into account.
- The **financial management and control system** emerges as a major subject of criticism in the qualitative sample studies. The interviewees also provided a wide range of suggestions for improvements to the financial management system and in particular the various control and audit tasks. The proposals include the definition of an earlier time-limit for audits, the abolition of the Certifying Authorities, the adaptation of other funding systems (e.g. the one of the European Research Framework Programme) and the application of the *N+2 / N+3* rule at national level. However, it should be noted in this context that the work for the study took place relatively early in the 2007-2013 period and so the effects of the

changes made to improve the system as part of the 2006 regulatory package and simplification exercises in 2008 and 2009 may not have been fully taken into account.

# 1 Structure of the report

The analysis presented in this report is based on a literature review, a number of sample studies and a quantitative assessment of the administrative costs of Cohesion Policy. The report brings together both quantitative and qualitative information to present, for the first time, a full picture of the administrative costs of EU Cohesion Policy for the 2007-2013 period (focusing on ERDF and CF). The report is organised into 8 chapters following this introduction:

- Chapter 2 provides an introduction to the main purpose of this study and its elements, the caveats associated with the exercise and guidance on interpretation of the results.
- Chapter 3 provides a more detailed background to the methodologies used in the collection and treatment of both the quantitative and qualitative data analysed in this report.
- Chapter 4 provides a general introduction to the debate on administrative costs. Following discussion on the issue of definitions, initial figures on the administrative costs are presented. Particular attention is devoted to the evolution of the administrative workload over the programme cycle.
- Chapter 5 discusses the administrative costs in further detail and distinguishes between key functions including the national policy level, programme preparation, management, certification and audit. For each of these functions, an initial picture of the distribution of the workload and the cost of various tasks is presented. A detailed discussion of the 46 individual tasks analysed can be found in annex 1.
- Chapter 6 illustrates the implications of the shared management system of cohesion policy for the administrative workload, focusing on issues such as national regulations and 'gold plating', uncertainties and interpretation, and delegation of tasks. This chapter is based on the qualitative observations drawn from the sample studies.
- Chapter 7 explains the variations in administrative workload and costs observable in the earlier chapters. To this end, the chapter discusses the administrative workload and costs in the light of programme geographies, management and implementation systems, budgetary volumes and thematic orientation.
- Chapter 8 presents some concluding reflections focusing, in particular, on issues such as benchmarking, changes in administrative cost structures from the previous to the current period, intangible benefits and possible lessons to be learned for the future.
- Chapter 9 presents the bibliography associated mainly with the literature review carried out in early 2009.

The report also has two annexes, the first of which presents the administrative workload and costs for each of the 46 individual tasks which have been studied. The second annex contains methodological and conceptual information.

## 2 Introduction

This report provides the first systematic and evidence based mapping of the costs of administering EU Cohesion Policy in the Member States, focusing on ERDF and CF. On a number of previous occasions, figures relating to these administrative costs have been presented for specific programmes, countries or tasks. However, because different definitions and methodologies were employed in each case, their results could not be compared or brought together to form an overall analysis.

### 2.1 A snapshot of the administrative costs of EU ERDF and Cohesion Fund

A comprehensive new data set has been collected for this study using a unified approach which has enabled the first presentation of a fully coherent overview. This picture provides the first systematic and evidence based mapping of the administrative costs associated with the different tasks laid down in the Structural Funds regulations, the timing of the workload related to these tasks and the variations of the administrative costs across a range of programmes.

In addition to available programme documentation and compliance assessment documents, the data for this report has been collected through interviews and questionnaires addressing all ERDF and CF programmes at the preparation, management, certification and audit levels. The national coordination level dealing with ERDF and Cohesion Fund programmes and related policy documents has also been addressed for each country. Furthermore, 450 specific beneficiaries across Europe each received questionnaires. The report is based on the responses received by the 1<sup>st</sup> of October 2009, with a last update in November 2009, and a final polishing after the second plausibility check in February 2010.

In the field of EU Cohesion Policy, precise information is not always available on how many people work on a specific task or aspect of the regulations within each programme in any given year (e.g. 2013). It is sometimes difficult to say how many full-time equivalents work on the administration of the Structural Funds as Structural Fund issues are often only one of many areas of work undertaken by individuals as part of their jobs. The number of bodies involved amount to over 500 in some countries and the staff is often responsible for numerous programmes or various functions, although combining the bodies which belong to the same institution, the number can be reduced to 80 – 100 organisations. In terms of the budgetary figures, there is a similar level of uncertainty which is exacerbated by significant variations in the figures on overhead and salary costs.

The figures provided in this report therefore provide good information on the variation of administrative costs across the tasks specified in the regulations and about the time flow of the workload. The results show which tasks account for a particular high share of the administrative workload, in which years the workload for the different tasks and functions is considerably higher than usual, and what types of programme have higher or lower level administrative costs.

These results could therefore, for example, be used as a basis for the further examination of the implementation and timing of individual tasks or potential need for a greater emphasis on proportionality associated with the financial volume and thematic orientation of the programmes.

However, the overall totals in terms of costs in Euro or person years should be treated with some care. For example, while total administration costs can be estimated at between 3 – 4% of total eligible expenditure, any more specific presentation of the results (e.g. 12.5 billion EUR as 3.2% of total eligible expenditure) should be used only

in conjunction with the appropriate caveats. The same applies for more detailed information relating, for example, to the degree to which costs are incurred due to national regulations, the exact use of the Technical Assistance budget or the involvement of Intermediate Bodies.

## **2.2 Presentation of administrative costs**

The presentation of the data on administrative workload and costs builds on two pillars. First, the data is presented using different typologies of programmes and countries. Second, it is presented in the form of box-plots in order to illustrate the variation in administrative workload and costs within the various areas and typologies.

### **The use of typologies**

The discussion on administrative workload and costs for the different functions and tasks reveals considerable variation between programmes and countries. To understand the administrative workload and costs of EU Cohesion Policy, the differences between functions and the reasons for the variations in these workloads and costs are critical. The reasons for these variations are linked mainly to the budgetary size of individual programmes and the actions funded within them, as well to their thematic orientation and complexity. To a certain extent, the geographical coverage of a programme and the focus of its funding activity also influences the level of administrative workload and cost.

In order to reflect the underlying reasons for variations in administrative workload and cost, this report uses a series of typologies of programmes and countries. This facilitates targeted discussion on administrative costs in the light of possible changes or provisions to be made for future programming rounds.

The report does not discuss administrative costs by Member State as the accumulated administrative costs for a Member State are influenced by the financial size, thematic orientation and geographical coverage of its programmes and their funded actions, as well as differences in wages. Accordingly, a direct comparison of administrative costs between Member States is misleading. The specific composition of programmes and actions in each Member State influence a comparison to such a degree that differences in administrative structures and procedures would be hidden.

### **The use of person years**

As the data presented in this report encompasses the full programming period, the workload is presented in person years. One person year is the equivalent of one person working full time for one year. If that person works full time for the period 2007-13, i.e. seven years, this would be counted as seven person years.

Usually the workload figures in person years are set in relation to the expenditure in million EUR, i.e. how many person years are needed to administer one million EUR of expenditure. One person year per million EUR of expenditure means that the equivalent of one person working full time for one year is needed to administer one million EUR of expenditure over the full programming cycle.

### **The use of monetary figures**

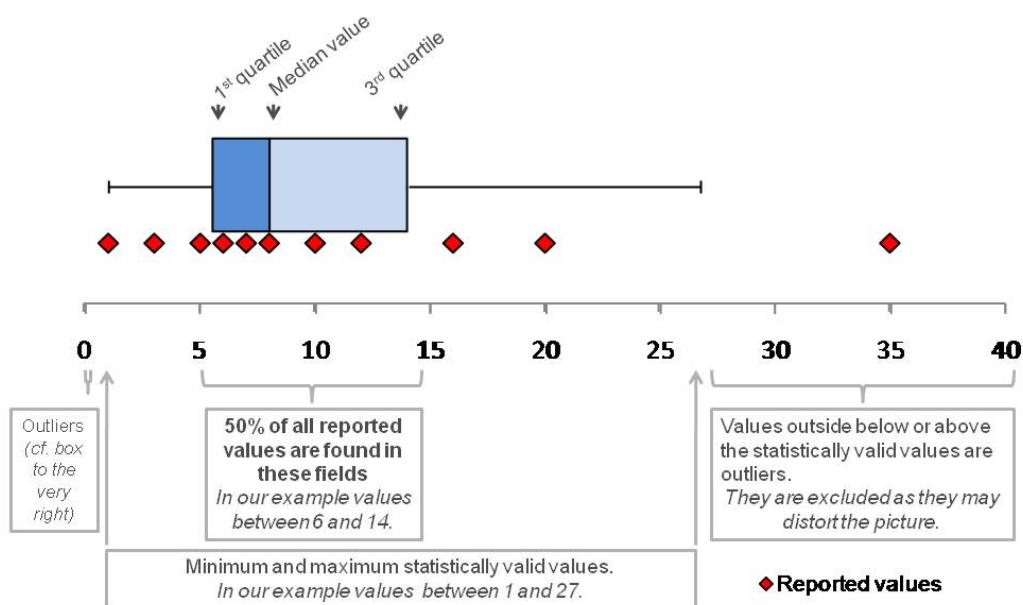
Throughout the report, monetary figures are provided in 2009 prices. For countries outside the Euro zone with a floating currency which is not fixed to the Euro, there is no set exchange rate covering the full programming period. As there is no specified 'best' exchange rate, it was decided to use the average exchange rate for the period from 03.01.2007 to 17.11.2009.

## The use of box-plots

Throughout the report the data is generally presented in the form of box-plots. In the main these illustrate the administrative costs in Euro or person years per million of ERDF and CF expenditure. Box-plots allow us to illustrate the cost range representing the bulk of the responses / programmes as well as the range of the more unusual figures. Extreme values, so-called outliers, have been omitted from the illustrations.

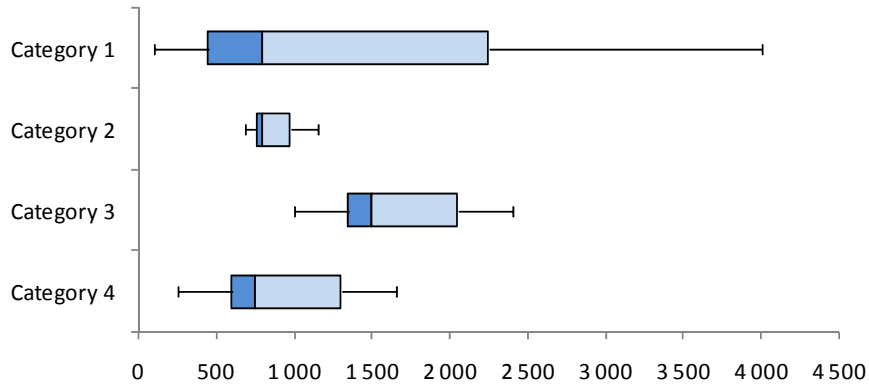
Figures 2 and 3 provide a general explanation for interpreting the box-plots. The red dots in figure 3 are the results or reported values, i.e. the data in the database. The central vertical line (inside the blue box) marks the median of the reported values, i.e. the middle value above and below which there are an equal number of reported values. The (blue) box as a whole contains all the results which fall between the 25th and 75th percentiles, i.e. the central 50% of all results. The horizontal lines at the end of each box, called “whiskers”, represent the lowest and highest possible values that are statistically valid. These values to the left of the 1st quartile and to the right of the 3rd quartile are never more than 1.5 times the length of the box. Reported values located outside the “whiskers” are thus considered to be outliers.

Figure 2: **Example – How to interpret box-plots**



Box-plots are particularly useful when comparing data sets. The placing of the boxes illustrates different cost levels and the length of the boxes demonstrates different cost ranges (degree of dispersion). In the example below, the cost range is significantly wider in category 1 than in category 2. The median cost level is however the same. Both data sets are positively skewed, i.e. the variation in cost levels is higher above than below the median. Cost levels are generally higher in category 3 than in category 4 as the box in category 3 is located farther to the right in the figure. The cost range is however the same since the length of the boxes and whiskers is the same. These datasets are also positively skewed.

Figure 3: **Example – How to interpret box-plots**



### 3 Methodological remarks

This report brings together the results of an extensive literature review, a quantitative survey and a qualitative survey. To better understand the results and their interpretation, this chapter provides basic information on how the literature review and the quantitative and qualitative data collection have been conducted. A more detailed description of the methods is available in annex 2.

#### 3.1 Literature review

A core element of the methodology for this study was a literature review. The objective of the literature review was to give an in-depth overview of relevant theoretical and policy literature covering the assessment and comparison of administrative cost at various territorial levels. Particular attention was paid to the challenge of developing various kinds of benchmarks. Furthermore, the review included an outline of country-specific literature based on surveys carried out by the project's country experts for each of the EU-27 Member States.

The basic objective of the literature review was to deliver a comprehensive assessment of international literature on definitional and methodological issues relating to the analysis and assessment of administrative costs of policy. The study included Cohesion policy literature, with particular reference to the management and implementation of Cohesion Policy and their implications for administrative costs, as well as country-specific literature in the field. On this basis, the review provided a critical assessment of the key debates and approaches as well as the background for the development of a contextual framework for assessing and comparing administrative cost at various territorial levels.

The literature review showed that the topic of administrative costs cuts across a range of academic disciplines (political science, public administration, audit and financial planning), and policy fields (e.g. agriculture, transport, taxation, business development). Our review of this literature, as well as studies dealing specifically with the management and implementation of Cohesion Policy, was helpful in suggesting potential approaches to the assessment of the administrative costs of managing and implementing Cohesion policy. It revealed some wide variations in administrative costs found by studies undertaken to date and that this information is not often comparable due to the use of different methodologies and definitions. The literature review also underlined the obstacles and difficulties involved in a pan-European study of this scope and magnitude – comparing governance and costs across policy fields and involving 27 national administrative frameworks and settings. Another finding was that there is no comparable study available on national regional policy.

Additional documentation complemented the data collection of the quantitative survey and the interview of the qualitative sample studies. Among the documents which were analysed, the Compliance Assessment was of particular interest. Other relevant sources included the Annual Implementation Reports and the Operational Programmes.

#### 3.2 Quantitative survey

The main work of the study was the collection of quantitative data on the administrative costs and workload for the entire programme cycle of the 2007-2013 programming period and for all ERDF and CF programmes. For 46 individual administrative tasks, data was collated on their workload, administrative budgets, types of personnel involved, evolution of the workload over time, external costs, involvement of Intermediate Bodies, and share of cost associated with national



regulations. At a more general level, information on the total eligible budgets, staff costs, overhead costs, the use of Technical Assistance budgets, and the share of the administrative costs paid for via ERDF and CF, were also collected.

Following the Terms of Reference, the data compilation considered both the structures and functions of the ERDF and CF implementation systems. The data was collected in line with the structures of the ERDF and CF implementation systems and then broken down into more detail based on a range of specific functions. The people responsible for particular functions in the implementation of a programme (e.g. programme preparation, management, certification, or audit) were contacted to provide information on the administrative workload and costs incl. a breakdown over selected functions (i.e. 46 tasks). Furthermore in case where several organisations were involved in a task, the respondents were asked to indicate this and whether their information also covered the workload and costs of the other organisations. In cases, where the information did not provide the full workload and costs picture, efforts have been undertaken to complete the picture through proxies.

Overall, emphasis was placed on providing a complete picture on the workload and costs of the single tasks. As some tasks involve a wider set of implementation bodies, the sums of the tasks under a certain structure can deviate from the total workload or costs of the main authority in charge of the tasks. To indicate that the figures for the functions cover the full picture for the tasks falling under a function which may go beyond the corresponding authority, the report does not use the term “authorities” when discussing the figures. This approach has been chosen in order to get a realistic picture of the workload and costs of the single tasks, considering that the division of labour differs between programmes and Member States.

Information on administrative costs was collected from individuals possessing the best overview and working closest to the relevant tasks and functions. For this purpose, six different questionnaires were elaborated on the following areas and translated into the official language used in the EU Member State in question:

- National coordination level (incl. NSRF, NSF and national coordination activities)
- Programme preparation
- Programme management
- Programme certification
- Programme audit
- Beneficiaries

The questionnaires were used as the basis for interviews, sent to the responsible key persons by e-mail or via a web-survey and followed up by phone contacts and also meetings and formal letters from SWECO and DG Regional Policy. Additional available information on the programmes, including the approved Compliance Assessments, was studied where available.

The questionnaires first asked for the overall administrative costs and workload figures and thereafter asked for the systematic breakdown of these figures over time and specific tasks. In the analysis of the data, statistical outliers were excluded to improve the robustness of the data analysis.

The approach chosen for the data compilation has been tailor made for this study with a strong focus on collecting both workload and costs separately and where necessary complementing missing data with estimations based on similar data sets. The approach has certain similarities with the Standard Cost Model (SCM), the main difference being that the SCM was developed to measure administrative costs incurred by business rather than public administration. Moreover the focus of SCM is typically on the costs associated in complying with regulations e.g. such as providing

information. While these activities may be reasonably straightforward to measure, other activities associated with the policy process may be more challenging.

The research raised considerable interest amongst the relevant stakeholders, and the overall response rate of the quantitative data collection was 60%. Figure 4 provides an overview of the detailed response rates. Only those responses which provided sufficient and current information relevant for the analysis have been used. These usable responses have been checked with regard to their distribution over different countries and programme types and they provide a solid representative sample.

Figure 4: **Usable responses by function**

Field	Usable responses
National coordination level	25 countries (93%)
Programme preparation	166 programmes (52%)
Programme management	193 programmes (61%)
Programme certification	207 programmes (65%)
Programme audit	181 programmes (57%)
Beneficiaries	149 beneficiaries (the total number of beneficiaries during the entire programming period is still unknown at this time)

Where those addressed by the questionnaires were hesitant to provide information, this was for one or more of a number of reasons:

- The Structural Funds community is currently the subject of a large number of studies, many of which have been commissioned by DG Regional Policy.
- The information requested by this study is rather sensitive and there was some concern regarding the type of conclusions which might be drawn from such studies.
- Providing solid information on the questions asked by this study is, in some cases, rather time consuming.
- As the questions also cover the future and require a level of detail for which there is no basic data, the answers often entail a high degree of estimation. Not all interviewees felt confident or knowledgeable enough to provide such estimations, a situation exacerbated by the high rate of staff turnover in some administrations.

The quality of the information provided was variable in character and not all responses were 'complete'. Various measures were therefore undertaken to minimize the most obvious mistakes, fill gaps and develop proxies where no information was obtained. In order to complete the data provided by the respondents, various gaps needed to be filled. The main approach to the filling of such gaps was to develop proxies based on other information provided in the same response and/or based on information from similar programmes. Proxies were developed at three different levels (a) where information was missing within a response (b) where responses did not cover all the programmes of a country and (c) where there were insufficient responses to make up a national picture.

Following the Terms of Reference, the administrative workload and costs were examined on a task, functional, structural and territorial basis:

- **Tasks.** The analysis was carried out for the single tasks of the ERDF and CF implementation laid down in the regulations and listed in the Terms of Reference for this study. The analysis by task is available in annex 1 and selected results are also presented in chapter 5.

- **Functions.** An important feature of this report is the analysis of the administrative workload and costs in relation to the different functions laid out in the regulations, i.e. programme preparation, management, audit, and certification. In addition also the national coordination function has been analysed. The results of this are presented in chapter 5.
- **Structures.** The administrative workload and costs are also analysed with regard to different types of governance structure. In chapter 7.2 different management and implementation structures and different types of resource allocation processes are discussed. Furthermore, the administrative workload and costs was also analysed by financial volumes (chapter 7.3) and thematic orientations (chapter 7.4).
- **Territories.** The territorial dimension is addressed through the analysis of the administrative workload of national, regional and territorial cooperation programmes as well as EU12 and EU15 comparisons. This is presented in chapters 7.1 (national, regional, ETC) and 7.2 (EU12, EU15). Furthermore, the territorial dimension is underlying all analysis of the study as the data has been collected and processed at programme and national level.

Towards the end of the study, national overviews were compiled for external plausibility checks in autumn 2009. Key individuals in the ERDF and CF administration in the Member States and members of DG Regional Policy Geographic Units commented on these national overviews. This allowed the identification and correction of a number of errors in the quantitative data. In addition, DG Regional Policy sent out one page summaries with the basic national data to national representatives for an additional plausibility check in February 2010. The responses to both rounds of plausibility checks were incorporated into the report and data sets.

The monetary figures are provided in 2009 prices. For countries outside the Euro zone with a floating currency which is not fixed to the Euro, there is no set exchange rate covering the full programming period. As there is no specified 'best' exchange rate, it was decided to use the average exchange rate for the period from 03.01.2007 to 17.11.2009.

### 3.3 Qualitative sample studies

The 45 qualitative sample studies complemented the quantitative data and literature review, including comparisons to the previous programming period and reflections on the main bottlenecks and possible areas of improvement. The sample studies were based on interviews and reviews of documentation.

The interviews focused on key actors with experience and insight who could provide valuable answers. The interviews were undertaken either by phone or face to face. More than 200 different people were contacted and interviewed, representing 127 different organisations, bodies or authorities. All of the interviews were based on the same questionnaires.

The results of the sample studies were cross-analysed in relation to different types of programmes, groupings of Member States and types of management structure. The results were compared with the results of the quantitative data collection and literature review and integrated into the report.

## 4 Administrative costs of ERDF and Cohesion Fund

In recent years, the issue of better regulation and, in particular, that of the administrative costs imposed by legislation has gained increasing attention internationally, at the EU level and in the Member States. In this context, the European Commission proposed an ambitious strategy to measure administrative costs and reduce administrative burdens in the EU including the adoption of a joint EU target for reducing administrative burdens imposed by EU legislation by 25% overall in the medium term.<sup>2</sup>

With regard specifically to ERDF and Cohesion Fund more responsibility for 'day to day' management and implementation issues was decentralised from the EU level to the Member States on the basis of the so-called 'strategic approach' for the 2007-2013 programming period. With the debate on Cohesion Policy post 2013 already underway, a key issue here is the impact of this reorganisation on administrative costs and how these costs are distributed.

The purpose of this study was therefore to review governance and administrative structures at national and regional level for the ERDF and the Cohesion Fund in programmes during the 2007-2013 period and to assess the administrative workload and costs of the ERDF and Cohesion Fund implementation tasks assigned to the Managing Authorities, Certifying Authorities, Audit Authorities or to Member States according to EU regulations. The administrative costs comprise costs of the personnel working with the Structural Funds implementation, costs for external services which are bought and expenditure for overheads.

It should be noted that administrative costs, as analysed within the framework of this study, are different from the concept of administrative burden. "Administrative burden" refers to additional expenditure which businesses have to bear performing administrative duties imposed on them by EU legislation. The focus of the study is on administrative costs of national authorities mediating EU funds to beneficiaries and uses related to administrative burden are touched upon only briefly.

### 4.1 Administration of ERDF and Cohesion Fund

The full programme cycle for Cohesion Policy in 2007-2013 lasts over 10 years. It began with the preparation of the National Strategic Reference Framework in 2005 (and partially in 2004) and will not end until the final closure of the programmes sometime after 2015. During this period, the administration of EU funds encompasses five main areas of activity:

- *National coordination*  
This covers the preparation of the National Strategic Reference Framework and the National Strategic Reports. Coordination functions for domestic Structural Funds implementation are also included in countries where the national level exercises these functions.
- *Programme preparation*  
This covers all tasks directly related to the preparation of the Operational Programmes. In addition to their development and drafting, this also includes the *ex-ante* evaluation, the designation of authorities and the setting up of the management and control system.
- *Programme management*  
This covers all tasks related to the programme management, as laid down in the

<sup>2</sup> CEC (2006) Measuring Administrative Costs and Reducing Administrative Burdens in the European Union, Commission Working Document COM (2006) 691

Structural Funds regulations. Programme management covers a wide variety of tasks incl. project selection, management verification, communication and publicity, monitoring of implementation and preparation of annual implementation reports.

- *Programme certification*  
This covers all tasks related to programme certification, as laid down in the Structural Funds regulations.
- *Programme audit*  
This covers all tasks related to the programme audit, as laid down in the Structural Funds regulations.

For the implementation of these areas of activities, each Member State has created its own structures. The range of management and implementation systems is discussed in detail in Chapter 7.

Figure 5: **Programme configurations by country (excluding ETC.)**

Country	Total eligible expenditure in EUR	ERDF & CF funding in EUR	No. of Operational Programmes	No. of bodies involved in programme management	No. of bodies involved in programme certification	No. of bodies involved in programme audit
AT	1 276 780 733	680 066 021	9	20	2	1
BE	2 403 876 316	990 283 172	4	6	3	3
BG	6 624 538 988	5 488 168 381	5	7	1	1
CY	579 606 868	492 665 838	1	7	1	1
CZ	26 503 627 152	22 528 083 056	14	24	1	1
DE	26 396 199 001	16 107 961 527	18	90	23	20
DK	509 577 240	254 788 620	1	7	1	1
EE	3 611 579 771	3 011 942 552	2	16	1	1
ES	39 001 563 519	26 600 405 159	23	200+	1	20
FI	2 103 523 445	977 401 980	5	60	1	1
FR	22 690 079 887	8 054 673 061	30	73	1	1
GR	20 172 569 973	15 846 461 042	10	100	1	1
HU	25 049 482 420	21 292 060 049	13	20	1	1
IR	938 897 096	375 362 372	2	16	1	1
IT	44 092 710 694	21 027 307 507	28	50	26	25
LT	7 068 539 664	5 747 186 096	2	14	1	1
LU	85 107 216	25 243 666	1	2	1	1
LV	5 096 599 364	3 979 793 917	2	15	1	16
MT	856 615 354	728 123 051	1	5	1	1
NL	1 968 601 000	830 000 000	4	10	1	1
PL	70 617 533 404	55 514 676 992	20	74	17	17
PT	23 512 385 699	14 899 172 647	10	46	1	1
RO	18 916 024 612	15 528 889 094	5	34	1	1
SE	2 026 189 558	934 540 730	8	1	1	1
SI	3 935 705 031	3 345 349 266	2	8	1	1
SK	11 674 087 288	9 861 016 794	9	24	1	16
UK	11 088 825 121	5 416 019 735	16	23	5	5

In general, differences in management and implementation approaches are also illustrated by the number of Intermediate Bodies involved in performing various functions. Some Member States have very few Intermediate Bodies involved, while others bring in an extensive number of Intermediate Bodies. Figure 5 provides a rough overview of differences although the figures are only proxies given that there is significant differentiation between the Intermediate Bodies involved. In some countries, for example, one Ministry is counted as a single Intermediate Body whereas, in other cases, each single department of a Ministry is classified as an individual Intermediate Body. Some German programmes use this very detailed understanding of Intermediate Bodies and, if this classification were applied, between 400 and 500 bodies could be counted as entities involved in the programme management in Germany. Combining Intermediate Bodies which belong to the same institutions, the number can be reduced to 80 – 100 organisations. The table tries to provide a calibrated picture and clearly shows the main differences.

## 4.2 Variation of the administrative workload over time

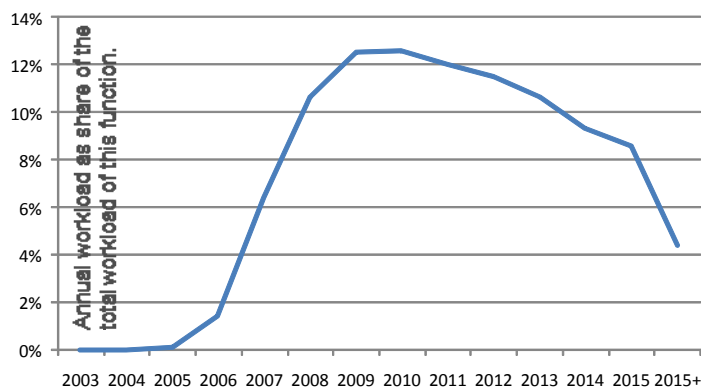
The following section presents the variation of the workload over time, based on the results of the quantitative data collection. The first part of the section focuses solely on the current programme period. The second part presents a more complete picture including time overlaps with the past and next programming period.

### Workload variations over time - 2007-2013 programme cycle

Taking the full cycle of the 2007-2013 period into consideration, the overall workload is clearly dominated by work carried out in relation to programme management (see Figure 6). The time before the start of the programming period, when the national policy documents and programme documents are being developed, involves a comparatively low level of human resources. The workload thereafter increases dramatically from the formal start of the eligibility period and reaches its peak in 2009 and 2010. At this point, the programmes have come through the process of compliance assessment, have developed most measures on the ground, and project selection and implementation are well on the way. Activities related to certification and audit have also started although the relative workload is modest compared to the task of programme management. After 2010 the total workload is expected to decline until the programme is closed. During the final phase, certification and audit take up a substantial share of the total workload.

The peak in 2009-2010 is explained mainly by the work associated with getting the programmes started and establishing the necessary routines in addition to a strong emphasis on approving actions/projects and dealing with an already substantial amount of payment claims coming into the system. The activities and processes which constitute the overall management of the Structural Funds do not generate a smooth workflow but tend instead to overlap or concentrate during specific time-periods along the programme cycle. Both the data analysis and the sample studies confirm that the administrative workload is higher at the beginning of the period (see figure 6). Start-up is more frequently considered as intensive where the Structural Funds are integrated with national policies. The subsequent marked decline may be partly the result of an 'over optimistic' view of the decrease in the workload, as, on the basis of the experience of previous programming periods, it is likely that many activities on the ground will continue in substantial volumes until 2013, if not until 2015.

**Figure 6: Administration of 2007 – 2013 period – total workload over time**



### **Workload variations – overlaps between programme periods**

The data analysis shows that, although the programme period officially runs from 2007 to 2013, the related workload began about two to three years earlier and is unlikely to be concluded until after 2015. Consequently, there are substantial overlaps in time between the different programming periods.

Figure 7 presents the aggregated workload for the three periods 2000-2006, 2007-2013 and 2014-2020. The picture is based on data for the present programme period presented above. Following different assumptions about time overlaps between programme periods, slightly different total pictures emerge.

Figure 7a is based on the assumption that the cycles for the 2000-2006 and the 2014+ periods are similar to that of the current period. The total picture of the workload flow for the administration of ERDF and CF sees two substantial peaks during which there is a concentration of workload from two different programme periods. Assuming that the workflow is identical in all three programming periods, those peaks are in 2008 and 2015.

Figure 7b is based on the same assumptions but anticipates a delay of the closure of the past period by one year, given the current status of programme closure for the last programme period. Accordingly, the anticipated peak is in 2009 and is comparably stronger as the present period demands more work in 2009 than in 2008.

In both cases, essentially, 2012 is the only year likely to be shaped mainly by the workload associated purely with the current programme, with the last closing procedures of the previous programming period and the commencement of the policy work for the forthcoming period book-ending this short one-year span.

The beginning and end of each period are particularly work intensive due to the overlapping of activities related to the new and the old programmes. Although the authorities of the EU15 are less likely to consider the start-up alone as particularly burdensome, dealing with the closure of the previous period (closure of programmes and projects, audit and control, irregularities etc.) and the simultaneous launching of the new programmes can be a challenge. This is also related to the fact that each programme is governed by its own legal obligations and individual timing and therefore potential exploitation of any synergies during the parallel implementation process is limited.

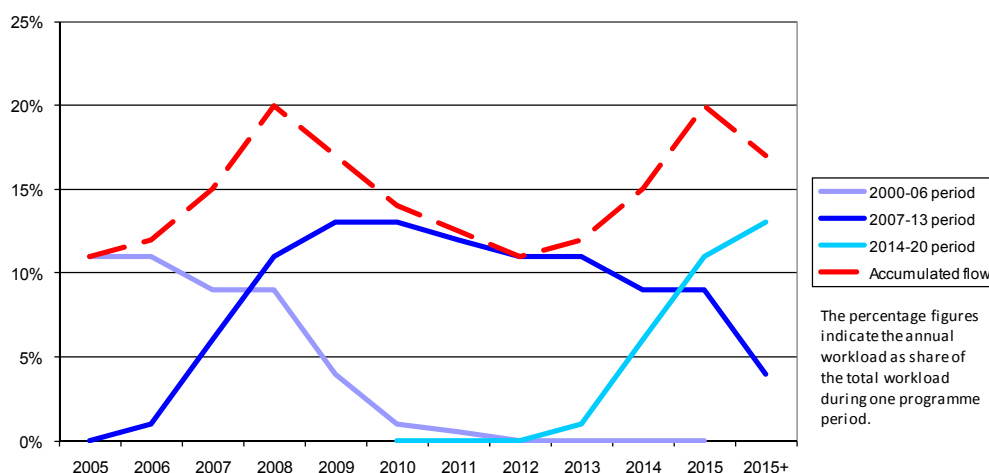
The timing of processes at the higher administrative levels can make it difficult in some cases for authorities to make a timely start to the programmes. An example of this is the adoption of regulations in the last year of a programming period on the basis

of which the NSRF, programmes and negotiation procedures are to be drafted. This means that the first year of the programme can be dedicated almost entirely to preparation activities despite the fact that the administrative obligations remain structured in such a way that the operational programming of projects could potentially also start in this first year<sup>3</sup>.

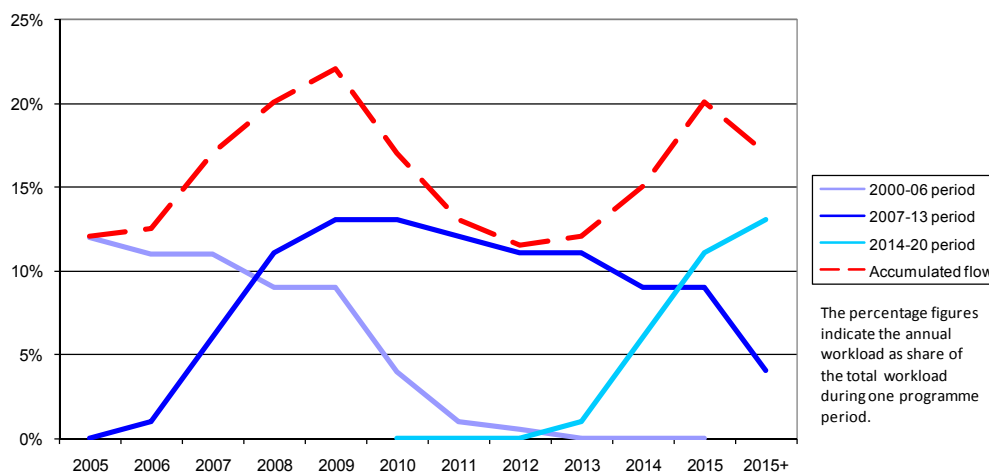
It should be noted that the requirement for involved organisations to deal with multiple and overlapping tasks at the beginning of the period does not necessarily result in any additional personnel costs.

**Figure 7: Administration of ERDF and CF 2005 - 2016 theoretical workload over time**

7(a) – Assuming similar workload cycles for all programme periods



7(b) – Considering a one year delay of the closure of the 2000-2006 period



Figures 7(a) and 7(b) are based on the results of the quantitative survey for the current period, assuming that the workflow is identical in all three programming periods. For figure 7(b) it is furthermore assumed that the closure of the 2000-06 period will be delayed by one year.

<sup>3</sup> The relatively late adoption of regulations, guidelines and clarifications can also contribute to uncertainty at the programme implementation level (see sub-section 4.4).



### 4.3 Administrative costs of ERDF and Cohesion Fund

The administration of ERDF and CF at national and programme level for the full 2007-2013 programme cycle is estimated to total around EUR 12,500 million and involve about 170,000 person years of work (excluding person years for the purchase of various services). These figures do not include administrative costs at the level of the beneficiaries.<sup>4</sup>

About 2% of the workload is estimated to stem from national regulations which are not directly linked to the requirements of the EU Structural Funds regulations themselves. Not included in this 2% is the workload related to national interpretations of EU regulations, i.e. national 'gold plating'. As discussed elsewhere in this report, national 'gold plating' can involve a substantial amount of administrative work.

Figure 6: **ERDF and CF – administrative workload**  
(in person years per million EUR of total eligible expenditure)

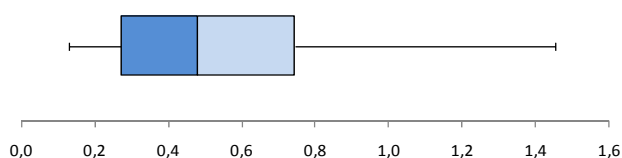
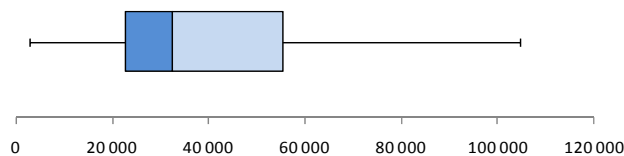


Figure 7: **ERDF and CF – administrative costs**  
(in EUR per million EUR of total eligible expenditure)



#### ERDF and CF – administrative costs

##### Person years:

total: 170,000

per million EUR of total eligible expenditure: 0.44

per million of total EU funding: 0.63

##### Costs in EUR:

total: EUR 12.5 billion

per million EUR of total eligible expenditure: EUR 32,000

per million of total EU funding: EUR 46,600

NB: all figures are rounded approximations.

Tasks at the national coordination level account for about 6% of the costs, programme preparation for about 3%, programme management takes a lion's share with about 78%, programme certification accounts for about 5% and audit for about 8%.

Dividing administrative costs with the number of operational programmes lead to a conclusion that the administrative costs for an average programme are about EUR 36 million and involve about 500 person years of work spread over the full programme cycle.

As can be seen from figures 8 and 9, the costs and person years vary across the Member States. The variations depend on a multitude of factors which are further discussed in chapter 7.

Viewing administrative costs in relation to the total eligible ERDF and CF expenditure, the average costs per million EUR are EUR 32,000 and the average workload is 0.44 person years per million EUR of ERDF and CF expenditure. The median costs for the administration of one million

<sup>4</sup> The figures are based on data for all EU Member States. The overall reply rate at programme level was 59% with a good spread among the Member States and different functions. The remaining data has been carefully estimated in relation to existing data.

EUR are EUR 32,500 and involve 0.48 person years. For the central 50% of the Member States, the figures range from 0.28 to 0.75 person years and EUR 23,000 to 56,000.

The administrative costs presented in this study do not include possible additional administrative costs and workload linked to procedures associated with the securing of necessary co-funding or possible additional reporting mechanisms deriving purely from the demands of the co-funding providers. It can, therefore, also be of interest to review the administrative costs only in relation to the ERDF and CF share, and here the average costs per million EUR are EUR 46,600 and the average workload amounts to 0.63 person years per million EUR of EU funding.

#### 4.4 Use of Technical Assistance

The Terms of Reference ask for an analysis of the use of the Technical Assistance resources. The use of the Technical Assistance budget for programme management, certification and audit varies widely across countries and regions. This ranges from the full financing of these tasks through Technical Assistance to almost full financing from other sources.

The information received on the use of technical assistance budgets was limited in both quantity and quality, with many responses containing no information at all. Where information was provided, the aggregated figures for some programmes exceeded the available technical assistance budgets, while, for other programmes, the results were surprisingly low. In some cases the existences of a wide range of different bodies receiving funding from the technical assistance budgets posed an additional challenge when discussing the use of the budget throughout the full programme cycle. The figures presented below should therefore be treated as rough indications for the use of technical assistance.

- The share of the programme management financed through the Technical Assistance budget varies between 100% and 3%. Of the programmes analysed, about 60% of the programme management has been financed from the Technical Assistance budgets. It is estimated that about 70% of the staff costs related to the programme management are paid from Technical Assistance budgets.
- The share of the programme certification paid for by the Technical Assistance budget ranges from 0% to 100%. Of the programmes analysed, in total about 45% of the programme certification has been financed from the Technical Assistance budgets. It is estimated that about 45% of the staff costs related to the certification are paid out of Technical Assistance budgets.
- The share of costs for the programme audit paid for through Technical Assistance ranges from 0% to 100%. Of the programmes analysed, about 30% of the audit costs at programme level were financed by the Technical Assistance budgets. It is estimated that about 65% of the staff costs related to the audit are paid for by Technical Assistance budgets.
- In addition, parts of the programme preparation process have been paid for through Technical Assistance from the previous programming period.

In total between 30 and 40% of the Technical Assistance budgets are used for paying staff costs relating to programme management, certification and audit. However, as noted above, there are considerable differences between the individual programmes.

## 5 Administrative costs by function

The administrative cost and workload are not equally distributed over the different functions i.e. the national policy level, programme preparation, programme management, certification and audit. In addition, the European-wide figures are based on considerable variations between programmes and Member States.

As illustrated by figure 10, there is considerable variation between the functions in terms of share of the total workload or administrative costs across the Member States. The differences in the shares for staff and budgets are influenced, among other things, by the amounts allocated for external costs.

The national coordination level accounts, on average, for about 3% of the staff and 6% of the budget and the variation between the Member States is mainly due to the extent to which national coordination activities exist. The national coordination level, therefore, accounts for more than 20% of the workload in Latvia, Luxembourg and Sweden which have the highest workload shares. In budgetary terms, Estonia, Romania and Latvia have the highest shares with more than 25% of the administrative costs accounted for by the national policy level. These high levels are associated mainly with a high degree of centralisation in ERDF and Cohesion Fund administration at the national level, and also in part to different levels of experience of administering Cohesion policy. In the case of Luxembourg, the small allocation of Structural Funds implies that the preparation of the NSRF and NSR account for a relatively high share given that the other functions are related more to the amount of funding available.

Programme preparation accounts on average for about 2% of the workload and about 3% of the administrative costs. Denmark and Austria have the highest shares with more than 5% of the workload being used for programme preparation. In terms of share of the administrative costs stemming from the programme preparation stage, Denmark and Italy lead the list with totals higher than 5%.

The programme management function accounts for the lion's share of both the administrative workload (80%) and monetary costs (78%). With more than 90% of the workload dedicated to the programme management, Lithuania, Germany, France and Finland show the highest figures. In monetary terms, Cyprus, the Czech Republic, Germany and Lithuania spend the highest proportion on programme management (around 90%). The lowest shares of administrative workload and costs channelled into programme management have been observed in Luxembourg, Latvia, Italy and Greece. The reasons for this vary but are linked mainly to the high shares of workload and costs accounted for by the national coordination tasks in these countries (see above).

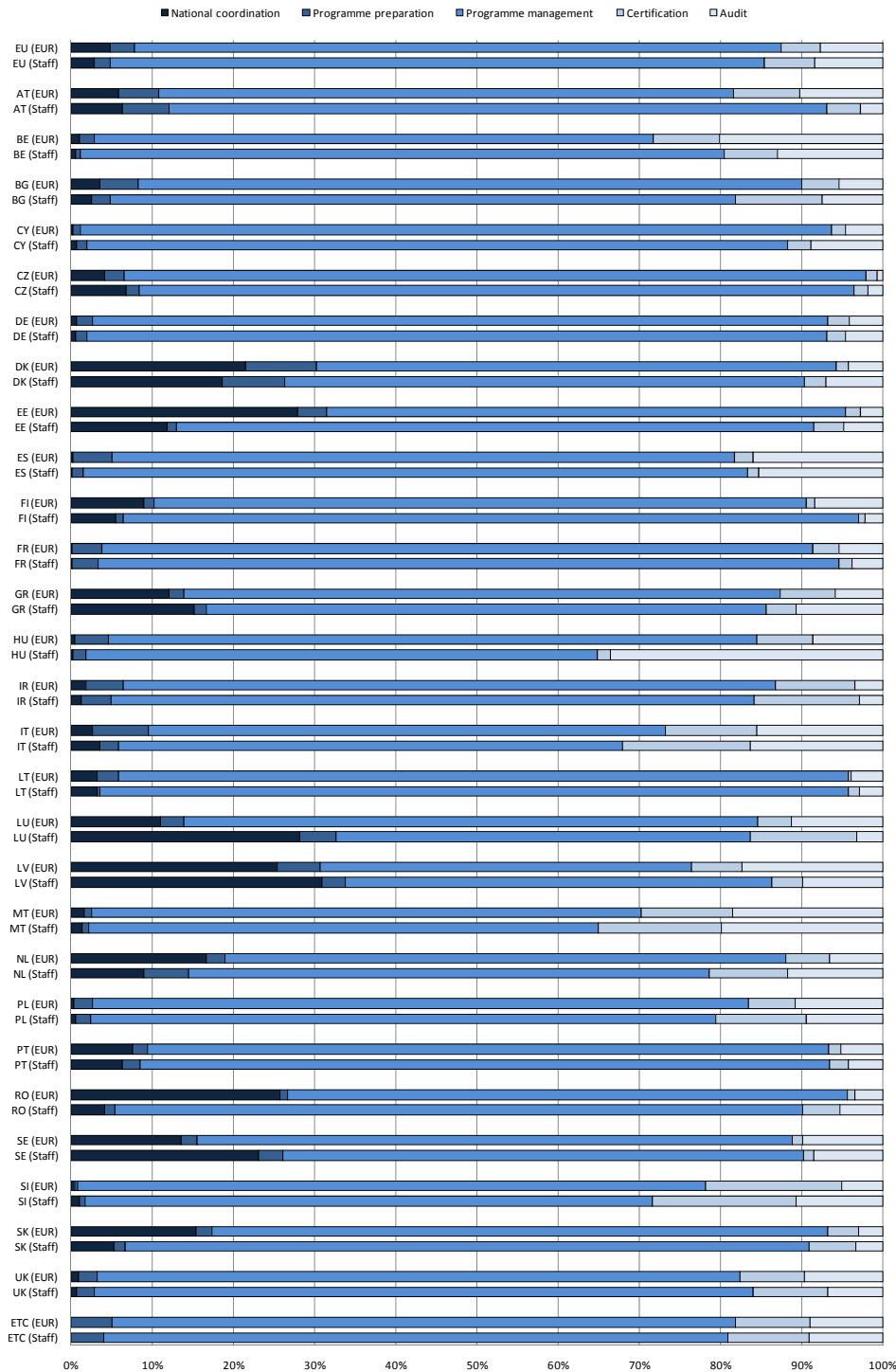
Programme certification accounts for 6% of the workload and 5% of the administrative costs. Slovenia, Italy and Malta have the highest shares with more than 15% of the workload and more than 10% of the administrative costs going towards certification. However, it has to be remembered that the certification task had barely started when the data was collected and therefore the provision of information covering the entire programme cycle required interviewees to produce estimations. Some of the particularly high values, therefore, may be the result of overestimations of the future workload.

Programme audit represents on average 8% of both the workload and the administrative costs. In terms of the share of the workload associated with audit functions, Hungary stands out with 33% followed by Malta and Italy with 20%. The highest shares of the total administrative cost related to audit activities can be found in Latvia, Malta and Belgium at about 20%. As with the figures for certification, the audit

figures were also collected before the main activities were started and were thus subject to estimations on the anticipated workload.

The individual functions are discussed in greater detail in the following sections which outline some of the reasons for the variations both between and within the countries. An even more detailed picture is available in annex 1 where the individual tasks within each of the functions are analysed.

Figure 8: Cost and person year shares by function and country



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## 5.1 National coordination level

The national coordination level includes national level coordination functions for domestic Structural Fund implementation (in countries where this is relevant) as well as the preparation of the National Strategic Reference Framework (art. 27, 28) and the National Strategic Reports (art. 29). The total estimates for this function are 5,800 person years and EUR 800 million over the programme cycle. The majority of this is accounted for by the national coordination activities.<sup>5</sup>

If only the preparation of the National Strategic Reference Framework and the National Strategic Reports is taken into account, the corresponding figures are 350 person years and EUR 28 million. Of these totals, about 50% are external costs for the purchase of external services and expertise. About EUR 11 million are thought to be incurred because of national regulations and not because of EU requirements. This

Figure 9: **National coordination level – administrative workload**  
(in person years per Member State)

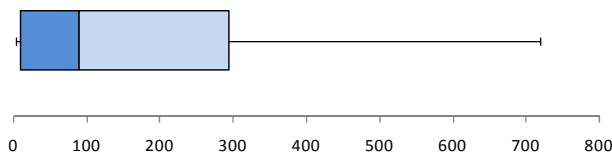
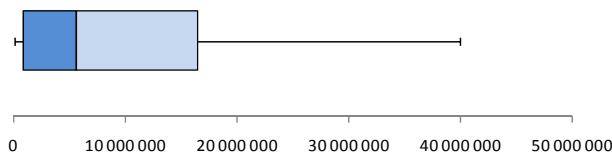


Figure 10: **National coordination level – administrative costs**  
(in EUR per million EUR per Member State)



### National coordination level – administrative costs

#### Person years:

total: 5,800

per million EUR of total eligible expenditure: 0.01

per million of total EU funding: 0.02

#### Costs in EUR:

total: EUR 800 million

per million EUR of total eligible expenditure: EUR 2,000

per million of total EU funding: EUR 3,000

NB: all figures are rounded approximations.

does not include additional administrative work related to national 'gold-plating'.

Looking at the national coordination activities, about one third are funded by national sources and two thirds by European sources. A very high share of this are external costs for buying services such as evaluations.

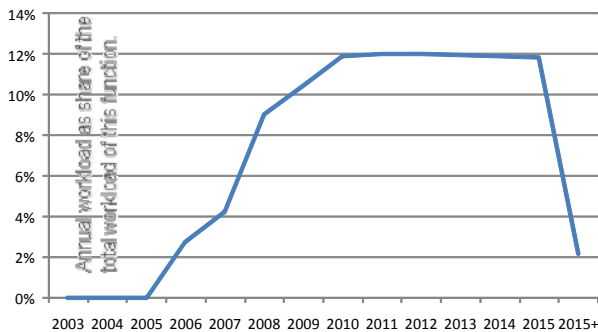
Not all Member States have national coordination activities which extend beyond the preparation of the NSRF and NSR. In countries which do have additional coordination functions, the extent of these activities differs significantly and the workload level and costs are difficult to compare. Variations between countries are often caused by the approach to national coordination. In particular, Romania, Greece, Slovakia and the Czech Republic allocate a considerable number of person years to these activities.

The variation in workload and costs at the national coordination level is even better illustrated by the box-plots. Figures 11 and 12 illustrate that the median workload for the national coordination level is about 90 person years per

<sup>5</sup> The figures are based on data provided for 25 of the 27 EU Member States. The remaining data has been carefully estimated in relation to existing data.

Member State, or in monetary terms about EUR 6 million. For the central 50% of the programmes analysed, the figures range from 10 to 290 person years and EUR 1 million to EU 17 million. There are, however, also countries with considerably higher figures. Excluding outliers, the maximum values observed are close to 720 person years and EUR 40 million.

Figure 11: **National coordination level – workload over time**



The work for the national coordination level commenced in 2003 and 2004, but only really took off in 2005 and a long period of high workload is anticipated between 2010 and 2014. This total workflow picture is mainly dominated by the coordination and “supervision” of programmes.

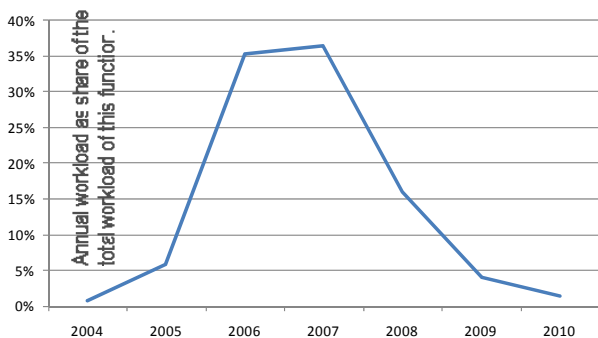
In annex 1, each of the individual tasks within the national coordination level is

discussed in greater detail. This is of particular interest in building up a more nuanced picture of the work related to the National Strategic Reference Framework and the National Strategic reports.

## 5.2 Programme preparation

The programme preparation function incorporates all tasks directly related to the preparation of the Operational Programmes. In addition to OP development and drafting (art. 32), this also includes the *ex-ante* evaluation (art. 48), the designation of authorities (art. 59) and the creation of the management and control systems (art. 71).

Figure 12: **Programme preparation – workload over time**



Work on the preparation of the Operational Programmes began in 2004, peaked in 2006-2007 and declined thereafter as the programmes received final approval. In some cases, however, the work of programme preparation is not expected to be fully finalised until 2010. This is partly because of revision procedures and in a few cases because of particularities of the budget negotiations.

It is estimated that, in total, the preparation of all ERDF and CF programmes for the current period accounted for about 3,500 person years in work and cost about EUR 370 million. Seen per programme, this corresponds to an average of 10 person years or EUR 1 million. On average, about 30% of the costs are external costs for various types of services and expertise.<sup>6</sup> A further 20% are considered to be overhead costs, although the respondents indicated a considerable level of uncertainty with regard to these costs, because of the low quality of the data available. Overall, it is thought that about 3% of the costs incurred for programme preparation were related to national

<sup>6</sup> The figures are based on data for 164 programmes covering all EU Member States. The overall reply rate at programme level was 52% with a good spread among the Member States and different functions. The remaining data has been carefully estimated in relation to existing data.

regulations. This does not include additional administrative work related to national 'gold-plating'.

Figure 13: **Programme preparation – administrative workload** (in person years per programme)

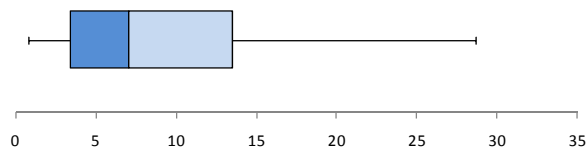
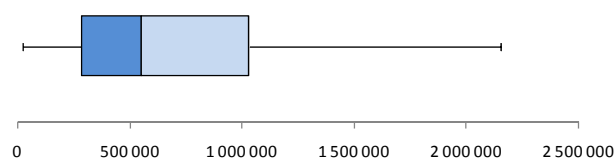


Figure 14: **Programme preparation – administrative costs** (in EUR per programmes)



### Programme preparation – administrative costs

#### Person years:

total: 3,500

per million EUR of total eligible expenditure: 0.01

per million of total EU funding: 0.01

#### Costs in EUR:

total: EUR 370 million

per million EUR of total eligible expenditure: EUR 950

per million of total EU funding: EUR 1,400

NB: all figures are rounded approximations.

These figures and charts, however, must be interpreted with great care as considerable variations exist in terms of the workload and costs connected with programme preparation both within the EU and within individual Member States. The setting up of the management and control systems, and the preparation of the Operational Programmes in particular, show considerable variations. The setting up of the control system demands particularly high levels of administrative input (viewed as per million EUR of total eligible expenditure) in some EU12 countries including Romania, Cyprus, Poland, Lithuania, Czech Republic, Latvia, Slovakia and Bulgaria. This might be related to the fact that it is the first full programme cycle for these countries. Significant resources (in terms of costs per million EUR of total eligible expenditure) have been dedicated to the preparation of the OPs in Romania, Lithuania, the Czech Republic and Italy. These costs are substantially influenced by the above average amounts committed for the purchase of external services related to the preparation of the OPs.

Figures 15 and 16 show that, for the programmes analysed, the median workload for programme preparation is about 7 person years or EUR 550,000. For the central 50% of the analysed programmes, the figures range from 3.5 to 14 person years and EUR 300,000 to EUR 1 million. However, there are programmes which also required a considerably higher workload and funding for programme preparation. Excluding outliers, the maximum values observed are 28 person years and EUR 2.2 million.

A more detailed look at the individual tasks which contribute to programme preparation (see figures 17 and 18) reveals that, both in terms of workload and costs, the preparation of the programme document is the most significant task followed by the setting up of the management and control system. In annex 1 each of the individual tasks related to programme preparation is discussed in greater detail.

A third of Managing Authorities consider programme preparation to be a particularly relevant issue in explaining the pattern of costs. This factor is especially important for

those Authorities operating under regionalised management structures and where the Structural Funds are integrated with national policies.

Figure 15: **Workload in person years for the programme preparation by task**

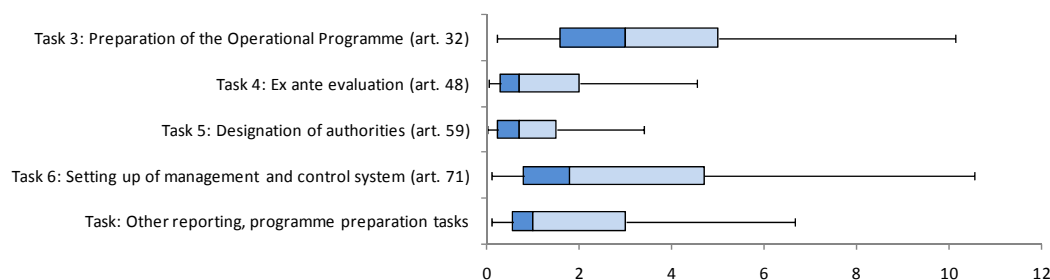
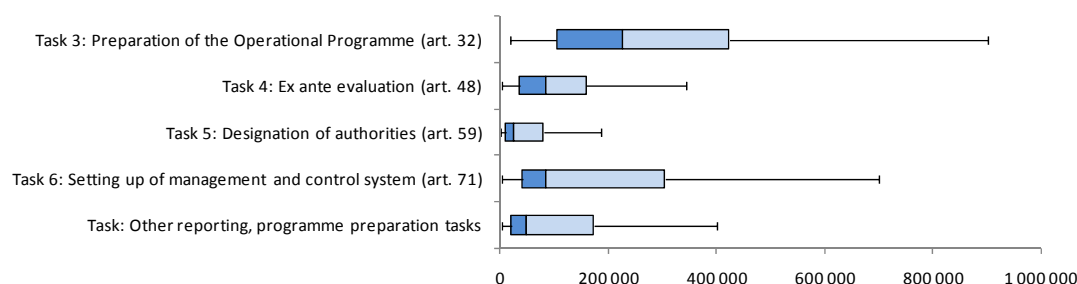


Figure 16: **Costs in EUR for the programme preparation by task**



The set up process is rather more significant under the Convergence objective, for larger programmes (above EUR1 billion), and in those cases where a new institution is taking on management responsibilities.

Of the activities required for programme preparation, the setting up of the management and control system and its assessment (art. 71) is the most frequently reported in terms of its relevance to administrative workload. It is worth mentioning that while, in some cases, the description of the management and control system requirements are regarded as being too detailed, other authorities consider that this documentation brings added value to the management through greater transparency and clarity in procedures. In such cases, this is considered to represent an important increase in confidence in following clear daily management procedures.

Given that the Structural Fund activities in the Member States take the form of Operational Programmes, it should be remembered that the administrative workload associated with their drafting can also be influenced by external factors. The current economic downturn in some cases generated the need to revise the programmes (art. 33), involving many exchanges with the Commission and the national governments, all of which present time and resources (reprogramming, meetings etc).

### 5.3 Programme management

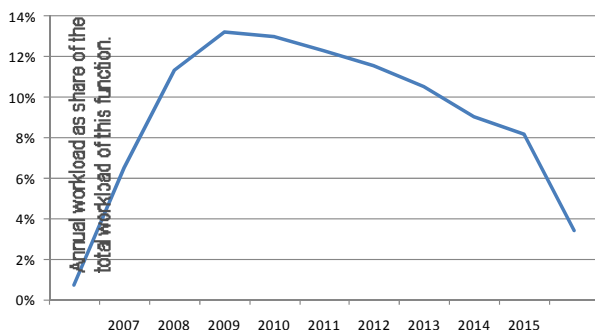
The programme management incorporates all tasks related to programme management as specified in the Structural Funds regulations (art. 16, 39, 40, 42, 44, 48, 55, 60, 63, 66, 67, 69 and 70) and involves a wide range of organisations. A considerable share of the workload is undertaken by Intermediate Bodies which account for about 40% of the workload and administrative costs.

Programme management activities commenced in 2007 and 2008 and increased significantly during the first two years. 2009 is expected to be the peak year for programme administration tasks. After this, the workload is expected to decline until



the end of the programming period. Programme management will not conclude before the programmes are closed and therefore a more significant decline in the workload is only expected after 2015.

**Figure 17: Programme management – workload over time**



In total, the programme management for all ERDF and CF funded programmes during the 2007-2013 period is estimated to require approximately 136,000 person years and cost about EUR 9,700 million.<sup>7</sup> Overall, the programme management is expected to consume about 70% of the available Technical Assistance budgets.

About 25% of the programme management costs are external costs for the purchase of external services and expertise.

In addition, according to responses received, about 13% of the total costs are overhead costs. It should, however, be noted that the figures for overhead costs contain a high degree of uncertainty, because of the low quality of the data available on this point. In terms of the origin of the administrative costs, the quantitative data collection indicates that approx. 2% of the programme management costs are due to national regulations - although here too the figures must be treated with great care as the respondents were rarely precise on this subject. The qualitative sample studies, however, suggest that additional work stemming from national 'gold plating' constitute more significant workload and costs (see chapter 6.1).

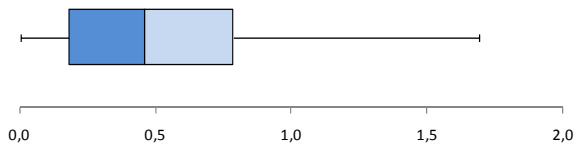
On average, the administration of a single programme involves 430 person years and administrative costs of EUR 31 million.

These figures and charts need to be interpreted with care as considerable variations exist in terms of workload and costs associated with programme management within both the EU and individual Member States. These differences are most pronounced in the tasks related to project selection and the verification of deliverables and compliance. In relation to their total eligible expenditure, the programmes in Austria, Cyprus, Finland and the Territorial Cooperation Programmes devote the highest workload and person years to project selection. The lowest figures are to be found in Hungary, Malta, Estonia and Latvia. Similarly, in relation to their total eligible expenditure, Cyprus, Finland, the Netherlands and the Territorial Cooperation Programmes devote the most to the verification of deliverables and compliance, while Hungary, Latvia, Estonia display the lowest figures. This shows that certain countries with comparably low total eligible expenditure figures have higher administrative costs per million EUR of total eligible expenditure for project selection and the verification of deliverables and compliance. It is not clear at this stage whether this is due to economies of scale for the larger programmes, greater effort devoted to the careful selection of projects in programmes with more limited finance, the thematic orientation of the programmes or other issues.

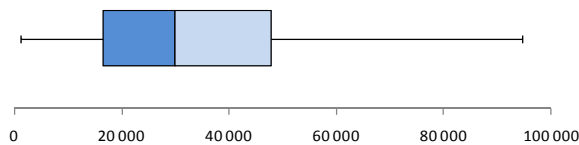
<sup>7</sup> The figures are based on data for 191 programmes covering all EU Member States. The overall reply rate at programme level was 60% with a good spread among the Member States and different functions. The remaining data has been carefully estimated in relation to existing data.

Figures 20 and 21 illustrate that, for the analysed programmes, the median workload in terms of programme management is approximately 0.46 person years per million EUR of total eligible expenditure or about EUR 30,000 per million EUR of total eligible expenditure. For the central 50% of the programmes analysed, the corresponding figures range from 0.2 to 0.8 person years and EUR 17,000 to EUR 48,000 per million EUR of total eligible expenditure. However, there are also programmes which require

**Figure 18: Programme management – administrative workload**  
(in person years per million EUR of total eligible expenditure)



**Figure 19: Programme management – administrative costs**  
(in EUR per million EUR of total eligible expenditure)



**Programme management – administrative costs**

**Person years:**

total: 136,000  
per million EUR of total eligible expenditure: 0.35  
per million of total EU funding: 0.51

**Costs in EUR:**

total: EUR 9,700 million  
per million EUR of total eligible expenditure: EUR 24,900  
per million total EU funding: EUR 36,100

NB: all figures are rounded approximations.

the qualitative sample studies, although with a higher emphasis on verification and control. These areas are most frequently quoted by the Managing Authorities in illustrating their administrative workload and about 50% of the authorities consider them among the major explanatory factors in the generation of costs. Interestingly, these obligations have been particularly highlighted in the sample studies in those Member States where EU funding is integrated into the existing domestic administrative systems and, in terms of verification, for larger programmes (above 1 billion EUR). In addition, verification and control have been stressed more in sample studies dealing with the Convergence objective than in those dealing with the Regional Competitiveness and Employment objective.

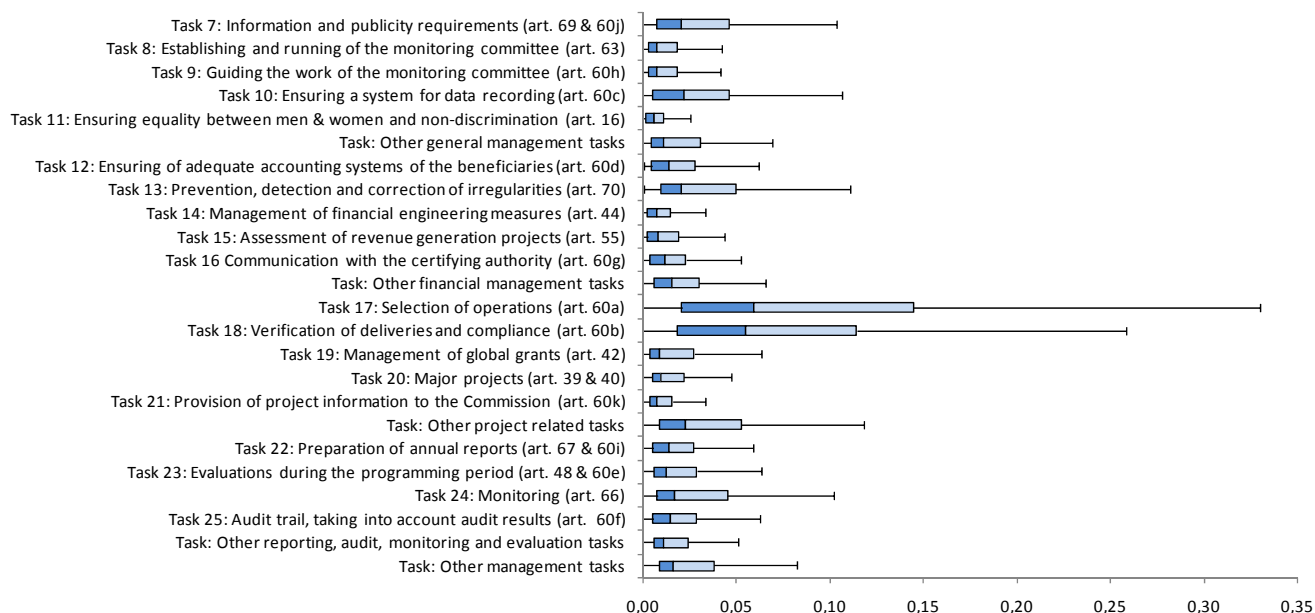
a considerably higher workload and funding level in respect of programme management. Excluding outliers, the maximum values observed are about 1.7 person years and EUR 95,000 per million EUR of total eligible expenditure.

Programme management involves a wide range of individual tasks associated with different levels of workload and cost (see figures 22 and 23). The verification of deliverables and compliance and project selection are the tasks involving both the highest workload and costs. Other resource-intensive tasks include information and publicity requirements and creating and maintaining a system for data recording and monitoring. In addition to the tasks listed in the figures 22 and 23, the programme management involves a range of other tasks which could not be assigned to those tasks identified in the regulations but which are necessary for the running of the programme. This may e.g. involve basic administrative routines or tasks which fall in between different tasks mentioned in the regulations.

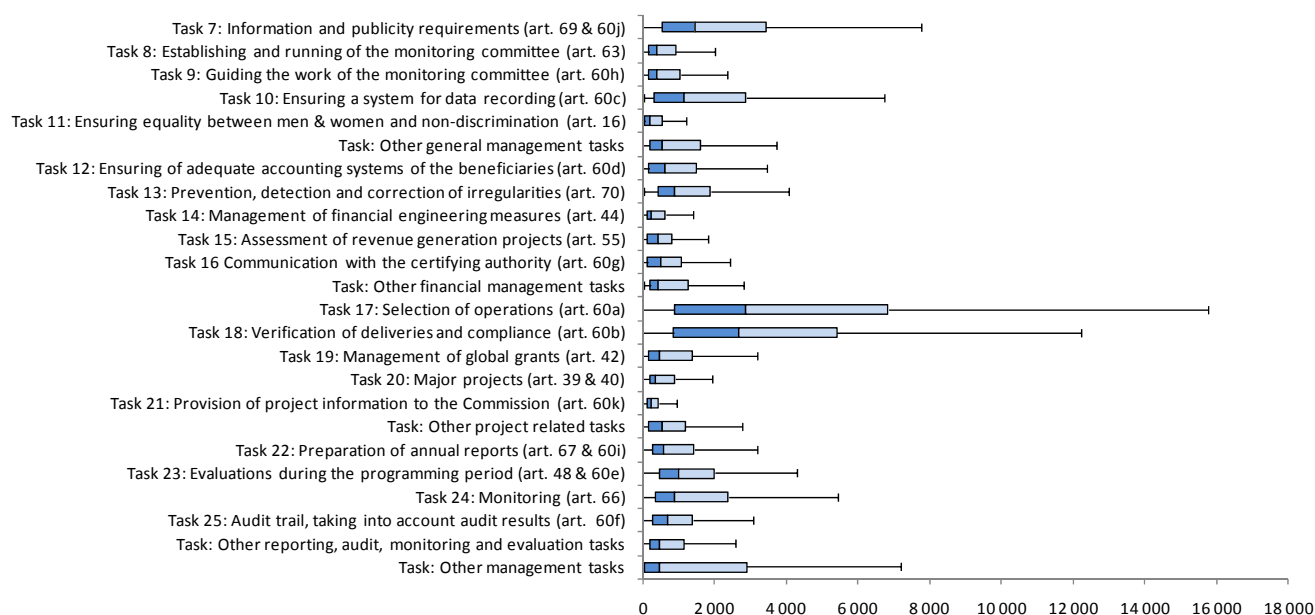
The figures from the data analysis are largely confirmed by

In terms of the verification of deliverables and compliance (art. 60b) where Managing Authorities have responsibility, the interviewees raised particular concerns about the fact that administrative verifications are required for each application for reimbursement by the beneficiaries. On-the-spot checks of individual operations are also considered onerous by some of the interviewees in the light of travel expenses incurred and the time-consuming nature of this work. Moreover, Managing Authorities are concerned with the controls required by other authorities involved in the programmes. These can originate from both the national and European levels and are sometimes considered too detailed and pervasive in the context of the overall size of the projects/programmes.

**Figure 20: Programme management – administrative workload by task**  
(in person years per million EUR of total eligible expenditure)



**Figure 21: Programme management – administrative costs by task**  
(in EUR per million EUR of total eligible expenditure)



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## 5.4 Certification

Programme certification relates to all tasks involved in the process of programme certification as specified in the Structural Funds regulations (art. 61). In total, programme certification for the period 2007-2013 is estimated to involve 10,600 person years and cost approximately EUR 580 million.<sup>8</sup> These figures might appear high in relation to the audit figures presented elsewhere in this report and also in the light of the present activities of the Certification Authorities. However, it has to be noted, that these figures do not only cover the administrative workload and costs of the Certification Authorities but also of the other bodies involved in the various certification tasks.

Of the total costs, 8% are estimated to be externally generated in relation to the purchase of various types of services and expertise, while another 13% are estimated to be overheads. As previously mentioned, the overhead figures have to be treated with great care. About 2% of the costs for certification are estimated to be generated by national regulations. This does not include additional administrative workload or costs related to national 'gold-plating'.

The work on the certification tasks started slowly in 2007- 2008 and will increase until it plateaus at a relatively high level between 2011 and 2014. After that the workload is expected to decrease again. Viewed on a per programme basis, the average certification level involves about 34 person years and costs about EUR 1.8 million.

These figures and charts need to be interpreted with care as considerable variation exists in the workload and costs related to programme certification in those countries where this function is not centralised. It should also be noted that Member States

Figure 22: **Programme certification – workload over time**

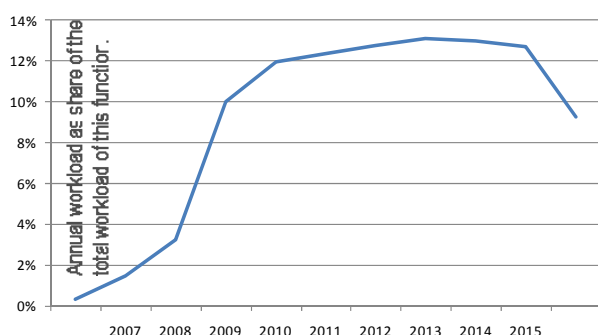
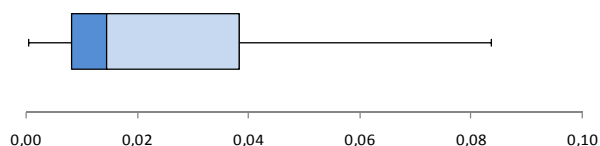


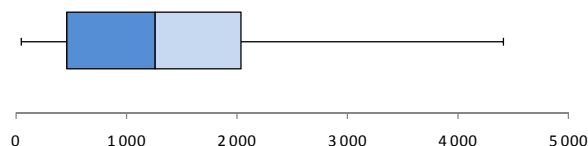
Figure 23: **Programme certification – administrative workload** (in person years per million EUR of total eligible expenditure)



probably find it difficult to divide costs between individual tasks related to certification as they are closely related. The individual tasks with the highest variation are the statements of expenditure and payment application to the Commission and the certification of statements of expenditure & expenditure declared. In both cases, Luxembourg and the European Territorial Co-operation Programmes display the highest workload figures in relation to the total eligible expenditure. This is also true for administrative costs in relation to total eligible expenditure for the statements of expenditure & payment application to the Commission. In terms of the certification of statements of expenditure & expenditure declared, Austria and the Netherlands also count among

<sup>8</sup> The figures are based on data for 202 programmes covering all EU Member States, except Finland. The overall reply rate at programme level was 64% with a good spread among the Member States and different functions. The remaining data has been carefully estimated in relation to existing data.

Figure 24: **Programme certification – administrative costs**  
(in EUR per million EUR of EU total eligible expenditure)



**Programme certification – administrative costs**

**Person years:**

total: 10,600

per million EUR of total eligible expenditure: 0.03

per million of total EU funding: 0.04

**Costs in EUR:**

total: EUR 580 million

per million EUR of total eligible expenditure: EUR 1,500

per million of total EU funding: EUR 2,200

NB: all figures are rounded approximations.

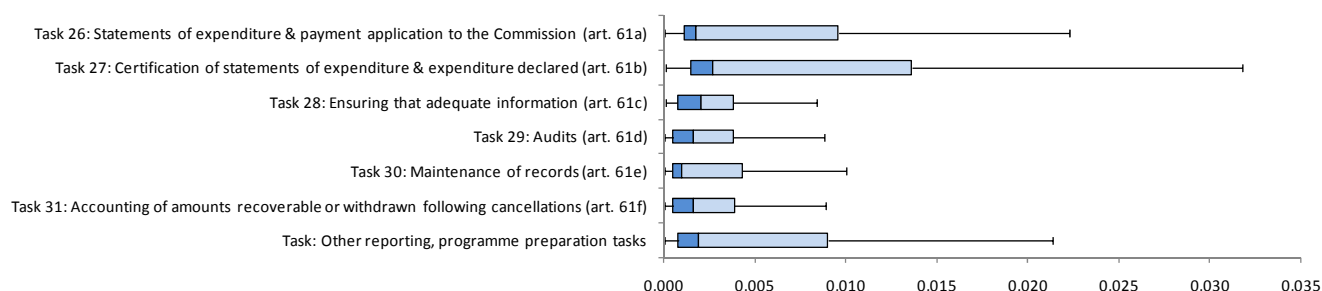
those countries with the highest administrative costs in relation to the total eligible expenditure.

Figures 25 and 26 illustrate that, for the analysed programmes, the median workload for programme certification is 0.015 person years per million EUR of total eligible expenditure and the median costs are EUR 1,300 per million EUR of total eligible expenditure.

There are, however, considerable variations and the figures range from 0.008 to 0.038 person years and from EUR 500 to almost 2,000 per million EUR of total eligible expenditure for the central 50% of the programmes analysed. Excluding outliers, the maximum values observed are about 0.85 person years and EUR 4,500 per million EUR of total eligible expenditure.

A more detailed look at the individual tasks comprising programme certification (see figures 27 and 28) reveals that the certification of statements of expenditure and expenditure declarations is the most resource-intensive task while the accounting of recovered finance following cancellations is the least resource-intensive. The other tasks are comparable although it is worth noting that the programme certification tasks other than those explicitly listed in the regulations are relatively resource-heavy. These other tasks are usually basic administrative routines and task which could not be clearly assigned to any of the task mentioned in the regulations. They are not equivalent to national 'gold-plating', although in certain cases they may contain elements of this.

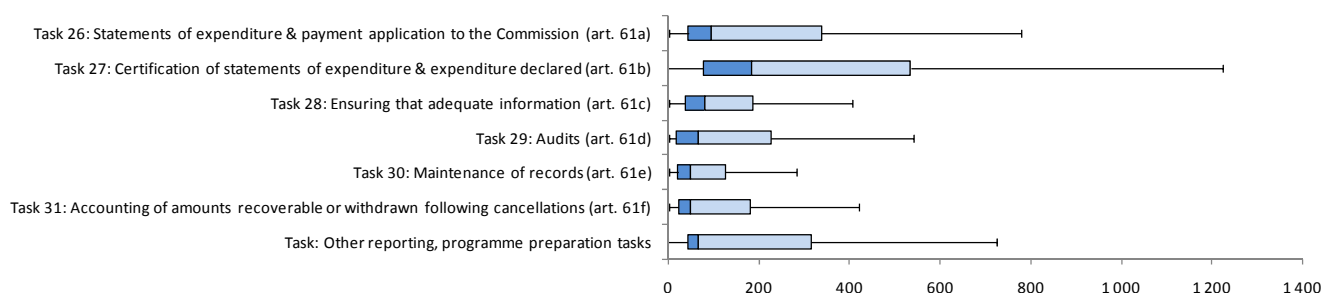
Figure 25: **Programme certification – administrative workload by task**  
(in person years per million EUR of total eligible expenditure)



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Figure 26: **Programme certification – administrative costs by task**  
(in EUR per million EUR of total eligible expenditure)

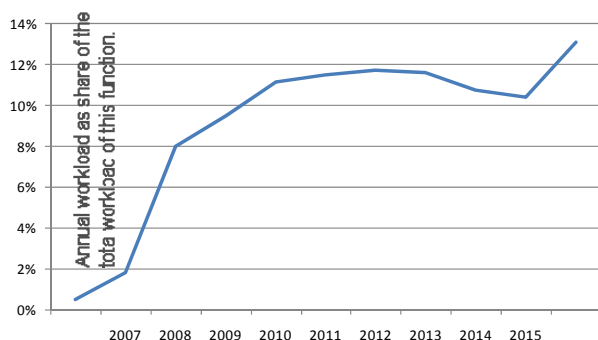


## 5.5 Audit

The programme audit figures include all tasks related to the programme audit as specified in the Structural Funds regulations (art 62 and 88). In total, the audits for the 2007-2013 period are estimated to involve 14,100 person years and cost approximately EUR 1,050 million.<sup>9</sup>

Of the total costs, about 4% are estimated to be required for the purchase of external services and expertise and about 11% are considered to be overheads. As previously discussed, the overhead figures should be viewed with care. Less than 1% of the total audit costs are considered to have been incurred because of national regulations. This does not include additional administrative workload or costs associated with national 'gold-plating'.

Figure 27: **Programme audit – workload over time**



The audit work commenced in 2006 with the workload increasing from 2008 until it stabilises between 2010 and 2013. In 2014 and 2015 it is expected to decrease slightly but then peak again in association with the programme closure phase.

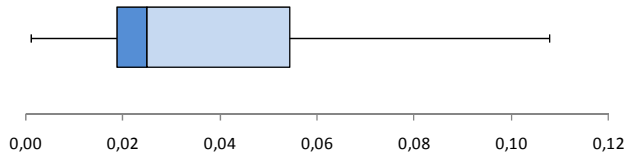
Viewed on a per programme basis, the average audit level requires almost 45 person years and costs about EUR 3.3 million.

These figures and charts must be interpreted with care as considerable variation exists in terms of workload and costs associated with the programme audit in those countries where this function is not centralised. The audit of samples is clearly the audit task with the highest administrative workload and variation. The highest figures in relation to total eligible expenditure are to be found in Luxembourg, Malta and the European Territorial Cooperation Programmes. Once again it appears that the costs are related to certain economies of scale depending on the total eligible expenditure of individual programmes as well as other aspects such as the interpretation of the task and the expected workload. Furthermore, the audit of samples had not started when

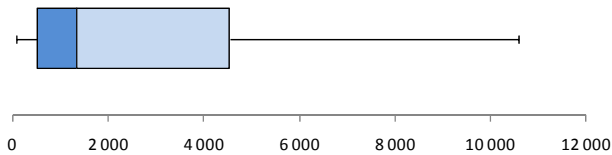
<sup>9</sup> The figures are based on data for 176 programmes covering all EU Member States, except France and Ireland. The overall reply rate at programme level was 56% with a good spread among the Member States and different functions. The remaining data has been carefully estimated in relation to existing data.

the data was collected. The data is therefore subject to different levels of estimated or anticipated workload over the coming years.

**Figure 28: Programme audit – administrative workload**  
(in person years per million EUR of total eligible expenditure)



**Figure 29: Programme audit – administrative costs**  
(in EUR per million EUR of total eligible expenditure)



Figures 30 and 31 illustrate that, for the analysed programmes, the median workload for the programme audit is about 0.025 person years per million EUR of total eligible expenditure and the median costs are about EUR 1,300 per million EUR of total eligible expenditure.

There are some variations and, for the central 50% of the programmes analysed, the figures range from 0.02 to 0.055 person years and from EUR 500 to almost 4,500 per million EUR of total eligible expenditure. Excluding outliers, the maximum values observed are about 0.1 person years and EUR 10,000 per million EUR of total eligible expenditure.

**Programme audit – administrative costs**

**Person years:**

total: 14,100  
per million EUR of total eligible expenditure: 0.04  
per million of total EU funding: 0.05

**Costs in EUR:**

total: EUR 1,050 million  
per million EUR of total eligible expenditure: EUR 2,700  
per million of total EU funding: EUR 3,900

NB: all figures are rounded approximations.

A more detailed analysis of the individual tasks comprising programme audit reveals that the audit of samples is clearly the most resource-intensive task, followed by the audits of the management and control system. The qualitative sample study reveals that some authorities are concerned in particular that the random statistical sampling method may result in many more audits of individual operations than were required in the previous programming period.

The other tasks are comparable with regard to their workload and budgets although it is worth noting that the tasks other than those explicitly listed in the regulations are relatively resource-heavy. Usually, other tasks comprise basic administrative routines as well as tasks which fall in between the tasks listed in the regulations or could not be clearly assigned to any of those.

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Figure 30: **Programme audit – administrative workload by task**  
(in person years per million EUR of total eligible expenditure)

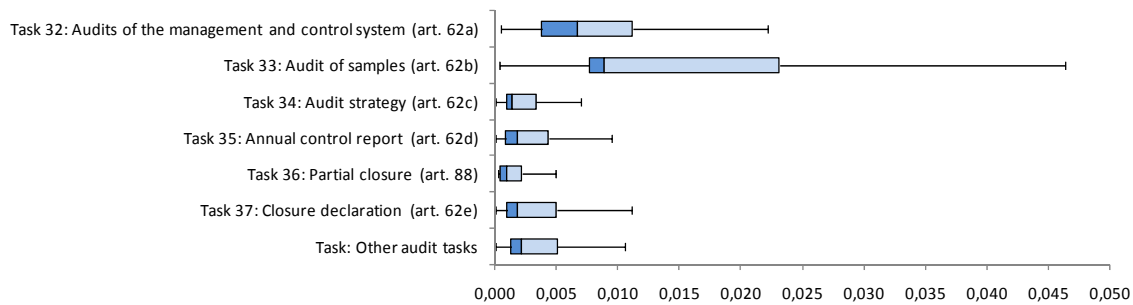
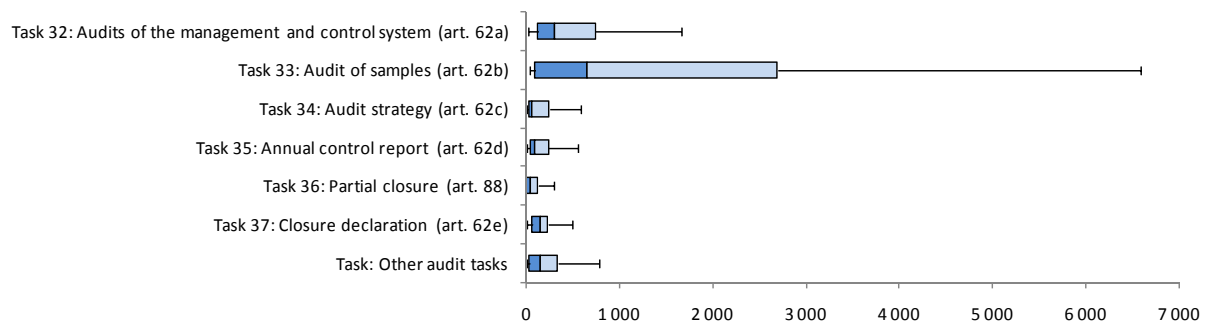


Figure 31: **Programme audit – administrative costs by task**  
(in EUR per million EUR of total eligible expenditure)



## 5.6 Beneficiaries

The final beneficiaries are on the front line of EU Cohesion Policy implementation because of their responsibility for everyday operational activities. The Terms of Reference ask also for an assessment of the workload and costs of project beneficiaries. This assessment covered the administrative tasks of the beneficiaries including financial management, monitoring, reporting to the programme management and evaluation.

There have been a number of challenges associated with this element of the study:

- The survey was conducted at a time when most projects just started and consequently beneficiaries did not have a complete or final overview of the total administrative costs and workload.
- In several cases it was difficult to get contact details for the beneficiaries as the Managing Authorities did not provide them.
- The response rate to the short survey was particularly low, with only 27% for the selected sample.
- The quality of responses varied, as did the understanding of administrative costs reflected in the responses.

However, based on the data gathered from a sample of 149 beneficiaries, the following indicative quantitative findings can be presented:

The response indicate that the preparation of a successful funding application requires usually between 0.3 and 2 person years per million EUR of total eligible expenditure, respectively between 4,000 and 50,000 EUR per million EUR in expenditure.



The administration of approved projects is estimated to demand between 0.3 and 2.3 person years per million EUR of total eligible costs or in monetary terms between 7,000 and 165,000 EUR per million EUR of total eligible costs. As discussed in the last section of chapter 7.4, the enormous variations are related to the thematic foci of the projects. In short, an infrastructure project and a territorial cooperation project have different shares of administrative workload and cost, linked to the nature of the activities carried out, their budgets and the administrative efforts involved.

The administrative tasks of the beneficiaries include financial management, monitoring and reporting to the programme management, evaluations, implementation of the horizontal priorities and so on.

Overall, an average of 75 - 80% of the administrative workload comprises financial reporting and progress reports, while 20 - 25% is taken up with reporting, monitoring and evaluation tasks. Only a minuscule (if any) part of the workload is dedicated to the integration of horizontal priorities.

The results of the qualitative interviews provided some further findings as follows:

The administrative work required for compliance with EU regulations is sometimes made more onerous by the existence of a large body of associated regulation at the national level and the corresponding need for consultation/coordination with many related institutions.

The control system generates a certain amount of administrative work, costs and payment delays which some beneficiaries report as discouraging participation in a programme. An example of a specific complaint is the need to provide detailed bills supporting the overhead costs (e.g. for furniture and equipment) particularly when the funding application is relatively small. In some countries, the pervasiveness of control is also reported to discourage public departments/agencies from having measures co-financed.

There is a general and increasing dissatisfaction among final beneficiaries with the Structural Funds' administrative procedures, particularly in the field of audit and control. Procedures are viewed as redundant, inefficient and overlapping and, at regional level, they generate a cascade of distrust and "fear" related to the interpretation of the regulatory framework. In many cases, the final beneficiaries experience this as over-regulation and an application of EU rules in the strictest possible way. This affects all aspects of programme implementation.

Many of the above statements reflect the perceptions of stakeholders contacted during the quantitative and qualitative data collections. As discussed later (see chapter 8.2) the introduction of changes to the regulations is met with considerable inertia in practice. This implies that changes (including simplifications) are often not fully implemented or are implemented with a considerable time delay. Consequently, the perception of individuals can sometimes be related to experience from the previous programming period and does not necessarily reflect purely the current regulatory and administrative framework.

Further discussion of the administrative costs at the level of beneficiaries in relation to different themes of intervention can be found in chapter 7.4 under the heading "The impact of project themes on the administrative work of the final beneficiaries".

## 6 Administrative costs and shared management

One of the key factors in the success of cohesion policy is its decentralised delivery system. Cohesion policy is implemented within the context of shared management and multi-level governance. This means that programmes are managed at Member State, regional and local level so the projects selected respond to the priorities at those levels and a large number of relevant stakeholders are involved in their implementation.

Member States and regions are also responsible for setting up appropriate management and control systems to ensure that funds are used appropriately. However, the final responsibility for implementation remains with the Commission, hence shared management entails supervision by the Commission to make sure Member States fulfil their obligations in relation to the management of funds. Furthermore, Member States need to ensure compliance with other Community rules, such as those on public procurement, state aids and environmental legislation.

*“The Commission shall implement the budget in cooperation with the Member States, in accordance with the provisions of the regulations made pursuant to Article 322, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management.*

*The regulations shall lay down the control and audit obligations of the Member States in the implementation of the budget and the resulting responsibilities. They shall also lay down the responsibilities and detailed rules for each institution concerning its part in effecting its own expenditure. [...]” (Article 317 of the Treaty on the Functioning of the European Union)*

As a general rule, the Commission relies on the work of national control bodies and can limit its control efforts to gaining assurance that systems work well, rather than auditing operations and expenditure directly. Failure to maintain adequate management and control systems at national/regional can lead to suspension, or interruption of payments, as well as financial corrections.

Based on the results of the 45 qualitative sample studies, this chapter presents some of the perceived impacts of this shared management and multi-governance system on administrative costs and workload. These fall into three main areas:

- National regulations and 'gold-plating'
- Uncertainties and interpretation
- Delegation of tasks

### 6.1 National regulations and 'gold-plating'

Different layers of regulation apply to the implementation of Cohesion policy, including:

- An EU regulatory framework, which consists of Cohesion policy regulations and other regulations which have to be taken into account, such as environmental regulations, state aid or public procurement rules.
- A national regulatory framework: specific regulatory features for each Member State as well as the established institutional arrangements for the management of regional development policy in each country. It includes the overall national legal and administrative setting and how EU legislation is transposed into national rules.

In the qualitative sample studies, problems related to national requirements, for example inconsistencies between relevant national legislation and EU regulations, are reported by more than one third of the interviewees (especially under the Convergence objective and in the EU12) as bottlenecks which significantly exacerbate the already complex Structural Funds regulatory framework.

Some national requirements can be considered an integral part of the management process (e.g. definition of selection procedures, control and monitoring processes, recovery of wrongly used resources from beneficiaries) while others are of a more general nature (e.g. regulations dealing with building permits). They are sometimes perceived to complicate programme implementation or slow an otherwise efficient management process either on their own or through the interplay of the national and EU systems (e.g. budgetary rules).

Although some adaptation is inevitable in order to comply with ERDF, Cohesion Fund and national requirements, in many cases the process is perceived as going beyond what is necessary. So-called 'gold plating' is referred to whereby national regulations or practice go beyond EU requirements in significant areas.

The reasons for this are, in part, a matter of principle. Examples include:

- The way in which EU legislation was written into Germany's General Equal Treatment Act where the level of regulation was increased through supplementing EU legislation with national rules;<sup>10</sup>
- The national coordination level asking managing authorities and intermediate bodies for additional progress reporting and project status reports in order to secure compliance with the N+2 or N+3 rules; and
- The setting up of a "second", additional committee by the national government to deal with the project selection is an example for this, which is perceived as prolonging the selection process and creating bottlenecks.

A representative from one Managing Authority pointed directly to this issue. While the quote gives the impression that it was a peculiarity of that specific country, similar impressions have been reported by interviewees in various countries.

*"The national regulations are too strict as compared to EU regulations. They are less flexible than the EU requirements. This is particularly severe for entrepreneurs who know how the procedures look like in other EU countries, and for whom the national system seems excessively bureaucratised."*

Throughout the qualitative sample studies, there is a widely shared perception that national regulations and narrow national interpretations of the EU regulations substantially increase the administrative workload and costs.

At the same time, in the quantitative analysis, the respondents indicated that only about 2% of the workload within the programme management is due to national regulations. In conclusion, the application of additional national regulations appears to imply relatively little additional administrative workload or administrative costs whereas national 'gold plating' is perceived to increase the administrative workload considerably.

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<sup>10</sup> Brok and Diekmann (2007) *op cit.*

## 6.2 Uncertainties and interpretation

The 'gold plating' referred to above can be sometimes be the result of uncertainty regarding interpretation of EU regulations and the desire to anticipate a possible future narrowing of interpretation. One Managing Authority summarised it as quoted below in relation to the financial control mechanisms:

*"Under the stimulus of fear to do something wrong, national authorities often aim at achieving 'over-compliance' with European control standards".*

In terms of programme management in regionalised or mixed management systems, as well as within larger programmes, the regulatory framework of the Structural Funds, and its financial rules in particular, are often perceived to be too general and in need of substantial interpretation. The process of establishing what is and is not acceptable requires a lot of discussion time with the beneficiaries and/or consultation with other authorities, especially in the control phase.

Some interviewees referred to different interpretations of the same rules given at national and European level when the general provisions of the regulations are being applied to the routines of programme management. National rules intended to clarify the European framework can actually add a layer of complication and complexity, and therefore of cost. This partly explains the fact that issues of interpretation are more often reported by interviewees working within regionalised management structures than by those working within centralised systems.

Interpretation under the European Territorial Cooperation objective faces a further challenge because of the involvement of stakeholders of different nationalities and a different understanding of the EU regulations. This makes the audit process in particular more complex. A further exacerbating issue relates to staff turnover in the national contacts for Territorial Cooperation programmes, which implies the existence of discontinuities in national routines and in the interpretation of certain programmes.

Given the considerable uncertainty which currently exists, any change to the regulatory framework potentially precipitates new ambiguities. Some authorities, at various levels, emphasise the importance of continuity in the programme management tasks, highlighting the fact that the benefits of regulatory changes which do not generate major improvements are often outweighed by the costs associated with adaptation to new routines.

## 6.3 Delegation of tasks

Uncertainty sometimes also exists in relation to role definition of the various bodies and institutions involved at the programme level, in particular in the areas of audit and control. Some authorities report a significant bottleneck associated with the fact that certain activities appear to be redundant or that many actors and individuals are dealing with the same issues.

Within Member States there are designated authorities responsible for management, certification and audit, with tasks sometimes further delegated to the level of Intermediate Bodies. The several layers of implementation in the area of Cohesion Policy are accompanied by several different layers of controls. Under shared management, the Member States have primary responsibility for control of programme expenditure, while the Commission performs a supervisory role over national systems. In the Member States there are three control levels, and the corresponding bodies in each programme are the Managing Authority, the Certifying Authority and the Audit Authority. The multi-level control system is integrated on the basis of defined responsibilities for the various actors, established standards for work required, and reporting systems.

However, delegation can also add to complexity as each new level of delegation brings about extra supervision and reporting obligations. This is to be expected – delegation of functions is accompanied by measures which provide assurance of the fulfilment of these functions. However it also appears that, as the cascade goes down, the range and detail of these controls increases and the interpretation of the regulations can become increasingly narrow.

It should be noted that perceptions are sometimes influenced by a blend of experience of earlier versions of the regulations with the latest versions, partly because people deal with several programming periods at the same time, and partly because there is certain inertia as regards the implementation of changes in the regulatory system.

The relationship between the delegation of tasks between various levels of administration and the corresponding control systems is reflected in this statement by a representative from a Managing Authority:

*“ERDF builds on decentralised programming and programme management, whereas the responsibility for the correct spending has not been decentralised. [...] This implies a cascade of controls which can amount to up to five levels of financial control and the fact that the beneficiaries might be forced to repay funding several years after their funded action has been completed.”*

Another interviewee from a Certifying Authority noted that:

*“The introduction of Intermediate Bodies into the system entails additional steps within the certification system. The administrative tasks carried out by the new entities have also to be checked as to whether they are undertaken in accordance with the regulations. Previously it was necessary only to check the tasks of the Managing Authorities. The more Intermediate Bodies that are involved, however, the greater is the need to verify intermediate procedures.”*

On the basis of the qualitative sample studies, it would therefore appear that many programme managers perceive the multi layered control system to add to the administrative costs of the national administration. It is also seen as a source of legal uncertainty, which can lead to gold plating thus further increasing administrative costs. The systems can grow even more complex and resource intensive when functions are delegated to Intermediate Bodies and supervisory arrangements have to be established.

## 7 Understanding the variations in administrative costs

Differences between the programmes need to be taken into consideration in order to provide a better interpretation of the overall picture of the administrative workload and costs of EU Cohesion Policy. In particular, differences in the geographical coverage of a programme, the design of its implementation systems, the thematic focus and the financial volume have a considerable impact on the administrative workload and costs.

The different management and implementation structures make only a relatively minor contribution to variations in administrative workload and costs. The complexity of a programme and its actions in terms of geographical coverage and thematic orientation, on the other hand, play a greater role. In general, the more complex the interventions are, the higher is the requirement for administrative input from the programme level and the final beneficiaries. There are considerable differences, therefore, in the administrative workload related to the funding of infrastructure investments as opposed to the funding of complex activities aimed at broad regional development support.

The budgetary volume of both the programme and its funded activities also influence the administrative workload and costs. Each programme and each funded activity are associated with a number of fixed administrative tasks which are not related to financial volume. Accordingly, small programmes and interventions must commit a higher share of their budget to administration than is the case for larger ones. The exception to this general rule may be very large projects (incl. major projects) which are considered to be particularly administration-intensive because of the special requirements associated with them.

### 7.1 Programme geographies

EU Cohesion Policy (focusing on ERDF and CF) involves programmes with a wide range of geographical coverage. While some programmes cover entire Member States, others focus on single regions, i.e. NUTS 2 or NUTS 1 areas. In addition, Territorial Cooperation objective programmes target cross-border areas, transnational areas or indeed the entire European Union.

The issue of geographical coverage has implications for administrative structures and therefore affects workload and cost levels in respect of programme management (see figures 34 and 35). The programmes analysed show that national programmes have a somewhat lower workload per EUR of total eligible expenditure than regional programmes and also have lower total administrative costs per EUR of total expenditure funding than regional programmes. The central 50% of the programmes analysed<sup>11</sup> range from 0.15 to 0.7 person years and EUR 10,000 to 35,000 per million EUR of total eligible expenditure for programmes with national coverage, and 0.2 to 0.8 person years and 19,000 to 29,000 EUR per million EUR of total eligible expenditure for the regional programmes.

The reason for the difference between regional and national programmes is not only their varying geographical coverage. Geographical coverage is linked to a number of other differentiation factors which are discussed later in this report. Programmes with national coverage are more likely than regional programmes to be focused on a particular sector rather than a wide range of regional development issues. Programmes with national coverage also tend to have a larger programme budget than regional programmes, and are more often than not located in the EU12. These

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<sup>11</sup> The figures are based on data for 191 programmes covering all EU Member States. The overall reply rate at programme level was 60% with a good spread among the Member States and different functions. The remaining data has been carefully estimated in relation to existing data.

factors strongly influence the administrative workload and costs as shown in sections 7.3 and 7.4.

This analysis also confirms that Territorial Cooperation programmes have, in general, higher administrative workload and costs per EUR of total eligible expenditure than national or regional programmes. In these cases, the central 50% ranges from 0.6 to 1.6 person years and 59,000 to 92,000 EUR per million EUR of total eligible expenditure.

Figure 32: **Programme management – administrative workload by programme geographies** (in person years per million EUR of total eligible expenditure)

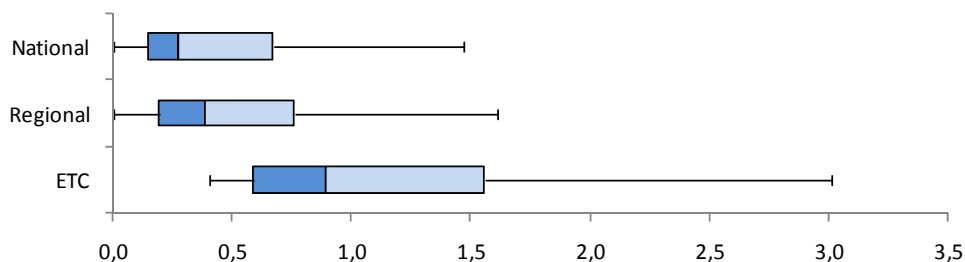
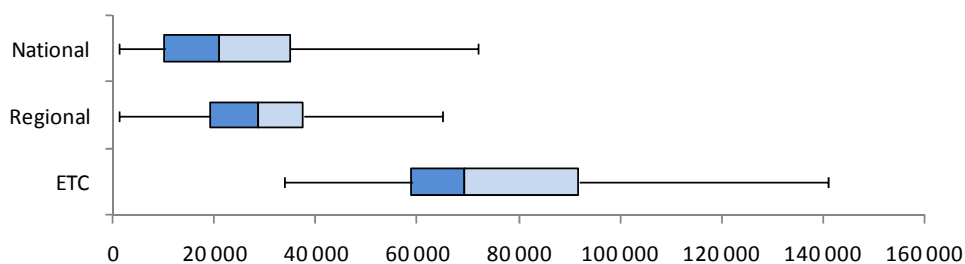


Figure 33: **Programme management – administrative costs by programme geographies** (in EUR per million EUR of total eligible expenditure)



## 7.2 Management and implementation systems

Administrative approaches and associated costs vary considerably between countries and in particular between programmes. Within the common regulatory framework, each Member State has employed its own management and implementation system for the delivery of EU Cohesion Policy. In some cases, differentiation even exists at sub-national level with a variation in approach being identified within individual Member States. The main components of differentiation are:<sup>12</sup>

1. The extent of the centralisation or devolution of decision-making powers which often dictates the degree of sectoral versus regional emphasis in the allocation of resources.
2. The relationship between ERDF and Cohesion Fund, and domestic regional development policies which determines the scope of Structural Fund programme managers in influencing spending.
3. Administrative traditions and the quality of public administration which influences levels of receptiveness and openness to the use of tools such as monitoring and evaluation.

<sup>12</sup> EPRC and Metis, "Ex Post Evaluation of Cohesion Policy Programmes 2000-2006 co-financed by the ERDF Objectives 1 and 2" (Glasgow and Vienna 2009)

## Typologies of management and implementation structures

It is important to identify the range of national actors and administrative structures where costs can be incurred. These include: national governments; regional or federal governments; Managing Authorities; Monitoring Committees; Certifying Authorities; Audit Authorities; Intermediate Bodies; beneficiaries; social partners; and external experts. Empirical research indicates that the number of administrative bodies can differ markedly (see the table of involved bodies in chapter 4.1). The number of implementing bodies per programme has clear implications for the overall administrative cost. A crucial issue here is the wide variety of management and implementation systems which exist for Structural Fund implementation across Member States and programmes. There is significant variation in how tasks are organised and how their associated administrative costs are distributed. In each Member State, national government and sub-national actors can each have different roles in the implementation process. A first important categorisation differentiates implementation structures on the basis of centralised, mixed central-regional and regionalised systems and Figure 36 indicates where different Member States fit into this categorisation<sup>13</sup>. It is important to note, however, that this categorisation represents a general overview that significant variation exists across and within countries, and that implementation systems in some cases are in a state of flux. These categories have distinct characteristics which raise specific issues for the assessment of administrative costs.

Centralised implementation systems include those that involve management by national ministries and other national bodies and where there is a limited degree of decentralisation and partnership. In almost all EU Member States, central government plays an important role in Structural Fund implementation. National ministries are prominent in supervising the preparation of programmes, expenditure, monitoring and evaluation. However, in some countries, the role of the national level in the implementation process is particularly strong. This includes Member States where domestic systems for implementing regional development interventions have traditionally accorded a prominent role to the centre. Here, although some implementation responsibilities have been delegated to other authorities over time, national authorities continue to play the dominant role as Managing Authorities, in organising and leading Monitoring Committees and in taking responsibility for final decisions over the allocation of resources.

In centralised systems, administrative costs are likely to be incurred by the established national institutions, usually ministries, but also other public bodies. It is arguable that a centralised approach should keep administrative costs down by taking advantage of economies of scale. Higher levels of government potentially enjoy cost savings through delivering large volumes of public goods and services or having better access to specialised staff. For example, using one centralised system to record the financial and physical progress of programmes and projects can minimise the administrative costs for programme managers and beneficiaries. However, centralisation alone does not guarantee low costs from economies of scale. Achieving such economies requires significant input from the central level in terms of planning, management, and 'supervision'.

This category also includes Member States where regional administrative levels are absent or weak or where administrative experience of managing economic development is confined largely to the national administrative level.

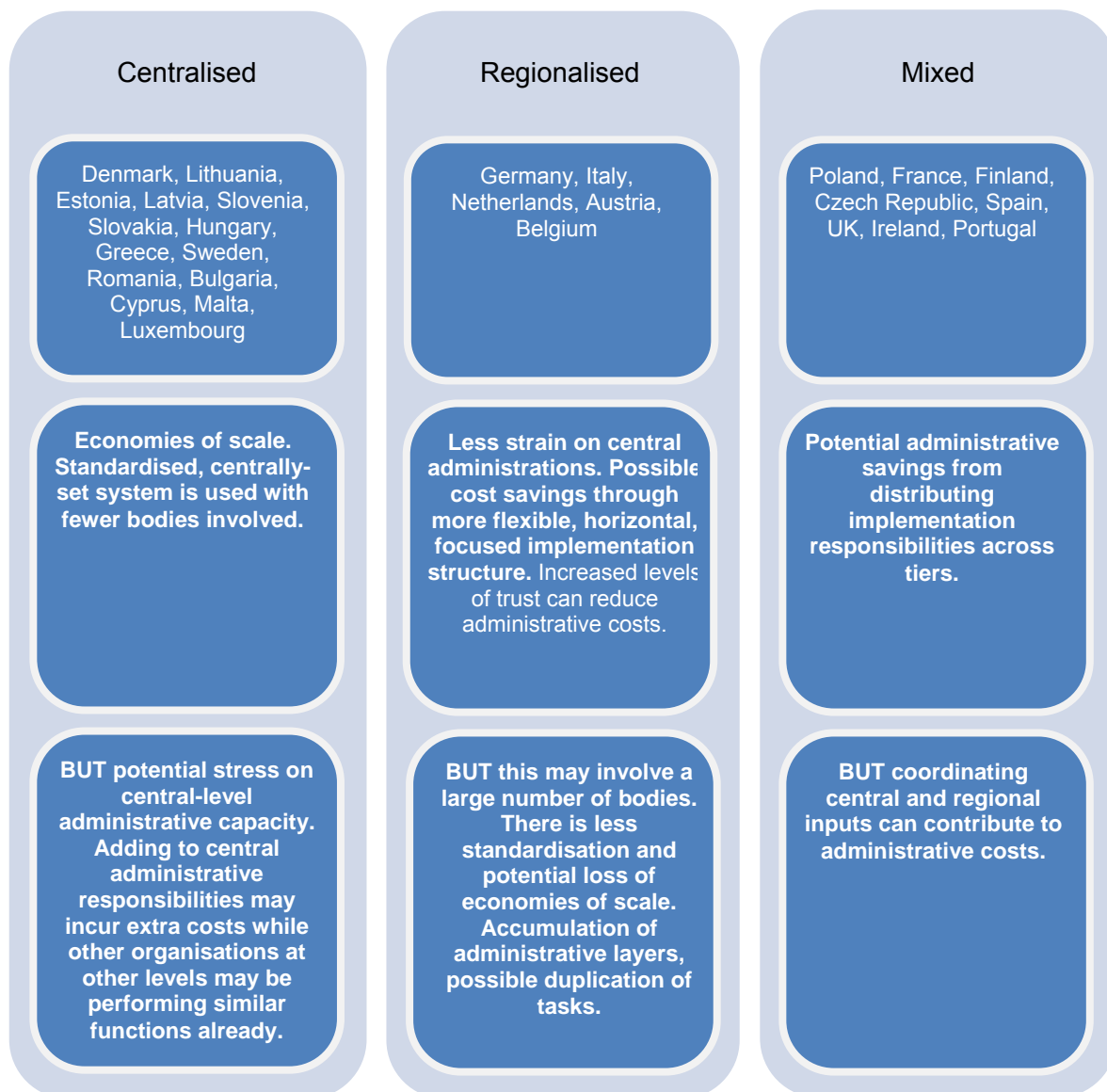
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<sup>13</sup> Bachtler J, Ferry M, Méndez C and McMaster I (2006) *The 2007-13 Operational Programmes: A Preliminary Assessment, IQ-Net Thematic Paper, 19(2)*, European Policies Research Centre, University of Strathclyde, Glasgow.



On the other hand, in regionalised implementation systems, implementation is devolved largely to sub-national administrative units. Responsibilities for programme management and implementation are decentralised to the regions, and the role of central government is limited to the general coordination of Community Funds, higher level Commission negotiation, inter-ministerial coordination and evaluation of 'good practice'.

Figure 34: **Administrative costs in centralised, regionalised and mixed systems**



Source: based on the EPRC literature review for this study

In regionalised systems, greater emphasis is placed on multilevel governance, with the administrative costs distributed across different levels. There is an argument to be made here that this approach can help in the efficient production of services at a lower cost through decentralisation and the reorganisation of traditional hierarchical relationships. Spreading implementation responsibilities across different levels of administration may ease the strain on central administrations. Moreover, cost-savings may be introduced by establishing more flexible and horizontal implementation

structures with more focused remits.<sup>14</sup> Decentralisation may also allow for a better definition of objectives and increased trust at the local level, which could reduce the administrative costs associated with compliance.<sup>15</sup> However, this approach can also involve a wide range of bodies operating at different administrative tiers, which in turn may increase the administrative costs of coordinating programme management and implementation activities across and between levels.<sup>16</sup>

Several Member States operate mixed central-regional systems for management and implementation that combine elements of centralised and decentralised approaches. Such arrangements potentially include the combination of Managing Authority responsibilities across national and regional levels, with sectoral or multi-regional Operational Programmes under the responsibility of national line ministries operating alongside regional Operational Programmes which are the responsibility of regional-level organisations.

Mixed systems can also develop through the sharing between levels of management responsibilities for different parts of individual programmes. Here again, there are potential administrative savings to be made from distributing implementation responsibilities across tiers but coordinating these inputs can contribute to increases in administrative costs.

### Typologies of resource allocation processes

The delivery process for ERDF and Cohesion Fund involves several stages: programme design; project generation and selection; delivery by identified beneficiaries; processing claims and providing funding payments; monitoring and control to ensure that the claims of beneficiaries comply with the associated requirements; and evaluation of the outcome to measure whether the policy has fulfilled its objectives. Administrative costs for ERDF and Cohesion Fund can vary depending on the extent to which delivery processes are carried out within the framework of a pre-existing administrative system.

Three basic categories of administrative system can be identified in this regard: integrated, aligned and differentiated. It is important to note that the distinction between these various categories is seldom transparent. Different aspects of these models can be combined, particularly where programming frameworks are in flux. Figures 37 and 38 should therefore be interpreted only as a broad indication of how the Member States fit into this categorisation. These categories also have distinct characteristics that raise specific issues for the assessment of administrative costs.

In “differentiated systems”, programmes are delivered through management and project selection structures specifically dedicated to the delivery of EU funds. In these cases, most European resources are allocated through Structural-Fund specific channels and structures. Appraisal and recommendation are carried out by Structural Fund secretariats or other competent organisations and/or committees, while final decision-making is typically the responsibility of a committee representing the Structural Fund programme partnership. In terms of administrative costs, differentiated systems benefit from the operation of a single system across a whole programme. This can promote transparency and coherence across a programme and enable an overview of administrative costs to be easily maintained. Differentiated systems, by definition, mean potentially high administrative additionality as they involve the creation of additional structures and procedures. Although it is easier to identify costs

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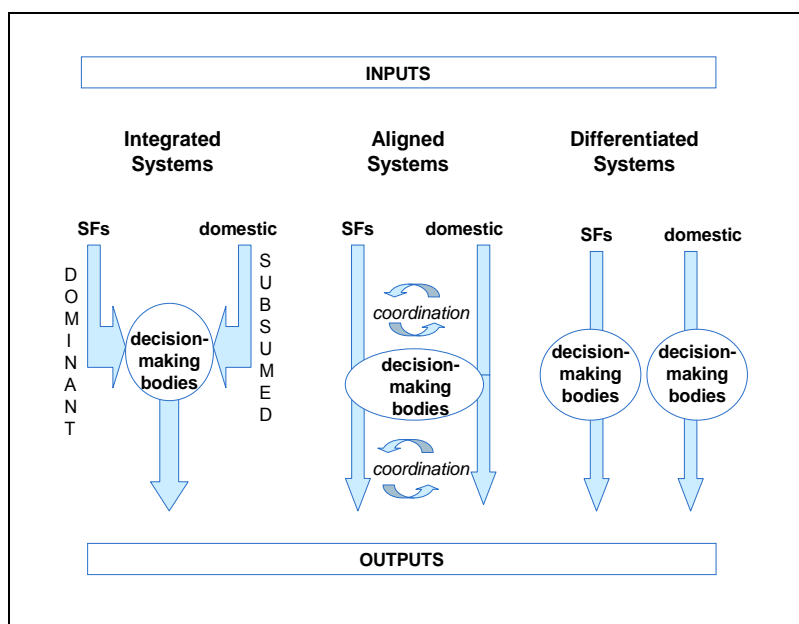
<sup>14</sup> Rhodes, R.A.W. (1997) *Understanding governance: Policy networks, governance and accountability*, Buckingham: Open University Press.

<sup>15</sup> OECD (2007b) *The Cost of Implementing Agricultural Policy*, OECD Policy Brief, August 2007.

<sup>16</sup> Ferry *et al* (2007), *op cit*.

under this approach, an additional administrative challenge is that of coordination with other national development initiatives.<sup>17</sup>

Figure 35: **Typology of Structural Funds resource allocation systems.**



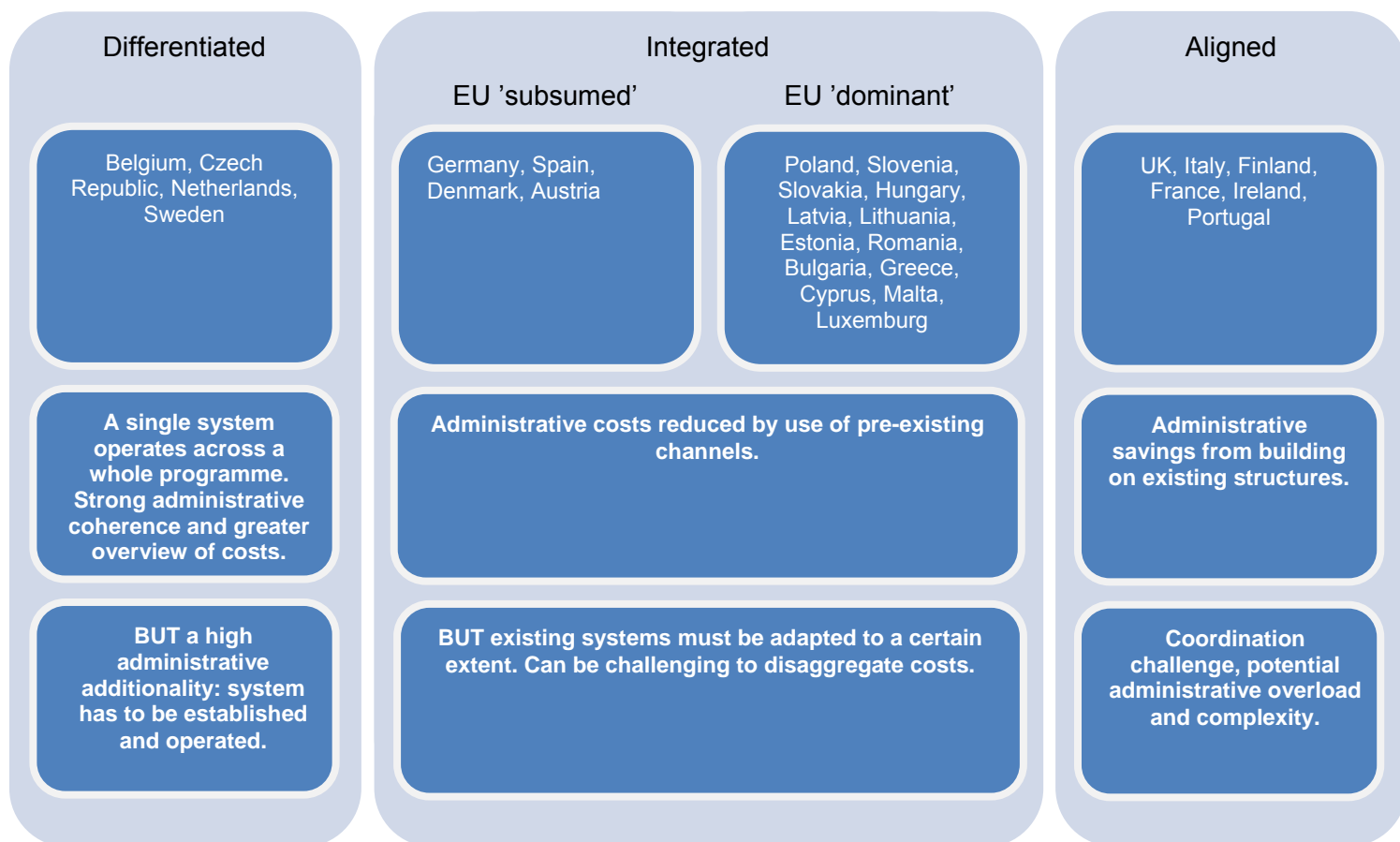
Source: Ferry *et al*, p. 29

In “integrated systems”, domestic policy decision-making channels are used for Structural Fund resource allocation. In such systems most of the funding is allocated through existing economic development channels. Projects are appraised and selected through established domestic resource allocation channels, with decision-making often delegated to single competent agencies rather than reserved for dedicated Structural Fund focused committees. EU funding could be regarded as being “subsumed” or subordinated to the policy objectives and decision-making priorities of the national funding. In situations where the scale of EU funding is much larger than national funding, as in the EU12, it could thus be argued that the system is integrated, but it is the EU funding which is “dominant”. Concerning administrative costs, subsumed systems benefit from the use of pre-existing channels. In theory, by making use of the available administrative system and existing knowledge and experience, the subsumed approach should be more cost effective. The use of the same system for domestic and EU-funded programmes can help to simplify the administrative process for programme managers and applicants. However, the analysis of the workload and costs shows that there are no significant difference between the different systems.

Falling between these two extremes are “aligned systems”, where separate decision-making systems for EU and national funding are in place, but operate in parallel or in some other coordinated manner. Programme implementing bodies are located within specific departments or secretariats in domestic policy bodies and funds are allocated in coordination with domestic instruments. This produces the greater strategic alignment of domestic and EU policies and increases scope for the exchange of experience which can improve efficiency and generate cost savings. However, where responsibilities are concentrated in one organisation and different funding streams are being coordinated the danger of administrative overload and complexity remains.

<sup>17</sup> Wostner, P (2008) ‘The Micro-efficiency of EU Cohesion Policy’ European Policy Research Papers No 64, 2008.

Figure 36: **Resource Allocation Processes in Member States<sup>18</sup> and administrative costs in differentiated, integrated and aligned systems**



Source: based on the EPRC literature review for this study

### Administrative costs for different implementation systems

The two typologies discussed above highlight the considerable differences evident in the administration of ERDF and Cohesion Fund in the Member States. Each implementation system has specific advantages and disadvantages in terms of administrative work load and costs which, however, appear overall to balance each other out. Figures 39 and 40 illustrate the administrative workload and costs per million EUR of total eligible expenditure based on the typologies presented above.<sup>19</sup>

The analysis of the administrative workload for programme management based on centralised, mixed and regionalised implementations systems shows that only minor differences exist in respect of the median workload per million EUR of total eligible expenditure (see figure 39). The picture is a little more varied when considering the administrative costs per million EUR of total eligible expenditure (see figure 40). This stronger variation is mainly the result of the composition of these groups. While centralised systems are mainly found in the EU12 (with Denmark, Greece, Luxembourg and Sweden being the exception), regionalised systems and also mixed systems are located almost entirely in EU15 countries (with the Czech Republic and Poland being the exception) which have lower total EU funding and higher salary

<sup>18</sup> Ferry *et al* (2007) *op cit*.

<sup>19</sup> The figures are based on data for all EU Member States. The overall reply rate at programme level was 59% with a good spread among the Member States and different functions. The remaining data has been carefully estimated in relation to existing data.

costs than most of the countries with centralised management systems. In particular the differentiated group has higher costs level which is explained by the composition of the group which mainly consists of countries with high staff costs.

Workload differences are also limited in relation to the typology of aligned, integrated and differentiated management approaches to national and EU regional policies. The variation between the differentiated systems is linked to the fact that only four countries fall into this category. When it comes to the cost per EUR of total eligible expenditure, the integrated systems have the largest variations. This can be explained by the different salary costs within this group which includes countries with the highest and the lowest salary levels in the EU.

The comparison between the EU15 and the EU12 illustrates the findings in relation to the above-mentioned typologies. While there is a higher median value for the workload in the EU12 than the EU15, the picture for the cost level is reversed. This is explained by higher expenditure levels and lower salary costs in EUR.

In conclusion, the choice of the implementation and management system appears to have only a limited effect on the workload and costs of the administration of ERDF and CF in the Member States.

Figure 37: **Programme management – administrative workload by management and implementation systems** (in person years per million EUR of total eligible expenditure)

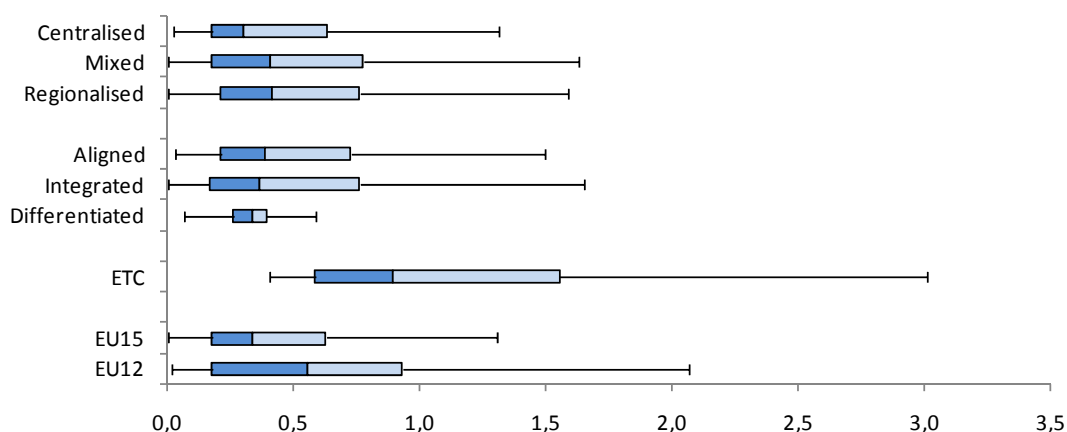
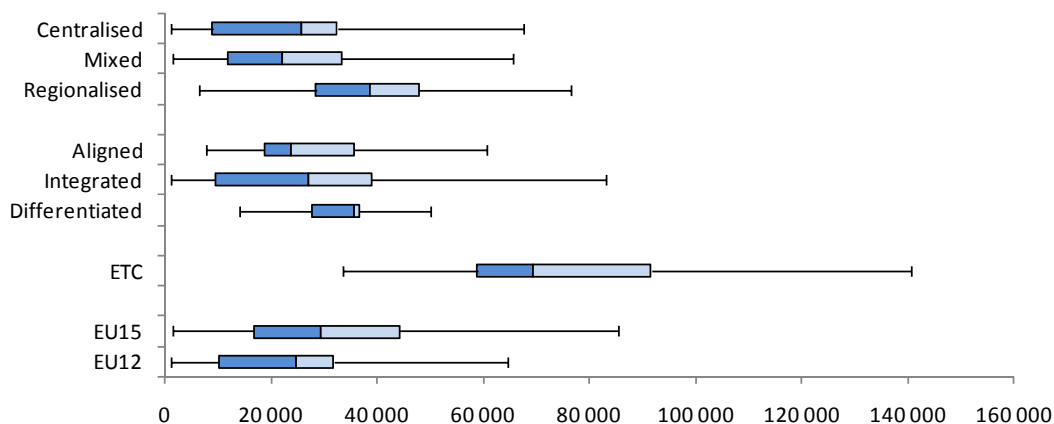


Figure 38: **Programme management – administrative costs by management and implementation systems** (in EUR per million EUR of total eligible expenditure)



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### 7.3 Size of programmes and projects

The financial volume of a programme, as well as the number and financial size of the funded projects, clearly influences the administrative costs and workload.

Every funding decision involves a certain administrative cost. The exact costs will depend on the type of activity funded, its complexity, financial volume and the administrative set-up of the project. However, regardless of the exact details, there is a basic cost for every funding decision, a fact which implies that programmes with a large number of funded projects are likely to have a higher administrative workload than programmes with a limited amount of projects.

At the same time, programme management, certification and audit also involve a number of administrative tasks which are not directly dependent on the number of funding decisions or the financial size of the programme. Regardless of the exact details of a programme, there is a basic cost for running a programme which implies that programmes with a relatively small financial volume spend a higher share of their budget on these basic administrative costs than programmes with a large financial volume.

#### Number and size of projects

Given that all projects are subject to standard administrative procedures and requirements, the number of projects in a programme can influence administrative workload and cost levels. Administering a large number of small projects is likely to entail a higher proportion of fixed costs, whereas programmes that involve a smaller number of larger projects may incur lower administrative costs. However, it appears that very large projects can generate additional administration which can be perceived to offset the administrative advantage associated with the higher financial volume.

#### *Results of the quantitative and qualitative surveys*

The workload associated with very large projects can be quantified in the case of 'major projects', i.e. projects whose total costs exceed 25 million EUR in the case of the environment and 50 million EUR in other fields<sup>20</sup>. The quantitative analysis shows that the median workload for the preparation and submission of information on major projects (art. 39 and 40) amounts to 0.01 person years per million EUR of total eligible expenditure, and the median costs are EUR 350 per million EUR of total eligible expenditure.

During the qualitative survey, interviewees reported that it is not only 'major projects' which imply additional administrative work, but also other financially very large projects. What is understood as a financially very large project depends on the context and the average financial volume for a project within a programme.

The qualitative sample studies also confirmed that a large number of financially small projects can be more costly in administration terms at programme level. In the quantitative survey, attempts were also made to investigate the relation between the number of projects funded and the administrative costs and workload of a programme. However, the data situation did not allow for robust conclusions due to the lack of comparable information on funded projects. One reason for this is that the programmes were at different stages of implementation. For a robust analysis of this kind, the data on administrative costs would need to be analysed once reliable information about the total number of funded projects – throughout the programming period – is available for all programmes.

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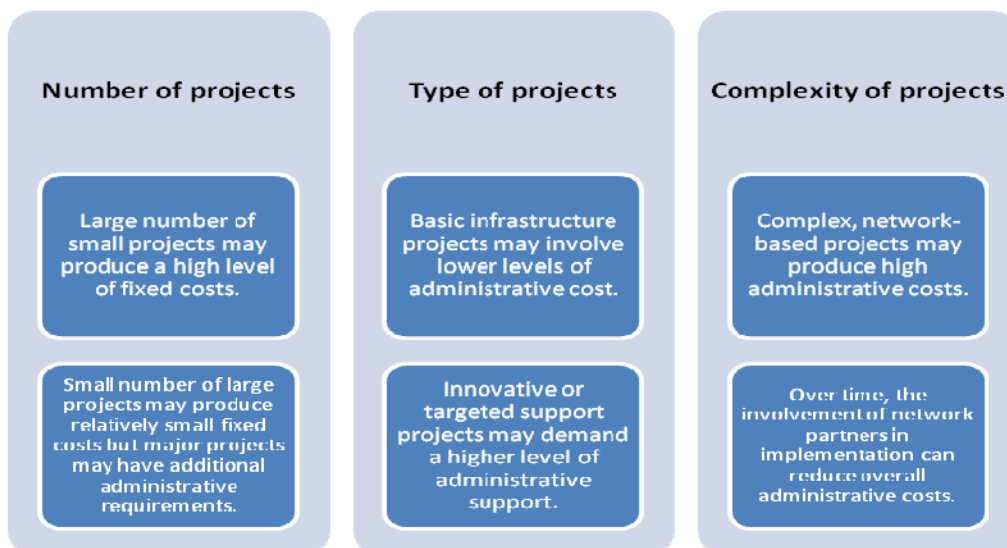
<sup>20</sup> According to Article 39 of Council Regulation (EC) No 1083/2006 in force at the time of the quantitative survey in 2009.

## Understanding the findings

These findings can be understood as follows:

- On the one hand, the regulations present a set of administrative requirements which are common to all projects. As a consequence, the smaller the project, the higher the associated administrative workload in relation to the total eligible expenditure (especially when the operation has fragmented procurement as a result of the nature of the activities within the same project). In addition, small projects sometimes require more frequent and more thorough controls, while small project beneficiaries (often those less used to dealing with public funds management structures) require additional assistance. Moreover, smaller projects can sometimes generate supplementary costs during the proposal assessment stage if a large number of low quality applications are received.
- On the other hand, 'major' and other very large projects may involve more administrative work because of additional *ex-ante* control, public procurement procedures, the volume of required documents during the project assessment phase (e.g. cost-benefit analysis), more frequent project changes, and additional environmental monitoring. Some interviewees also highlighted the higher coordination costs of these projects which, due to their broader impact (economy, environment, transport, etc.), necessitate an exchange of information with a number of General Directorates of the Commission. In addition, the management of technically complicated large projects can also require the employment of specialised staff, generating higher costs than would be the case for simple or small-scale projects. Generally speaking, the main difficulties associated with very large projects appear to emerge in the drafting process and the launch of the calls which is more time consuming than for traditional projects. However, the administrative costs associated with the implementation of very large projects are often viewed as being more proportionate to their global budget.

Figure 39: **Number, size and content of programmes and projects**



Source: EPRC literature review for this study

The complexity and costs associated with administering projects in specific fields of intervention must also be taken into account.<sup>21</sup> The administrative costs linked to the implementation of hard infrastructure projects may be associated with relatively

<sup>21</sup> Boeckhout *et al* (2002) *op cit*.

straightforward support and advice given directly by programme managing and implementation bodies. Other projects, however, may involve broader, more extensive and ongoing support. This can be the case for 'softer' interventions, for instance involving business support and human resource development, where there is potentially more intense interaction between management and implementation bodies and beneficiaries.

The fact that the institutional and regulatory context is often in a state of flux must also be taken into account when assessing administrative costs. Changes in ERDF and Cohesion Fund regulations or domestic reforms in the areas of personnel, finance, and organisational structures clearly have an impact on administrative costs. For instance, a trend noted in several Member States for the current programming period is the evolution of project generation, appraisal and selection systems from a 'list of projects' approach to a more sophisticated and coordinated method of allocating resources to projects. One aim is to move towards larger, more strategic projects. A reduced number of projects may mean a reduction in administrative costs, but efforts to develop more strategic, integrated projects may entail more administrative efforts from project managers and beneficiaries. When measuring the scale of administrative costs, progress over time is also an important factor. While EU15 Member States are able to draw on lengthy past experience with the Funds in order to identify and reduce costs, the evolution of administrative culture and capacity in the EU12 is more rapid with substantial administrative reforms being introduced as they enter their first full programming period.

### **Financial volume of the programmes**

Overall, the financial volume of a programme influences the administrative workload and costs. Financially small programmes usually have higher administrative workload and costs than financially larger programmes.

This rather general picture can be further nuanced when considering individual tasks. The degree to which the financial volume of a programme influences an administrative task differs. A total of 46 different administrative tasks have been analysed for this study with regard to their associated workload and costs. Analysing the data for each task in relation to the total programme budgets reveals that, for some tasks, the financial size of the programmes has either no or only very marginal impact on the variation of costs across the programmes while, for other tasks, there appears to be a much stronger relationship.

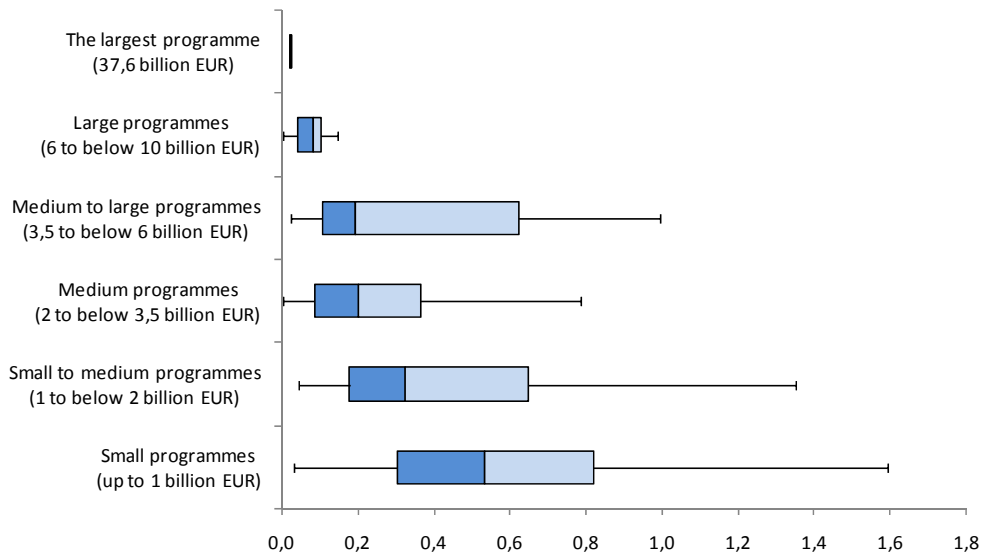
### **Programme management and the programmes' financial volume**

The variation of the programme management workload and costs varies with the financial volume of the programmes, as illustrated in figures 42 and 43. These two figures present the workload and costs for the programme management for small programmes (up to 1 billion EUR of total eligible budget), small to medium programmes (1 to below 2 billion EUR), medium programmes (2 to below 3.5 billion EUR), medium to large programmes (3.5 to 6 billion EUR), large programmes (6 to 10 billion EUR). Because of its exceptional financial volume (37.6 billion EUR), the Polish programme Infrastructure and Environment is given a dedicated category.

Large programmes with a total eligible budget above 6 billion EUR have, in particular, low median values for the programme management workload (0.08 person years per million EUR of total eligible expenditure) and costs (9,000 EUR per million EUR total eligible expenditure). On the other hand, the small programmes up to 1 billion EUR of total eligible budget have the highest median values at 0.53 person years and 36,000 EUR per million EUR total eligible expenditure. Thus the median workload for the small programmes is 6 times higher than for the large programmes and the median costs are 4 times higher.

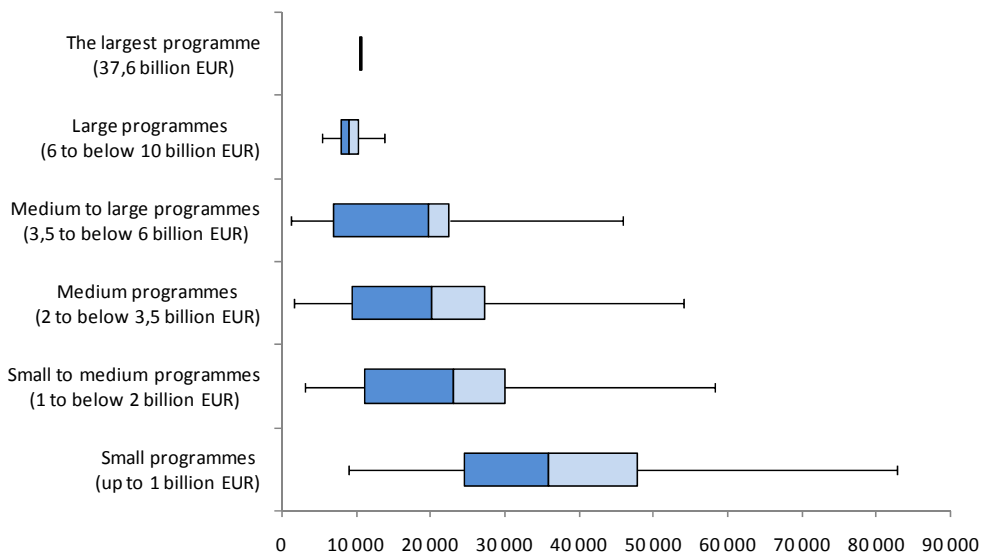


**Figure 40: Programme management – administrative workload by the programmes' financial volume\***  
(in person years per million EUR of total eligible expenditure)



\* This overview does not cover European Territorial Cooperation Programmes.

**Figure 41: Programme management – administrative costs by the programmes' financial volume \***  
(in EUR per million EUR of total eligible expenditure)



\* This overview does not cover European Territorial Cooperation Programmes.

## Tasks influenced by the financial volume of a programme

In terms of programme management, the workload for tasks directly related to project follow-up is significantly affected by the total financial volume of a programme. The tasks most clearly influenced by financial volume are the verification of deliverables and compliance (art. 60b), project selection (art. 60a), and major projects (art. 39 & 40). When looking at the administrative costs, the task most influenced by the financial volume of a programme is the information and publicity requirements (art. 69 & 60i). In a number of programmes, the considerable external costs associated with this task explain why the impact is less clearly visible than is the case for the influence on the workload.

In terms of programme certification, the financial volume of the programme strongly affects both the costs and workload associated with the task of ensuring the availability of adequate information (art. 61c). This is also the case for workload associated with the certification of statements of expenditure and expenditure declarations (art. 61b) as well as the costs and workload for audits (art. 61d).

For the programme audit, the financial volume of a programme has a particular impact on the costs and workload for audits of samples (art. 62b) as well as clearly influencing the cost and workload for audits of the management and control system (art. 62a) and the costs of the closure declarations (art. 62e).

Figure 42: **Tasks where the administrative costs or workload correlate with the programmes' financial volume**

	Influence on costs	Influence on workload
<b>Programme Management</b>		
Verification of deliverables and compliance (art. 60b)	Medium	Very strong
Project selection (art. 60a)	Strong	Very strong
Major projects (art. 39 & 40)	Medium	Very strong
Information and publicity requirements (art. 69 & 60i)	Very strong	Medium
Prevention and detection of irregularities (art. 70)	Strong	Medium
<b>Programme certification</b>		
Certification of statements of expenditure & expenditure declarations (art. 61b)	Strong	Very strong
Ensuring adequate information (art. 61c)	Very strong	Very strong
Audits (art. 61d)	Strong	Strong
<b>Programme audit</b>		
Audit of samples (art. 62b)	Very strong	Very strong
Audits of the management and control system (art. 62a)	Strong	Strong
Closure declaration (art. 62e)	Strong	Medium



### Tasks not influenced by the financial volume of a programme

The workload and costs for a considerable number of tasks vary either only marginally or not at all in accordance with the programme budgets. The fact that some tasks do not increase their administrative workload or costs as the programme budget increases explains why programmes with relatively limited financial volumes show comparatively high administrative costs and workload per million Euro of the programme budget.

The analysis of the individual tasks shows that the costs and workload of the following tasks, in particular, are hardly influenced by the financial volume of a programme.

For programme management, the programme budget appears to have no or only very little influence on the administrative costs and workload of the management of global grants (art. 42), ensuring equality between men and women and non-discrimination (art. 16), the management of financial engineering measures (art. 44), and ensuring adequate accounting systems of the beneficiaries. In these cases, variations can be observed but no correlation to the programme budget appears to exist.

Figure 43: **Tasks where the administrative costs or workload barely correlate to the programmes' financial volume**

	Influence on costs	Influence on workload
<b>Programme Management</b>		
Management of global grants (art. 42)	very low	very low
Ensuring equality between men & women and non-discrimination (art. 16)	very low	very low
Management of financial engineering measures (art. 44)	very low	very low
Ensuring of adequate accounting systems of the beneficiaries (art 60d)	very low	very low
Ensuring a system for data recording (art. 60c)	very low	low
<b>Programme certification</b>		
Accounting of amounts recoverable or withdrawn following cancellations (art. 61f)	low	very low
Maintenance of records (art. 61e)	low	very low
Statement of expenditure & payment applications to the Commission (art. 61a)	low	low
<b>Programme audit</b>		
Closure declaration (art. 62e)	medium	very low
Audit strategy (art. 62c)	very low	very low
Annual control report (art. 62d)	low	very low

very low
  low
  medium

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For programme certification, the financial volume of a programme has no or very little influence on the workload for the accounting of amounts recoverable or withdrawn following cancellations (art. 61f) and the maintenance of records (art. 61e). The programme budgets have a medium to low influence on the administrative costs for these two tasks. The costs and workload for statements of expenditure and payment applications to the Commission also show only a medium to low influence.

For programme audit, the workload of most tasks seems not to be affected by the size of the programme budget. A programme's financial volume has very little influence on the audit strategy (art. 62), whereas it has a medium to low influence on the costs for the annual control reports (art. 62d)

## 7.4 Programme themes

While the overall aim of the ERDF and Cohesion Fund is to strengthen economic development and contribute to economic and social cohesion in the European Union, the types of activities supported differ widely. In general they range from direct aid for business investment to infrastructure investments, support for research and development, financial instruments to support regional and local development and technical assistance measures. The thematic orientation of a programme has a clear influence on its administrative workload and costs.

### Programme themes and their administrative costs

For this study, the individual programmes have been classified on the basis of six different areas of thematic emphasis and analysed on the basis of the associated administrative workload and costs (see Figures 46 and 47). The programme themes have been identified by the programme titles.

- **Technical assistance**

Some programmes are purely technical assistance programmes. They form one group together with programmes on governance and administrative capacity building. This group has the biggest internal variation and the highest workload per million EUR of total eligible expenditure (0.5 person years) excluding territorial cooperation programmes. This group also has the highest median value (EUR 40,000) in terms of administrative costs per million EUR of total eligible expenditure, again excluding territorial cooperation programmes which have other administrative frameworks.

- **Environmental infrastructure**

The environmental programmes have the second lowest median workload (1.7 person years per million EUR of total eligible expenditure) and median administrative costs (EUR 20,000 per million EUR of total eligible expenditure). The variation within this group is very small, particularly in terms of the administrative costs.

- **Transport infrastructure**

Transport and infrastructure programmes have the lowest median workload (0.12 person years per million EUR of total eligible expenditure) and median administrative costs (EUR 10,000 per million EUR of total eligible expenditure). The variation in this group is relatively limited.

- **Innovation**

Programmes focusing on research & development and innovation have higher administrative workloads and costs than the previous two types. Figures for this type of programme are in the middle range of the types analysed and are approximately 0.23 person years or EUR 32,000 per million EUR of total eligible expenditure.

- **Regional and economic development**

Most programmes do not generally address a single development theme but rather combine different aspects which support economic and regional development. These programmes, mainly the regional programmes plus some national programmes, have been grouped into their own category. Excluding territorial cooperation programmes, this category shows the second highest median workload as well as the second highest median level of administrative costs at approximately 0.38 person years or EUR 27,000 per million EUR of total eligible EU expenditure.

- **European Territorial Cooperation**

The European Territorial Cooperation Programmes comprise a particular group. Thematically these programmes cover a wide range of regional development aspects and each programme also encompasses several countries, leading to particular administrative challenges and work. The thematic and administrative complexity of the programmes is also the reason why they have a median workload of 0.9 person years and costs of 69,000 EUR per million EUR of total eligible expenditure.

Looking at the overall picture of the national and regional programmes, the broader regional or economic development programmes and the programmes focusing on technical assistance, governance and administrative capacity building generally involve more administrative work and higher costs than other types of programmes. At the other end of the scale, programmes focusing on infrastructure investments in particular have a comparably low workload per million EUR of expenditure, followed by those programmes focusing on the environment.

Figure 44: **Programme management – administrative workload by themes**  
(in person years per million EUR of total eligible expenditure)

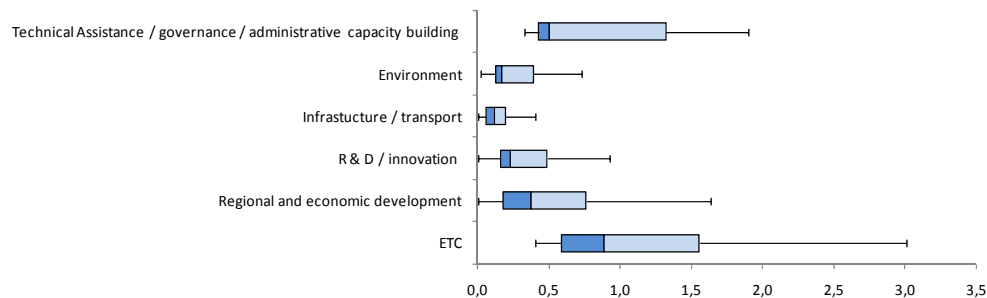
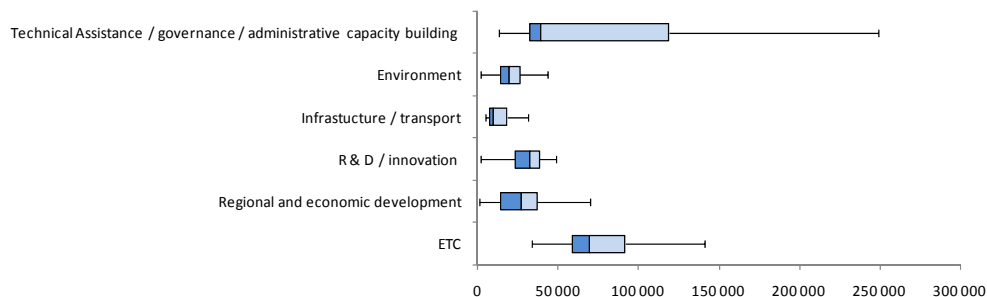


Figure 45: **Programme management – administrative costs by themes**  
(in EUR per million EUR of total eligible expenditure)



The more complex European Territorial Cooperation Programmes are clearly characterised by a high administrative workload resulting from the complex international programme structures. The very particular structures and requirements of these programmes make a direct comparison with other programme types misleading.

### **Project themes and their administrative costs**

The thematic orientation of the projects funded through ERDF and CF also influences the administrative costs of both the programme management and the final beneficiaries.

### **The impact of project themes on the administrative workload of the programme management**

The administrative workload of the programme management depends, among other things, on the type of activities which are funded by a programme. Innovative (e.g. research and development) projects which are linked to the pursuit of the Lisbon agenda objectives are particularly work-intensive in terms of programme management. Both the programme level data analysis outlined above and observations from the sample studies confirm this conclusion.

The higher administrative workload associated with activities aimed at the Lisbon objectives results from the need for greater involvement by the Managing Authority and the beneficiaries. Furthermore, the development of such activities requires the participation of specialised actors (research centres, private bodies, networks) and therefore increases the need for a more complex type of coordination and greater administrative involvement.

Projects and initiatives with eligible costs/salaries expenses, and 'soft projects' such as training, conferences and seminars, represent another group of projects which can create a heavier administrative load. This is due to the particular difficulties associated with the assessment of eligible expenditure. This type of project is particularly relevant under the European Territorial Cooperation objective which promotes operations based on strategy/networks/partnership building, exchange of experience, mutual collaboration on tools, and the exchange of good practice. Not surprisingly, the authorities and beneficiaries of territorial cooperation programmes generally consider the administrative workload to increase in line with the number of participants.

Higher administrative costs are also reported for revenue-generating projects (Article 55 of Regulation 1083/2006). In particular, the assessment of eligible expenditure, and the requirement to evaluate the revenues generated after the end of the financing period, are often considered to make implementation of this type of project more demanding.

### **The impact of project themes on the administrative workload of the final beneficiaries**

Different thematic orientations also affect the administrative workload at the level of the final beneficiaries. This applies to all phases from the preparation of the application to the closure of the project.

The funding application generally represents the first administrative step and usually requires between 0.3 and 2 person years per million EUR of total eligible expenditure. In monetary terms, the preparation of the funding application is estimated to cost between 4,000 and 50,000 EUR per million EUR in funding.

Following a successful application comes administrative management of the funded activities. Based on the responses received, it is estimated that project management requires between 0.3 and 2.3 person years per million EUR of total eligible costs or between 0.4 and 4.7 person years per million EUR of total EU funding. In monetary

terms, it is estimated that the project administration requires between 7,000 and 165,000 EUR per million EUR of total eligible expenditure. These values, however, are average values which are influenced significantly by the large number of infrastructure investment projects in the sample. Considerable differences between various types of funded activities can be observed:

- Infrastructure investment projects: 1 – 2% of the total eligible expenditure
- Business development support: 3 – 13% of the total eligible expenditure
- Establishment of (social) platforms: 8 – 27% of the total eligible expenditure
- Studies and investigations: 2 – 18% of the total eligible expenditure

It might be expected that administrative costs would be much higher for territorial cooperation projects due to the more complicated partnership and the mix of administrative cultures often found in such projects. Taking into account the relatively low number of respondents that supplied “comprehensive” answers, there do not, however, seem to be significant differences between types of territories. Indeed, administrative costs for territorial cooperation only appear to be noticeably higher in the case of preparation costs for projects that also received funding in the previous programming period. However, as mentioned earlier when discussing the administrative workload and costs of beneficiaries (see chapter 5.6), it should again be emphasised that the statistical significance of these figures is not very strong. Consequently the figures should only be understood as indicative.

## 8 Putting things into context

### 8.1 Benchmarking administrative costs

Benchmarking can be a valuable component of policy assessments. The process involves comparing the cost, time, productivity or quality of a process or approach with another that is considered to be best practice or of a recognised standard. The potential benefits of benchmarking include: increasing the potential to identify differences across jurisdictions; increasing the transparency of activities; facilitating a process of continual improvement; and incorporating mutual learning and transfer rather than a top-down regulatory approach.<sup>22</sup> It is also linked to efforts aimed at improving the legitimacy and effectiveness of policy development and delivery by enabling an exchange of ideas and practice and the identification of clear goals and targets.

However, these benefits must be considered against potential drawbacks. First, benchmarking is not necessarily sensitive to the specificities of the policies and the domestic contexts involved.<sup>23</sup> The process runs the risk of diverting attention away from the generation of new, innovative solutions that are adapted to specific circumstances and needs. The 'promise of benchmarking as a powerful tool of learning can be undermined by the evaluation of quantitative criteria over more complicated issues to do with context and process'.<sup>24</sup> Simply focusing on numerical measurements can run the risk of presenting a mono-dimensional view which misses out the qualitative reasons for variations.<sup>25</sup> It can result in excessive focus on quantitative checking to the detriment of the quality of outcomes.<sup>26</sup> More importantly in the case of EU Cohesion Policy, the figures on the administrative costs only become meaningful when related to the achievements of the administration and programmes. The quality of the administration and the achievement of the programmes are not however captured by the figures presented in this study.

Approaches to benchmarking vary according to the type of process under examination, the actors involved, the context of the operation, and the motivation and thinking behind the process. Strategic benchmarking, for example, aims at improving overall performance by examining long-term strategies and general approaches. Performance or 'competitive benchmarking' focuses on relative positions in relation to the performance of competitors in the same sector. Internal benchmarking involves benchmarking operations from within the same organisation. Process benchmarking focuses on improving specific processes and operations.<sup>27</sup>

Benchmarking is widely applied in a business and organisational context but it has also been extended to public policy.<sup>28</sup> In the EU context, it is now an established feature of the EU's approach to the coordination of economic and social policy between and across Member States.<sup>29</sup> The European Commission's High Level Group on Benchmarking identifies three approaches: 'surveillance' (seeking compliance with

<sup>22</sup> Arrowsmith, J. Sissin, K. and Margison, P. (2004) 'What can 'benchmarking' offer the open method of coordination?', *Journal of European Public Policy*, 11:2 April, pp. 311-328.

<sup>23</sup> Ministry of Finance, the Netherlands Ministry of Transport, Public Works and Water Management, the Netherlands Office of the Committee for European Integration (UKIE), Poland (2005) *Benchmark Transport EU Legislation Poland-Netherlands*, December 2005, p. 4.

<sup>24</sup> Arrowsmith, Sissin and Margison (2004) *op cit* p. 312.

<sup>25</sup> Elmuti, D. and Kathawala, Y. (1997) 'An Overview of benchmarking progress: a tool for continuous improvement and competitive advantage', *Benchmarking for Quality Management and Technology*, 4(4), pp. 229-43.

<sup>26</sup> Prowes, M. (2001a) 'It's citizen versus citizen for services', *Financial Times*, 27-28 January 2001; Prowes, M. (2001b) 'A satchel full of silly ideas for a new term', *Financial Times*, 24-25 February 2001.

<sup>27</sup> Tutor2U, *Strategy Benchmarking*, <<http://tutor2u.net/business/strategy/benchmarking.htm>>

<sup>28</sup> Keehly, P. and Abercrombie, N (2008) *Benchmarking in the Public and Nonprofit Sectors: Best Practices for Achieving Performance Breakthroughs*, 2nd Edition, Jossey Bass

<sup>29</sup> Arrowsmith, J. Sissin, K. and Margison, P. *op. cit.* p. 311.



policies already agreed on); 'learning' (a bottom-up facilitator for preparing or initiating new actions); and, 'improvement' (incorporating measurement for self –evaluation and learning possibilities).<sup>30</sup>

Additionally, a number of EU Member States have been involved in benchmarking projects to identify examples of best practice and the impact of international legislation. Poland and the Netherlands benchmarked EU and international transport legislation.<sup>31</sup> Denmark, Sweden, the Netherlands and Norway completed a benchmarking exercise of the implementation of EU VAT legislation.<sup>32</sup> By providing comparable baseline measurements, the Standard Cost Model (SCM) model can be an important tool in benchmarking administrative costs.

For the most part, the SCM is used to measure administrative costs incurred by business rather than public administration. Moreover the focus of SCM is typically on the costs associated in complying with regulations, usually through providing information. While these activities may be reasonably straightforward to measure, other activities associated with the policy process may be more challenging. The present study has a different focus and does not apply the SCM. As described in annex 2, an own methodology has been developed which has some similarities with the SCM.

Benchmarking is most commonly applied across related or similar processes and activities. However, the opportunity to draw lessons from distinct policy fields can also be important. New lessons can be learned and processes adapted. For the purposes of this study, it may be useful to consider costs and potential benchmarks in policy areas outside the ERDF and Cohesion Fund, and the following section identifies some external benchmarks. These are structured according to the three aspects of ERDF and Cohesion Fund identified in this review as potential determinants of administrative cost levels: management and implementation structures; delivery processes; and the size and scope of programmes and projects.

### **Benchmarking with other policy areas**

ERDF and Cohesion Fund are delivered through a unique management and implementation system that involves different combinations of EU, Member State, regional and local structures in the provision of economic development funding.

Comparable information on the administrative costs or workload of national regional policies or other EU policies are not available. For the most, available documentation addressed the administrative costs various national or European regulations imply for the private sector (see above section on SCM).

In general, the literature review revealed that very little documentation about the administrative costs, as understood in the present study, is available. However, some international development banks and foreign aid and development programmes have broadly similar resource allocation structures. A straight forward comparison between them and the results of this study remains difficult, as there is not sufficient information on their approach to measuring administrative costs and their understanding of administrative costs. For instance, the World Bank organises global and regional partnership programmes that support projects, country-specific initiatives, and policies through the encouragement of innovation, cooperation between organisations and the participation of local stakeholders. The World Bank disburses 20-23 billion USD annually via programmes, projects, loans and grants. The Bank's administrative budget covers the cost necessary for all of the day-to-day operations of the Bank, i.e. management, staff, consultants, travel, communications, and facilities. In terms of

<sup>30</sup> High Level Group on Benchmarking (1999) Final Report. Brussels: CEC.

<sup>31</sup> Ministry of Finance, the Netherlands Ministry of Transport, Public Works and Water Management, the Netherlands Office of the Committee for European Integration (UKIE), Poland (2005) *Benchmark Transport EU Legislation Poland-Netherlands*, December 2005

<sup>32</sup> OECD (2006) *op cit*, p. 44

administrative costs, at a global level an evaluation of the World Bank's operations in 2005 found that administrative costs had risen from 7.7 percent of its total budget in 1995 to over 11 percent in 2005. The justification for this was the Bank's increasing focus on core analytical work and improvements in project quality in recent years.<sup>33</sup> Some figures in this range can be identified for the Bank's individual programmes. For instance, an evaluation of a water and sanitation programme aimed at supporting policies and projects for improved service provision in developing countries and regions had global management costs of about nine percent of total expenditure.

The European Bank for Reconstruction and Development (EBRD) could represent another broadly comparable management and implementation structure. It provides funding for development projects for banks, industries and businesses. It also works with publicly owned companies to support privatization, the restructuring of state-owned firms and the improvement of municipal services. The EBRD tailors each project to the needs of the client and to the specific situation of the country, region and sector. The bank also uses co-financing mechanisms for the projects it supports. In 2007, the annual business volume for development projects amounted to 5.6 billion USD and comprised 353 projects. In the same year, the EBRD's general administrative expenses were around 4.5 percent of its overall budget.<sup>34</sup> The EBRD definition of administrative expenses refers to staff costs, overheads, cost of audit, travel, communications and facilities and what they term as direct costs relating to loan origination and commitment maintenance.

Several countries operate their own bilateral aid programmes, channelling funds into development projects in close cooperation with national and regional administrations, non-government organisations and the private sector. A 2008 study of 'best practices' in foreign aid systems included a section on administrative cost as a ratio of 'official development financing'. The authors note that the explanatory power of their comparative data is limited given the absence of standard definitions and difficulties in disaggregating some categories. Nevertheless, they find that "for the total international aid effort, the ratio of administrative costs to official development financing is about 9 percent".<sup>35</sup> Within this there is very wide variation. Multilateral aid systems such as the Inter-American Development Bank, the United Nations Development Programme and the International Monetary Fund have significantly higher administrative budgets (averaging at 12 percent of aid) than bilateral aid structures (averaging 7 percent). The authors conclude that the involvement of a higher number of levels and organisations in delivery systems creates higher fragmentation and leads to higher administrative costs.<sup>36</sup>

Private charitable foundations may also provide some useful benchmarks for assessing administrative costs. An analysis of the 25 largest charitable foundations in the USA in 2001 revealed an overall average of 9 percent of payout distributions. The Bill & Melinda Gates Foundation, the largest grant maker, paid 4.4 percent in such costs, while the Lilly Endowment, the second largest, paid 2.3 percent. The Ewing Marion Kauffman Foundation spent the highest percentage of its payout total on administrative costs (24.4 percent). However, an explanatory factor here was that, in addition to making grants, the Foundation operated many of its own programmes.<sup>37</sup>

Another relevant question in this context is this - what would be the administrative costs of running the Structural Funds programmes outside EU Cohesion Policy? The qualitative responses of interviewees in the sample studies suggest that there is

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<sup>33</sup> World Bank Operations Evaluation Department (2005) *Improving the World Bank's Development Effectiveness What Does Evaluation Show?* p. 37

<sup>34</sup> EBRD (2008) *Annual Report 2007: Review and Financial Statements*. p5

<sup>35</sup> Easterly, W. and Pfutze, T. (2008) 'Where Does the Money Go? Best and Worst Practices in Foreign Aid' *Journal of Economic Perspectives* Volume 22, Number 2 Spring 2008 p18.

<sup>36</sup> Although there are no figures for the European Commission under administrative costs, the authors categorise the EC as a bilateral system.

<sup>37</sup> 'Pressing Foundations to Give More' *The Chronicle of Philanthropy, Gifts & Grants* 29/5/03.

sometimes a perception that ERDF and CF involve a higher degree of administration than comparable national policies. However, as no comparable data on the administrative costs is available, an answer on this would require additional investigations on possible alternative counterfactual scenarios and their administrative costs. Such a comparison would ultimately fall short if only the administrative costs were considered and would therefore also need to compare effectiveness and achievements (i.e. the results produced by the funded actions).

In conclusion, the establishment of a clear external benchmark for the administrative costs of EU Cohesion Policy (focusing on ERDF and CF) with other comparable policies or programmes, is difficult due to both data availability and deviating definitions.

However, the examples above illustrate that the EBRD has a comparable level of administrative costs to EU Cohesion Policy. The other cases identified have considerably higher figures which are up to two or three times as high as the one for EU Cohesion Policy. Although these figures cannot be used for a direct comparison of numbers, they clearly indicate that EU ERDF and Cohesion Fund do not involve particularly high administrative costs.

### **Previous studies on the administrative costs of Cohesion policy**

Literature on the administrative costs of Cohesion Policy in specific Member States is limited. In some cases, this can be attributed to broader characteristics of the public policy environment: the public dissemination of the administrative costs of public policy, including Cohesion Policy, may be limited by limited years of experience in this field or by limited political interest.

Some Member States have conducted assessments of the costs of administering Structural Funds programmes, as dedicated studies of particular programmes or funds or sometimes as part of broader reviews or evaluations of Cohesion Policy. While the differences as regards scope and approach imply that the results cannot be compared directly with each other or with the results of this study, these studies provide some interesting findings, set out below.

An evaluation of the Estonian National Development Plan for the Implementation of the EU Structural Funds – Single Programming Document 2004-2006 (SPD) included a focus on the efficiency of program implementation.<sup>38</sup> Its main conclusion was that the administrative cost of implementing the SPD amounted to approximately 9 percent of the available funds. Within this, the study identified a wide range of costs associated with different parts of the administrative system. Some difficulties arose where bodies played more than one role (e.g. Implementing Body and Final Beneficiary). Varying administrative costs were also related to different approaches to implementation amongst participating organisations. For example some bodies carried out particularly intensive project checks for financial management and control. A general challenge for the assessment of administrative costs was gaps in the database.

In Malta, a report titled '*The evaluation of the efficiency of the implementation of Malta's Single Programming Document (PWC 2006)*' was commissioned by the Managing Authority. This report assessed the cost efficiency of the Single Programming Document in terms of the direct costs as well as the human resource costs. Direct costs of implementation related to the amount spent on technical assistance while human resource costs related to the number of people employed. The study converted the human resources involved in implementation into a monetary value by estimating fulltime equivalents cost over the period based on the average wage in Malta plus an allowance for social costs and staff related support costs.

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<sup>38</sup> PriceWaterhouseCoopers (2006) Hindamisaruanne "Riikliku Arengukava rakendussüsteemi ja selle toimivuse hindamine", June 2006 Ministry of Finance, Tallinn

Based on these estimates, the study noted that the cost of implementation is 4 percent of the total SDP funding and 5.5 percent of the EU contribution.

In other cases, particularly in newer Member States, rising levels of Cohesion Policy funding and the increasing sophistication and complexity of implementation systems have prompted some studies of administrative cost. In Poland, there has been significant focus on ensuring that increasingly substantial levels of funding are spent. However, one recent evaluation has addressed the issue of administrative costs. In 2007, the Ministry of Regional Development commissioned an 'Assessment of the administrative costs of management and implementation of Structural Funds and Cohesion Fund in Poland'. The study covered the period 2004-2006 and covered 86 percent of the bodies involved in management and implementation of Cohesion policy, including all of the Managing Authorities. The total administrative costs of all of these bodies amounted to 7 percent of the total Cohesion Policy funding for which they were responsible.<sup>39</sup> The report also identified wide variation between programmes in the level of administrative costs. For the most part, this was related to the number of projects and beneficiaries involved in programmes (the Integrated Regional Operational Programme had a large number of beneficiaries and high administrative costs while the Transport Operational programme had less projects to administer and thus lower costs). In Hungary, a study in 2006 assessed the capacity and operational costs of the Community Support Framework.<sup>40</sup> It forecast that the operational costs of Managing Authorities and Intermediate Bodies would amount to nearly 6 percent of the total programme budget between 2004 and 2008. If the costs of those organisations with a horizontal responsibility (Audit Authority, Paying Authority, CSF Managing Authority etc.) were also included, then around 7 to 8 percent of the CSF budget would be needed for the operation of the Structural Funds.

Administrative cost assessments have also been carried out in some older Member States. For instance, in 2000 the Swedish Agency for Public Management was commissioned by the government to estimate the administrative cost for several Structural Funds programmes. The study included administrative cost accounts for the year 2000 and annual cost forecasts for 2002-2006, covering the regional Managing and Certifying Authorities and the Paying Authorities for ERDF and ESF. The sum for year 2000 was €6. 57 million and the estimated sum for the period 2001-2006 was €55.63 million. These costs refer to EU contribution only. For 2001, administrative costs amounted to 4.8 percent of the total EU contribution and 2.4 percent of national public funding.<sup>41</sup>

In some cases, costs assessments may be prompted by value for money considerations against a background of decreasing levels of Cohesion policy funding. For example, the question of administrative costs has been prominent in the United Kingdom. Here, the administrative burdens of the Structural Funds are frequently linked with significant costs and negatively affect the effectiveness and efficiency of the funds and the projects they are supposed to support.<sup>42</sup> An evaluation of the Added Value and Costs of the Structural Funds in the UK (2003) posed the question whether Structural Fund Projects required more resources than UK domestic projects. A majority of respondents felt that more or significantly more resources were required implement Structural Fund programmes.<sup>43</sup> However, a recent report and debate by a parliamentary select committee into the future of EU regional policy gathered evidence

<sup>39</sup> Doradca Consultants (2007) Ocena poziomu kosztów administracyjnych zarządzania i wdrażania funduszy strukturalnych i Funduszu Spójności w Polsce Raport Końcowy p59.

<sup>40</sup> IFUA Horváth & Partners Kft, (2006). *Assessment of the Management of the CSF Institutional System*

<sup>41</sup> See, for instance, Statskontoret (2000) *Administrationskostnader för regionala strukturfondsprogram*, Stockholm: Statskontoret <<http://www.statskontoret.se/upload/Publikationer/2000/200023.pdf>>

<sup>42</sup> House of Lords (1997) 'Reducing Disparities within the European Union: the Effectiveness of the Structural and Cohesion Funds', Select Committee on European Communities Eleventh Report, paras 69-72. 18 March 1997.

<sup>43</sup> ECOTEC, (2003) *Evaluation of the Added Value and Costs of the European Structural Funds in the UK*, ECOTEC: London, p. 51

on associated administrative costs. The Government's estimate of the cost to central government of administering these programmes was £28 million a year out of a total UK allocation of European funds of £1.5 billion. The regional development agencies provided evidence that the annual cost to English RDAs was around £11 million, with significant variation related to the size of the programme and regional structural issues. Including figures from the Scottish government and the Welsh Assembly, the official data indicate that the total annual administrative costs to the public sector was no more than £40 million to £50 million, around one-third of 1 per cent of total Structural Funds expenditure.<sup>44</sup>

This brief review of the Cohesion policy literature reveals some of the challenges associated with assessing administrative costs, the wide range of figures generated in these assessments and an array of factors that can contribute to variations in levels of costs.

### **Benchmarking of different ERDF and CF programmes**

The figures presented in this report may allow a benchmarking of different programmes and countries with regard to specific administrative functions. However, a number of aspects need to be taken into consideration if this is to be carried out:

- First and most importantly, the figures presented in this report deal with administrative workload and costs. By no means can they be said to contain any information about the quality or output of the administrative efforts. Any benchmarking, therefore, would relate only to the workload or costs and would completely neglect the achievements of the administration.
- The report contains many figures which could be of interest for benchmarking. The Introduction to the report emphasises the need to consider a number of caveats when analysing the figures and, for this reason, box-plots are used in most cases to present the variations in the figures. In terms of the possible extraction of more specific benchmarks, one might consider the spreading of the central 50% with the implication that the bottom 25% have rather low and the top 25% comparably high administrative costs or workload levels. For more exact figures one might want to consider the upper value of the central 50%, i.e. the 3<sup>rd</sup> quartile, as a benchmark. In this case 25% of the cases analysed will be above the benchmark.
- In chapter 7 we outlined a number of explanatory factors for the variations in administrative costs within EU Cohesion Policy. These certainly need to be taken into consideration in any benchmarking exercise and we recommend comparing only programmes which fall within the same set of typologies.
- Within the EU, different Member States are often compared with each other. As outlined in the introductory chapter, a comparison or benchmarking at Member State level alone would be most likely to produce misleading results. As each Member State has a distinct set of programmes characterised by financial volume, thematic orientation and geographical coverage, any such comparison risks reproducing the composition of the programmes and not the administrative structures and their costs.

In conclusion, the figures presented in this report generally lend themselves to a better understanding of the administrative workload and costs of EU Cohesion Policy (focusing on ERDF and CF) and some of its variations. The complex reasons behind the various levels of administrative cost are too great for a straightforward comparison or benchmarking to have genuine explanatory power.

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<sup>44</sup> House of Lords (2008) *The Future of EU Regional Policy*, [Nineteenth Report](#) of Sessions 2007-2008, Select Committee on European Union, HL Paper 141, London: The Stationary Office, 26 July 2008.

## 8.2 Change of administrative workload from 2000-2006 to 2007-2013

From the analysis of the qualitative case studies, the general attitude evident among the various authorities and beneficiaries involved in Structural Funds is a fairly “conservative” one. Changes to the regulations are not always appreciated, not even when they have potential to bring simplification. A modification of rules can entail additional costs for the organisations concerned, particularly in relation to the recruiting and training of new staff, timing delays, misunderstandings and the misinterpretation of new rules. For these reasons, most interviewees suggest avoiding changes and modifications in EU regulations, especially in the management and implementation mechanisms, and restricting them instead to strategy and policy goals. This view also affected the perception of changes introduced by the 2007-2013 regulations.

Despite the fact that one of the aims of the new 2007-2013 regulations is a simplification of rules and a relative decrease in administrative costs, the general perception is that there is still some way to go before this aim is achieved. Most of the authorities report that, rather than achieving a decrease in the administrative work, the new regulations imply new (albeit temporary) costs for the running of Operational Programmes. However, an administrative cost decrease has been perceived in a few cases (exclusively in the new Member States).

The requirements related to control are perceived to be the main factor behind the increase in administrative costs. Specifically, the verification done by the Managing Authorities (Article 13.2 Regulation 1828/2006), statistical sampling for audit purposes (Article 17 Regulation 1828/2006) and the descriptions of the management and control system (Article 71 Regulation 1083/2006) are all perceived to have led to increased costs.<sup>45</sup> Managing Authorities are the most sensitive in respect to the new regulatory obligations concerning control activities. Moreover, the common perception is that simplification at the Commission level can necessitate more onerous duties at the national and programme levels.

The second most frequently reported cause of cost increases relates to the monitoring system. Fulfilling requirements of reporting programme indicators and within annual implementation reports demands a constant information flow from beneficiaries to Intermediate Bodies, Managing Authorities and coordinating authorities. More extensive requirements for monitoring mean that more data has to be collected and processed, which has an impact on the workload of the Managing Authorities and beneficiaries. Information exchange with SFC 2007 has to be established in order to manage, store and transmit the information. While monitoring arrangements evolve to match needs to create specific reporting procedures (scheduling, formats, check-lists) develop IT systems and provide the staff with adequate training.

According to the interviewees, other aspects related to controls associated with administrative workload include: the amount of documentation which has to be provided by the beneficiary to receive reimbursement; retention periods for documentation (art. 90 reg. 1083/2006); the establishment of the Certification Authority and its new associated tasks. In addition, in the view of many interviewees, the greater freedom to establish and interpret eligibility rules at national level introduces more confusion and increases uncertainty resulting in time delays and additional work.

Interviewees also feel that new obligations concerning communication and publicity (Section 1 Regulation 1828/2006) have resulted in increased costs. A number of national coordination authorities have also raised the issue of the additional costs

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<sup>45</sup> The obligation to provide a description of the management and control system was already in force during the 2000-2006 period (Regulation 1260/1999, Article 38b). In relation to the current programming period, however, interim payments became conditional on Commission approval of the compliance assessment and the audit strategy.

related to the preparation of the NSRF, and particularly by the need for broad consultation among the various institutional bodies and other stakeholders.

The new regulations stress the importance of innovation and identify energy, ICT, research, partnerships between enterprises and Universities as key fields of intervention. As a consequence, project preparation and appraisal are sometimes regarded as more expensive as there is now a need for additional specialised skills.

### **Recurrent and “one off” costs of the new administrative costs**

Change in routines and regulations always involves an increase in administrative work. This can be a transitional cost whereby there is an increased cost or workload for the time of transition between the old and the new routines, but the new routines save work and costs in the long run. In other cases, however, the change of routines and regulations can mean a permanent increase in costs if the new routines are simply more work or cost intensive than the old ones.

From the majority of the sample studies, it is clear that the costs related to the new administrative routines are perceived to be permanent. The permanent nature of the cost increase was emphasised in particular by the Audit Authority, Certification Authority and beneficiaries. This is predictable since the new regulatory obligations in the field of audit and reporting have led to additional operational tasks and costs for these bodies. Managing Authorities have a more balanced opinion. Although most suggest that cost increases are of a more “permanent” nature, they also regard some of the additional administrative work as “investment costs”. This applies to the creation of the ICT systems (technological infrastructure and training), the communication plan, the description of the managing and control system (Article 71 Regulation 1083/2006), and the evaluation plan. Nevertheless, even if these specific changes can be considered as “one off” costs, some Managing Authorities still regard them as being quite “extended” in comparison to the programming period.

The majority of national coordination authorities held the view that changes at the beginning of the programming period had a greater impact. This is because the main new task was the design of the NSRF, while coordination was an existing activity associated with their role and the typical nature of Cohesion Policy.

We conclude this section with two quotes from interviewees from within the Managing Authorities:

*“The changes introduced in the current period require permanent changes and additional workload at the beginning of the period (familiarisation with the new computer systems, presentation of the new regulations and the training of the other stakeholders involved). However, this initial effort should decrease the workload in terms of certification for instance in the medium to long term.”*

*“Although not a permanent burden, experience has shown that it takes between 2 and 4 years to change and adapt the management systems to the new tools and process requirements. This is especially true with the new Computer System [...]”*

### **8.3 Intangible benefits of the Structural Funds**

The focus on implementation details can divert attention away from strategy and the real impacts of EU Cohesion Policy. Most of the actors consider that specific features of EU Cohesion Policy (focusing on ERDF and CF) generate significant benefits in terms of capacity building and improved governance, even if they are perceived to be more expensive than national standards. There is a consensus among the interviewees that the Structural Funds bring many benefits to domestic administrations, a finding which was also reflected in the ex-post evaluation of the

2000-2006 programming period, WP 11 on the management and implementation systems, which identified positive spillovers for domestic systems.<sup>46</sup>

It is argued that a major benefit introduced by the Structural Funds is the increased quality of the administration itself. In many cases, EU Cohesion Policy supports a shift in the administrative culture to a more long term, programme- or project-oriented attitude. As one final beneficiary expressed it:

*“The positive aspect is that European projects are pushing the beneficiaries to develop more rigorous, more structured or more professional working methods (learning process). [...] They have an impact on the governance systems. European programmes and projects can accompany the evolution of institutions toward more internationalisation and exchanges (reducing administrative or political compartmentalisation).”*

A significant number of actors also recognise that ERDF and Cohesion Fund programmes are more transparent and effective than national ones. As one Managing Authority expressed it:

*“Cohesion Policy requirements have changed the whole system of the Ministry (job classification, rationalisation, monitoring procedures, changes to internal rules). Management with Cohesion Policy is thus becoming the criterion/standard in other policy fields. Stiffer regulation in some cases can also be an advantage, especially in terms of transparency.”*

Specific features of the Structural Funds include multi-annual budgets, evaluation, the Cohesion Policy Strategy Framework and the establishment of a European programming culture and capability at the regional level. Most of the respondents agree that these features support the decentralisation of planning capacity and creates ownership of development issues at the local level. Cohesion Policy therefore encourages improved governance by:

- helping inter-institutional dialogue and coordination both horizontally, among ministries and within individual public bodies and institutions, and vertically between the national and regional/local levels;
- promoting a broader partnership among public and private actors; and
- encouraging networking among (public and private) beneficiaries.

The common understanding is also that a culture of evaluation and monitoring was introduced by EU regulation. One Certifying Authorities said:

*“There are a number of practices and procedures which were initially applied in the administration of the Structural funds and have subsequently been transferred to other policy fields creating ‘spillover effects’ two of the most pronounced being: the increased awareness of the role and wider use of audits in public administration and the introduction of policy evaluation.”*

Structural Funds management is also seen as an opportunity to innovate and experiment. In some cases, EU methodologies and administrative tools are also applied within other national policy fields and the exchange of experience between different countries was, and remains, very important in this regard. One of the main drivers of this exchange was INTEREG in 2000-2006 and now the European Territorial Cooperation Objective in 2007-2013.

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<sup>46</sup> EPRC (2009) Ex post evaluation of cohesion policy programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2). Work package 11: Management and implementation systems for Cohesion Policy. A study commission by DG Regio (No. 2007 CE 16 0 AT 034).



Moreover, recognition of the importance of exchange of experience is equally evident among actors in all three Objectives. Our explanation for this is that the Cohesion Policy framework itself (i.e. a common time period and set of rules and objectives) represents a unique environment for the transfer of 'know-how' and good practice.

While the benefit of EU Cohesion Policy to domestic administration was broadly acknowledged, the learning process was more notable in previous periods than in the current one. The benefits cited relate mainly to the traditional pillars of the Structural Funds - such as evaluation, multi-annual planning, partnership, programming and so on – while there are as yet no specific references to the elements introduced by the 2007-2013 regulations. Some actors, including authorities from the new Member States, explicitly state that their learning took place in the previous period(s). The reasons for this include, in part, the fact that the process of lesson drawing takes time at a point where the new Operational Programmes are just entering the implementation stage and thus it is probably too early to see any specific impact of the new regulations on administrative capacity.

#### **8.4 Suggestions for improvements**

As part of the qualitative component of this study, various stakeholders and interviewees were asked to suggest relevant improvements. The recommendations from the sample studies relate to different aspects of the regulations, from their elaboration and general principles to some specific and technical features. The following sections present the main suggestions without comment or filtering.

The suggestions collected as part of the sample studies illustrate two overall challenges to the Structural Funds management systems. First, there is a considerable inertia in practice. This implies that changes (including simplifications) are often not fully implemented or are implemented with a considerable time delay. As a consequence, some of the suggestions made by the interviewees do not necessarily reflect comment purely on the current regulatory and administrative framework. Second, the improvement and simplification of the regulatory framework is an ongoing process which implies that some proposals for improvement are actually already under way. Taken together, these two aspects imply that some suggestions for improvement made by the interviewees may already be obsolete or are on the way to becoming so, as the interviews were carried out in spring 2009.

##### **Clearer and more stable rules**

The most recurrent suggestions, cited equally across the different authorities, concern preparation of the regulations and, in particular, the need for fewer, clearer and more stable rules. The three issues of quantity, clarity and stability are interrelated and are all linked to the principle of "simplification". A large number of rules which are subject to frequent changes can by themselves generate doubts and misinterpretation.

Further, some of the interviewees recommended that, because of the costs associated with a complete revision of the regulations (e.g. in terms of interpretation issues and legal uncertainty), it would be more efficient to take an incremental approach to their re-drafting and amend only those provisions which proved most problematic.

There is clearly significant reservation in relation to the overall added value of changes as well as a strong desire for greater stability and therefore certainty. One Managing Authority formulated it as follows:

*"The stabilisation of procedures is almost as important as their simplification. The learning of new procedures is time consuming, and only brings efficiency advantages after some time. It can be counterproductive to simplify procedures during the programming period."*

## Control and audit tasks

The second area of suggestions concerns the control and audit tasks. The basic argument here is that controls and audits are too frequent, overlap and should be better coordinated. Interviewees from the EU15 are more sensitive to this issue than those from the EU12. Recommendations on this issue generally come from interviewees working within the Regional Competitiveness and Employment and European Territorial Cooperation objectives rather than the Convergence one.

The suggestions mainly concern:

- (a) the proposal to assign more responsibility to the national and regional authorities through a broader application of proportionality or a more differentiated approach;
- (b) the need to raise the threshold of the tolerable risk of error from the current 2%;
- (c) the re-establishment of the risk-based method for verification;
- (d) definition of an earlier time-limit for audits;
- (e) a greater reliance on existing national systems where they are efficient and rigorous.

*“The main suggestion is to continue a certain level of flexibility for some proceedings, reporting procedures and other information requirements within the new regulations and fixed criteria. Sometimes, it appears that the control system is duplicated and inefficient and that the real target of the funding system, i.e. the funding and support for beneficiaries, is missed.”*

## Financial management

The third group of recommendations deals with financial management and the eligibility of expenditure in particular. The suggestions here relate mainly to the simplification of the rules concerning overhead costs (e.g. more and secure use of flat-rate funding for some kinds of expenditures), especially for small projects. There is also a request for better and/or common rules for the eligibility of expenditure. A minority of respondents have also called for more radical changes including:

- (a) the abolition of the Certification Authority;
- (b) the adoption of pre-financing rather than reimbursement systems;
- (c) the adoption of other funding systems using other European funding systems such as the 7<sup>th</sup> Framework Programme or the Erasmus Programme as models.

The issue of proportionality is often related to control and financial management tasks<sup>47</sup>. Authorities from the EU15 are usually the ones who ask more often for a broader adoption of this principle at both the programme and the project level. The issue was more commonly raised by authorities and stakeholders working with smaller-sized programmes (less than EUR 1,000 million) and under the European Territorial Cooperation objective. One beneficiary put it as follows:

*“There should be proportionality especially in the number of audits. [...] So many audits happening at the same time also causes problems. In one case, one beneficiary institution has had 33 audits per quarter (as they have had resources from the 2000-06 programme, due to N+2, as well as resources from the 2007-13 programme).”*

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<sup>47</sup> The notion of proportionality in the control of Operational Programmes introduced by Article 74 of the Regulation 1083/2006 has to be mentioned here. Under this Article, those programmes with total eligible public spending not exceeding EUR 750 million and for which the level of Community co-financing does not exceed 40% of the total public expenditures, can benefit from the softening of various control obligations.

Other suggestions relate to monitoring and reporting where the most common requests are for a more focused form of monitoring with a better and more efficient selection of indicators.

### **More strategic and/or more detailed**

A common request to the Commission, mostly from the EU15, is that the Commission should focus on strategy, leaving the detailed aspects of implementation to the national and regional authorities as far as this is allowed by the relevant EU rules (bearing in mind the final budgetary responsibility retained by the Commission). There is a common perception among the EU15 regarding the trade-off between the development of a more strategic approach to regional development problems and the continuing focus on implementation mechanisms. If the focus is mainly on programme procedures, such as control, audit, financial management and monitoring, less attention can be paid to understanding development needs, drawing up effective strategies, and evaluating results.

On the other hand, the Commission has been asked to provide greater support to the national and regional authorities in relation to implementation, especially through the development of guidelines and the provision of timely advice. This request, which is common to all the interviewees, does not necessarily contradict the suggestion that the Commission should play a more strategic role. The need for implementation guidance is not due to a lack of competences or skills but rather to uncertainties stemming from the current regulatory framework. What seems to be required is not additional 'know-how' but clearer interpretation.

*“The European Commission should elaborate framework documents for the administrative implementation of projects in order to reduce the uncertainties generated by the lack of orientations and the large number of different countries involved.”*

For the same reason, some of the suggestions concern the organisation of the Commission. The involvement of different Commission departments and units as well as staff turnover can, as for national and regional authorities, sometimes impact on effective linear communication between the Commission and national authorities.

*One suggestion “might be to establish an “advisory line” for the whole of the EU – in many spheres there are inconsistencies and uncertainties.”*

### **Additional suggestions**

Another frequent request from the interviewees is for increased capacity-building. Differing somewhat from the above suggestions, this does not relate strictly to specific implementation provisions, but rather to more general good management and governance practices. Capacity building should take the form of training and the exchange of experience between regions and Member States.

Almost all of the interviewees working within programmes under the European Territorial Cooperation Objective suggested the need for a specific regulation. They claim that the specific features of cooperation do not fit within the general rule. Moreover, the “soft” typology of the projects typical of cooperation programmes is reported to entail enormous difficulties in remaining compliant with the *N+2* de-commitment rule. In terms of the adoption of e-government tools, the interviewees specifically asked for improved use of the electronic signature in order to reduce the amount of time wasted and paper used.

Other suggestions which occurred less frequently in sample studies include:

- reduction of the requirements for publicity and communication;
- increased availability of financial resources for technical assistance;

- N+2 rule applied at the national level;
- simpler rules for the revision of programmes;
- involvement of the European Court of Auditors in issues of interpretation;
- *ex-post* net revenue calculation; and
- increase in the threshold for 'major' environmental projects to €50 million.

### **The beneficiaries' view**

The targeted questionnaires to final beneficiaries revealed a number of additional areas where simplifications were desired. A significant number of responses included proposals for the simplification of the administrative work. Major areas highlighted for simplification included (share of respondents):

- Financial reporting (27%)
- Reporting to the managing authority (23%)
- Application procedures (19%)
- EU eligibility rules (9%)
- Accounting (8%)
- National eligibility rules (5%)
- Monitoring (3%)
- Evaluation (1%)
- Integration of horizontal priorities (1%)
- Other (3%)

Cross-border projects tend to highlight desire for simplification in reporting (financial and to the managing authority), local and regional projects focus on application and reporting, while national projects show a more nuanced picture.

Taking the additional comments of the final beneficiaries into account, it is clear that what emerges is a focus on the simplification of both financial and progress reporting procedures. The main concerns emphasise the level of detail required by financial reporting and the frequency of the reports. Some respondents feel that the administrative workload has increased in comparison to the previous programming period. A general opinion in this regard is that the "audit culture has gone too far". This is how it was expressed by one respondent:

*"An important potential for simplification exists regarding the number of documents which must be regularly provided: attestations from the national office for social security and from the VAT office, annual accounts that must be audited. Are the timesheets really indispensable? We removed one staff member from the budget notably because of the workload generated by these documents. Complexity and rigidity of the rules generate significant losses of time."*

Another issue raised in this respect is that small projects have to cope with the same administrative workload as major infrastructure projects. There is a perception that more flexibility here could help increase focus on the main aim of achieving results through the project's activities.

As discussed in Chapter 6, it also appears that, when interpreting the EU framework, national regulations or practice can add additional tasks which are not strictly

necessary for the fulfilment of EU requirements. This is designed to safeguard against making formal mistakes or even to target a particular need identified at the national level.

Finally, it should be noted that there are indications that the workload required for the preparation of applications could easily be reduced for example through better assistance/guidance or improved web-based systems. However, concrete proposals for specific measures to tackle this issue have not been made by interviewees.

## 8.5 Issues for further discussion

This study has, for the first time, presented comparable information on the administrative costs and workload of ERDF and CF for Member State public authorities. It took place at the beginning of the programme period and, during the course of the study, a number of points arose which may lend themselves to further investigation:

- **Data improvements.** As mentioned above, this is the first study to present a comparable overview of the administrative costs and workload of the ERDF and CF, and therefore various caveats should be taken into consideration. A high level of estimation has been necessary because most of the time period covered by the study is in the future. Further, there are considerable differences in the reported data regarding the use of overheads and technical assistance, the involvement of Intermediate Bodies, and staff costs. As far as possible, the data has been corrected and checked but further improvement at a later stage might be possible and could reduce the level of estimation.
- **National administrative costs for co-funding:** co-funding mechanisms differ between Member States and can create further administrative costs and workload in some cases where additional procedures are necessary to serve and transfer the co-funding. The study does not consider costs related to the provision and handling of co-funding outside the formal Structural Funds system.
- **National 'gold plating'.** The study has shown that national 'gold plating' is perceived to be relatively common and is often linked to uncertainty. While the quantitative data collection identified relatively low figures for additional national regulations, the qualitative sample studies suggest that a considerable share of administrative costs derive from national interpretations and 'gold plating'. A better understanding of the actual extent of 'gold plating' and, in particular, the reasons for this practice might help to reduce administrative costs.
- **Counterfactual picture.** What would administrative costs look like without ERDF and CF funding and the associated regulatory framework? What would be the administrative costs of alternative policies to EU Cohesion Policy? These questions have not been addressed in the study but a series of detailed case studies of national policies providing comparable data might provide more comprehensive answers. Such an examination could focus on different alternative counterfactual situations.
- **Inertia and the costs of change.** The qualitative sample studies in particular reveal that changes in the Structural Funds regulations are often met by strong inertia in practice. This implies that changes (including simplifications) are often not fully implemented or are implemented with a considerable time delay. The existence of actual inertia in practice, and the costs of implementing changes to the regulations, could be studied to test the claim that "no change would be the greatest simplification".

- **Proposals for improvements and simplifications.** The qualitative sample studies provide a number of suggestions made by the interviewees for possible improvements and simplifications. In the main, they emphasise the need for a stronger focus on proportionality and provide more suggestions for the financial management, control and audit tasks. The suggestions presented in this report are simply a condensed list of proposals made during the various interviews and would require further research to assess their feasibility.

## 8.6 General conclusions

1. It is estimated that the **total administrative costs** for the administration of cohesion policy (public authorities' staff, external services, consultancies and overheads) are 12.5 billion EUR, or **between 3-4% of total eligible expenditure**. The workload for public authorities is estimated at 170,000 person years, or 0.44 person years per million EUR of total eligible expenditure.
2. Definitions of administrative costs differ; however, it would appear on this basis that the costs are **lower than in most comparable international development funding**, such as the World Bank, the United Nations Development Programme or the International Monetary Fund.
3. There are **considerable variations regarding administrative costs and workload over time and between Member States and programmes**. Variations in the costs are affected by wage levels in the countries concerned, while variations in workload are more comparable. The following main conclusions can be drawn here:
  - The **financial volume of the programmes and their funded actions** have an impact: in general programmes with a relatively small financial volume spend a higher share of their budget on basic administrative tasks than programmes with a large financial volume;
  - The **thematic orientation** of the programmes is also key: in general, programmes with a focus on infrastructure, environment and research and development have lower administrative workloads than general economic development programmes focusing on endogenous development and innovation or programmes focusing on technical assistance or administrative capacity building;
  - However, the **different management and implementation systems** in place in the Member States do not appear to be linked to major differences in administrative costs or workload.
4. As far as **measures to reduce administrative costs** are concerned, many stakeholders signal high administrative costs associated with change and are wary of radical shifts in administrative arrangements. Although many stakeholders stress the area of **financial management and control** as particularly work intensive, the analysis shows that the most significant administrative workload is in the managing authorities in areas of **project selection procedures** and **verification of deliverables**. Areas for potential further consideration include the problems caused by uncertainty regarding rules and the extent to which national 'gold-plating' (interpretation of EU regulations in a way which leads to additional workload) impacts on administrative costs.

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## 10 Glossary

<b>Administrative burden</b>	Costs to businesses and citizens of complying with the information obligations resulting from government imposed legislation and regulation.
<b>Administrative costs</b>	The cost for an administrative task measured in terms of money.
<b>Administrative workload</b>	The cost for an administrative task measured in terms of time.
<b>Beneficiary</b>	Article 2 of Council Regulation No 1083/06 (General Regulation) defines beneficiary as: <i>"operator, body or firm, whether public or private, responsible for initiating and implementing operations. In the context of aid schemes under Article 87 of the Treaty, beneficiaries are public or private firms carrying out an individual project and receiving public aid."</i>
<b>Box plots</b>	A graphical method of illustrating a statistical sample. By using box plots an overview of the distribution/spread of data within a sample series is achieved. Box plots also address the problem of dealing with values that are very atypical for a certain series of data. On how to read box plots, please refer to the appendix – "How to read box plots"
<b>COCOF</b>	Under Article 103 of Regulation (EC) No 1083/2006, a Coordination Committee of the Funds (COCOF) was established as a management committee on the rules for implementing Structural Funds regulations.
<b>Eligible expenditure</b>	Expenses eligible for co-financing from the EU funds according to article 53 of the Council Regulation No 1083/2006.
<b>Exchange rates</b>	In order to compare costs, all national currencies have been exchanged for Euro (EUR) using the ECB average exchange rate for the period 01.01.2006 until 17.11.2009.
<b>Intermediate Body</b>	An "Intermediate Body" is any public or private body or service responsible to a Managing or Certifying Authority, or which carries out duties on behalf of such an authority vis-à-vis beneficiaries implementing operations. (As defined in article 2 of the Council Regulation No 1083/2006)
<b>Public expenditure</b>	Article 2 of Council Regulation No 1083/2006 defines public expenditure as: <i>"any public contribution to the financing of operations whose origin is the budget of the State, of regional and local authorities, of the European Communities related to the Structural Funds and the Cohesion Fund and any similar expenditure. Any contribution to the financing of operations whose origin is the budget of public law bodies or associations of one or more regional or local authorities or public law bodies acting in accordance with Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts shall be regarded as similar expenditure."</i>
<b>Co-financing</b>	The co-financing rate is set at the level of the Priority axis and therefore the co-financing rate for individual projects may vary within a single Priority. Member States are not required to publish the rate of Community co-financing for each operation.

<b>Person years</b>	<p>In order to establish a value for the administrative workload for a task, the unit “person years” has been used. One “person year” equals one person working full time for one year.</p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• If 12 persons each work for one month over the entire programming period, their joint contribution is reported as one “person year”.</li> <li>• If one person works for two months each year over six years of the programming period, his/her workload is one “person year”.</li> </ul>
<b>Operation</b>	<p>Article 2 of Council Regulation No 1083/2006 defines operation as: <i>“a project or group of projects selected by the managing authority of the operational programme concerned or under its responsibility according to criteria laid down by the monitoring committee and implemented by one or more beneficiaries allowing achievement of the goals of the priority axis to which it relates.”</i></p>
<b>Operational Programme</b>	<p>An Operational Programme is a document submitted by a Member State and adopted by the Commission setting out a development strategy with a coherent set of priorities to be carried out with the aid of a Fund, or, in the case of the Convergence objective, with the aid of the Cohesion Fund and the ERDF. (As defined in article 2 of the Council Regulation No 1083/2006)</p>
<b>Overhead costs</b>	<p>Fixed costs for an organisation or business needed for production to continue. Labour costs for the production unit in question are not included in overhead costs. Such costs include, for example, rent of office space, costs for senior management and HR units, IT, copying and printing advertising, depreciation, insurance, travel and utilities costs.</p>
<b>Priority Axis</b>	<p>A priority axis is one of the priorities of the strategy in an Operational Programme comprising a group of operations which are related and have specific measurable goals.</p>
<b>Technical Assistance (TA)</b>	<p>The provisions for Technical Assistance are found in articles 45 and 46 of Regulation (EC) No 1083/2006. Article 46 states that <i>“At the initiative of the Member State, the Funds may finance the preparatory, management, monitoring, evaluation, information and control activities of operational programmes together with activities to reinforce the administrative capacity for implementing the Funds within the following limits:</i></p> <ul style="list-style-type: none"> <li><i>(a) 4 % of the total amount allocated under the Convergence and Regional competitiveness and employment objectives;</i></li> <li><i>(b) 6 % of the total amount allocated under the European territorial cooperation objective.”</i></li> </ul>