

Post 2027 Discussion Paper

Performance-based approaches and SCOs

5 November 2024

Please note | This discussion paper was produced for the Post 2027 Harvesting event, taking place in Brussels on 25-26 November 2024. It is a tool to stimulate discussion and engagement on the topic. **It does not represent an opinion of Interact, Interreg or any other actor.** For more information about the Harvesting process, please see the Post 2027 section of [Interact.eu](https://interact.eu)

Implications of Performance-based approaches in future Interreg: risks, opportunities & pre-conditions

This discussion paper drafted by Interact. The paper has been discussed and consolidated with the colleagues in the Performers workgroup. We are grateful for their time and dedication to the task!

Overview

In ongoing discussions in the European Commission on possible delivery mechanisms for the future cohesion policy and their simplification there is an increasing attention on **performance-based approaches (P-BA)**¹. In such mechanisms, payments are based on fulfilling pre-agreed milestones and targets². In 2021-2027 programming period P-BA has been utilised by the **Recovery and Resilience Facility (RRF)** and to some extent also in Cohesion policy under article 95 of CPR (**Financing not linked to costs – FNLC**)³. Implementation of both, hasn't finished. In consequence there are a lot of learning-by-doing experiences, with many questions still to be answered, and current lessons do not bring unequivocal feedback.

In response to the direction of current discussions of future delivery mechanisms, Interact together with practitioners from several programme MAs/JSs⁴ investigated the mechanism from the Interreg perspective to understand the implications of adopting a P-BA approach in Interreg; assess the risks and opportunities; and define necessary pre-conditions of utilisation of P-BA in Interreg.

¹ HLG Report, CEPS analysis, CoR position paper on future of Interreg, materials from 17th meeting of DG Regio TN on simplification

² HLG Report

³ Currently by 4 MSs (AT, BG,IT,LV) except AT, the rest for TA, 3 more (CY,DE, RO(TA)) under EC verification.

⁴ During the work of the group, practitioners did not consult their opinions with member states/MC members.

Terminology

This paper refers to the use of P-BA at two levels. The "Upper Level" refers to the use of P-BA as the basis of payments between the Commission and programmes. The "Lower Level" refers to the use of P-BA as the basis of payments between programmes and beneficiaries.

Summary of findings

There is no unanimous opinion among members of the working group concerning the benefits of adopting P-BA approaches in Interreg, with several practitioners expressing concerns regarding application of the P-BA mechanism to the Interreg context and others seeing it as an opportunity to simplify the programme management especially on the level between the EC and the programmes.

With this caveat, the main conclusions of the groups are as follows:

- At the **lower level**, P-BA if employed, should be optional (due to no ERDF real-life examples and experiences), with programmes retaining ability to deliver cost-based (SCO or real cost) interventions. This is due to outputs under Interreg projects, based on multi-partner cooperation and with long term results that are not immediately visible.
- At the **upper level**, while not the optimal mechanism in the view of several practitioners, this could be viable:
 - subject to the inclusion of a number of pre-conditions, outlined in this paper, which should be read as a whole package, not separate items; and
 - provided that flexibility for programmes to deliver cost-based interventions at the lower level is retained, and
 - It would require further discussion of a number of technical points, (see Annex 2).
- In opinion of the practitioners, simplifications introduced in current programming period and extensively used in Interreg such as a risk-based management verification (RBMV) and simplified cost options (SCOs)⁵, have brought significant simplifications and reductions of administrative and this direction of simplifications for projects should be continued⁶.
- Finally, it should be underlined that the average Interreg error rate based on reportable Total Error Rate for many consecutive years has been well below the materiality level of 2%. Despite of inherent Interreg specificity, the current expenditure-based system of control and audit is efficient and working.

Consultation approach

Building on the outcomes 2024 Interreg Knowledge Fair P-BA dedicated session⁷, where Interreg programmes expressed their concerns regarding the applicability of such model to Interreg environment, Interact started to search for publications related to P-BA and experts working with such mechanism. In the following step, Interact established a Performers Working Group composed of practitioners representing 16 Interreg programmes' MAs/JSs⁸ and TESIM that expressed the willingness to invest

⁵ Please see [the collection of SCOs used by Interreg](#)

⁶ Please see [the EC notice guidelines on use of SCOs](#)

⁷ Please see [the report on Beyond SCOs: Towards performance-based methods](#)

⁸ Central Baltic, Belgium-Netherlands, Czechia-Poland, South Baltic, Hungary – Slovakia, Saxony – Czechia, Bavaria-Czechia, PEACEPLUS, IPA Romania-Serbia, Baltic Sea Region, Central Europe, Danube, North Sea Region, Espon, Interreg Europe, Interact, .

their time and resources to explore further such a mechanism for Post 2027 Interreg and to hear more practical examples. The goal for the group was to design preconditions and a framework of a potential scenario that might be suitable for Post 2027 Interreg. It should be underlined, that the objective of the work was not to develop a fully-fledged model, but a generic framework, focused on the big picture, listing the modalities/challenges to be tackled on the later stage of development⁹.

The full collection of resources and materials of the group can be found and downloaded from [the dedicated Miro board](#).

What is working?

P-BA

- Under the RRF, the P-BA is the only delivery mechanism, and it is used between the EC and a Member State (MS).¹⁰ Under ERDF in entire Cohesion Policy the P-BA methods are seldomly used. If used, similarly as in RRF, it is used as a delivery mechanism between the EC and a Programme. Currently it is too early to say, if the P-BA as used in RRF really increases efficiency, changes the mind set to more results focused, reduces administrative burden, provides simplifications and leads to a lower error rate compared to the Cohesion Policy.
- From current FNLC examples (implemented under ERDF), keeping the delivery mechanism as simple/pragmatic as possible provides flexibility for programme management, makes implementation easier and allows for transferring it to other areas/programmes. Moreover, the attitude towards change management is decisive.

Interreg practices

- For the reimbursement of beneficiaries¹¹, SCOs are considered a key lever to simplification between programme and projects. European Court of Auditors has repeatedly recommended to the Commission to encourage and extend the use of simplified cost options, especially as they are less prone to errors. They are expected to significantly alleviate the administrative burden, speed up and simplify the management verification process, focusing more on projects' achievements than on financial documents. The full collection of SCOs used in Interreg can be found in the SCO community. The most popular are those used directly from regulatory framework (so called off-the-shelf (OTS)). However, many programmes have designed their own SCOs, under article 53(3)¹². For Post 2027, more OTS SCOs, for popular cost categories, such as staff cost (e.g. MS single unit cost) would be welcome.
- Shared management is the only delivery mechanism for Interreg, especially for the external borders' programmes (except for OMR). These delivery mechanisms continue to evolve and build upon experience to reach a mature stage, which should be built upon. Any major change in the delivery mechanism would require a substantial allocation of resources which may hamper the implementation phase.

⁹ Please find in annex 2 to this paper the not exhaustive list of identified challenges.

¹⁰ Also labelled as 'upper level'

¹¹ Also labelled as 'lower level'

¹² Among those, the fair, equitable, verifiable method (FEV) is the most popular option.

- Current approach with Interreg outside the European semester must be maintained in order to provide the necessary flexibility to set up and managed programmes implemented in more than one country.

What is missing and/or what needs to be repaired/improved?

The efficiency gains, as other listed above elements of P-BA are not clear yet. On one hand practical evidence from FNLC in ERDF is very limited. On the other hand, findings for RRF are not fully convincing at this stage:

- There are very few examples of FNLC methodologies applied in ERDF. The most common are P-BA from RRF, yet due to its specificity they cannot be directly embraced by smaller ERDF financed programmes, like Interreg.¹³
- From various current reports dedicated to RRF implementation¹⁴, the current RRF system also has its flaws¹⁵. The reports also indicate that the RRF model based on member states controlling their RRF funded projects themselves creates an assurance gap that seriously risks the EU's financial interest.
- Besides, the system of distribution seems to be irregularity and fraud prone. EPPO's 2023 Annual Report¹⁶ revealed 233 active funding fraud investigations related to the Recovery and Resilience Programmes in EU member states.

As a complementary/alternative approach boosting simplification, efficient delivery and result orientation, increased utilisation of upper level SCOs (between the EC and a programme) can be considered.

Key messages

With the support of the working group, Interact offers the following key messages to be carefully considered, if performance-based approaches (P-BA) are to be adopted in Interreg:

Upper level

- Scope & depth of application: Applying P-BA at the upper-level should be based on some important pillars of the delivery system (see below); going beyond the upper-level as a mandatory option is considered a disruptive scenario posing significant challenges.
- It will require a generic, simple, flexible, and universal system of payment triggers consisting of process-based milestones and achievement-based targets that is suitable for the use across many programmes with comparatively small volumes.

¹³ A major point is that RRF is used for 27 large-scale recovery plans at Member State level and its approach to country-specific milestones and targets is not suitable for managing and monitoring many small programmes.

¹⁴ E.g. those provided by the European Court of Auditors.

¹⁵ High level of complexity which leads to difficulties in revising the national recovery and resilience plans (NRRP), lack of flexibility. There delays in reports verifications and reimbursement, lack of monitoring on the target audience level, not reducing the administrative burden or not meeting the originally planned objectives, lack of stakeholders' involvement which can jeopardise the whole project, methodological shortages of the performance indicators (lack of baselines/target values) which might raise questions on the efficiency of the approach, top-down approach/lack of the partnership (a particular feature for the Interreg specificity).

¹⁶ [European Public Prosecutor's Office Annual Report 2023, p. 13 and pp. 68-69](#)

- Early start is a key factor for success. That means a clear direction from the EC to programmes about the cornerstones of the future P-BA system, to launch resources supporting and guiding deployment, avoiding time-consuming discussions during the programming process. Reliable sources of information and sound historical data will be of utmost importance. Learning from the 2021-2027 performance framework methodologies and monitoring system should be exploited.
- Financing reforms (like those financed by the RRF¹⁷) under Interreg is impossible due to the characteristic of the programmes, involving more than one Partner State (between 2 to 36 Partner States).
- Carefully assess and take the best of current practices, both P-BA under the RRF and FNCL under the CPR.

Lower level

- It is of utmost importance to retain in the backbone of the future legal framework:
 - the system of SCOs on the lower level (between a programme and beneficiaries) and even to expand the off-the-shelves (e.g. a single unit cost per a Member State for staff costs) and
 - the eligibility rules (as foundation of the SCO system).
- Administrative checks (e.g. ultimate beneficial owner data) should be avoided as they undermine the simplifications P-BA is aiming for.

Both levels

- To mitigate implementing risks and reduction of the administrative burden, a clear, coherent, and early in implementation process regulatory framework (including P-BA delivery mechanism, eligibility of expenditure, SCOs, management verification, audit) is a must.
- The regulatory framework should be accompanied by a clear set of guidelines and rules covering among others abovementioned elements, unsuccessful interventions or preventing 'gold plating'¹⁸. Predictability and legal certainty are needed up-front for the programmes to take an informed decision on their management and implementation system.
- Role of AA – exclusively performance audit and not expenditure audit (i.e. no costs audited, no error rate).
- Cash flow at programme level: A major concern for programmes is the cash flow – substantial pre-financing (similar level to one available in RRF) is of utmost importance to safeguard proper working of management and support structures (MA/JS)¹⁹, as well to support projects' implementation.
- Substantial flexibility in implementation of a programme should also be provided between the upper and lower level, to allow for necessary adjustments during the implementation phase.
- N+3 should not be applicable to Interreg programmes, or at least the rules should be reconsidered. The pressure to meet spending milestones and targets may cause a risk of artificial acceleration of spending which can hinder the implementation of meaningful interventions.
- The option to go into fully-fledged P-BA at the upper and lower levels may be also considered, yet the final decision on implementing P-BA on the lower-level option should belong entirely to programmes.

¹⁷ [Commission notice, Guidance on recovery and resilience plans.](#)

¹⁸ Gold-plating is a widely used term in the context of the implementation of ESI Funds to describe the extra requirements and administrative burden imposed on beneficiaries by national and sub-national authorities beyond those deriving from provisions at the EU or national level. Source: [Interim Report on Gold-Plating from the High-Level Expert Group on Monitoring Simplification for Beneficiaries of ESI Funds](#)

¹⁹ Alternatively, it can be developed based on current IPA or NDICI models. For Interreg IPA programme pre-financing is 50% of the first three budgetary commitments. For NDICI, for each financial year, the pre-financing rate may be up to 80 % of annual commitments to the programme + co-financing rate: 90 %.

A potential scenario – cornerstones and pre-conditions

Based on the collected experiences and exchanges during the working group meetings, building up on above mentioned key messages, please find on the following pages the presentation of a scenario of how P-BA mechanism could be applied to Interreg, incorporating the preconditions deemed necessary by the Working Group. In the scenario, P-BA is utilised at the Upper Level, between the Commission and programmes. The ‘lower’ level is based on extensive use of SCOs in the first place.

The P-BA delivery model is agreed during the programming phase between the EC and a programme preferably on the level of priority axis (if they exist in the future programming model²⁰) as a part of the methodology²¹. It contains a set of payment triggers - interim milestone(s) (such as number of contracted projects, number of completed projects, as well as an ultimate target(s) that a programme plans to achieve – e.g. number of new cycle paths in use, or number of new joint cross-border initiatives).

The methodology for setting up payment triggers, based on historic data and type(s) of planned projects, should be flexible enough to provide room for necessary adjustments and the possible risk of unsuccessful interventions²² (this could be complemented with a pro rata payment for partially reached targets).

An easy option for potential adjustments of the methodology²³ should be considered and is strongly recommended. The milestones and ultimate targets used should be programme-dependent, to eliminate the influence of external factors (political, economic crises, pandemics, war, etc) on expected outcomes of a programme intervention. The reimbursement of payments per priority axis by the EC could be based on the progress of payment triggers.

We assume and advise, based on the current FNLC practices, that common indicators at programme level should be decoupled from payment triggers until later in the programming period.

While a unitary methodology, connecting the upper level and the lower level will enable a swift negotiation process with the Commission for programme approval and will allow programme to start early, it is up to a programme to establish the connections between the upper and the lower level in a separate methodology, if a different scenario is chosen (e.g. P-BA also at lower level). The connections refer among others to payment triggers, common indicators, and considerations on cash flows. Also, on the lower level, the necessary flexibility and possibility of adjustments is highly recommended.

The three schemes in the Annex 1 provide a visual representation of cornerstones and assumptions described above.

Please note: The introduction of real cost in scheme 1 is not a must. It is more a reminder that also the increased use of SCOs at the upper level bears the potential for considerable efficiency gains.

²⁰ It is not an essential pre-condition for the proposed approach, but it might be easier to work with priority axis and/or types of action to structure the approach and develop the considerations on target values.

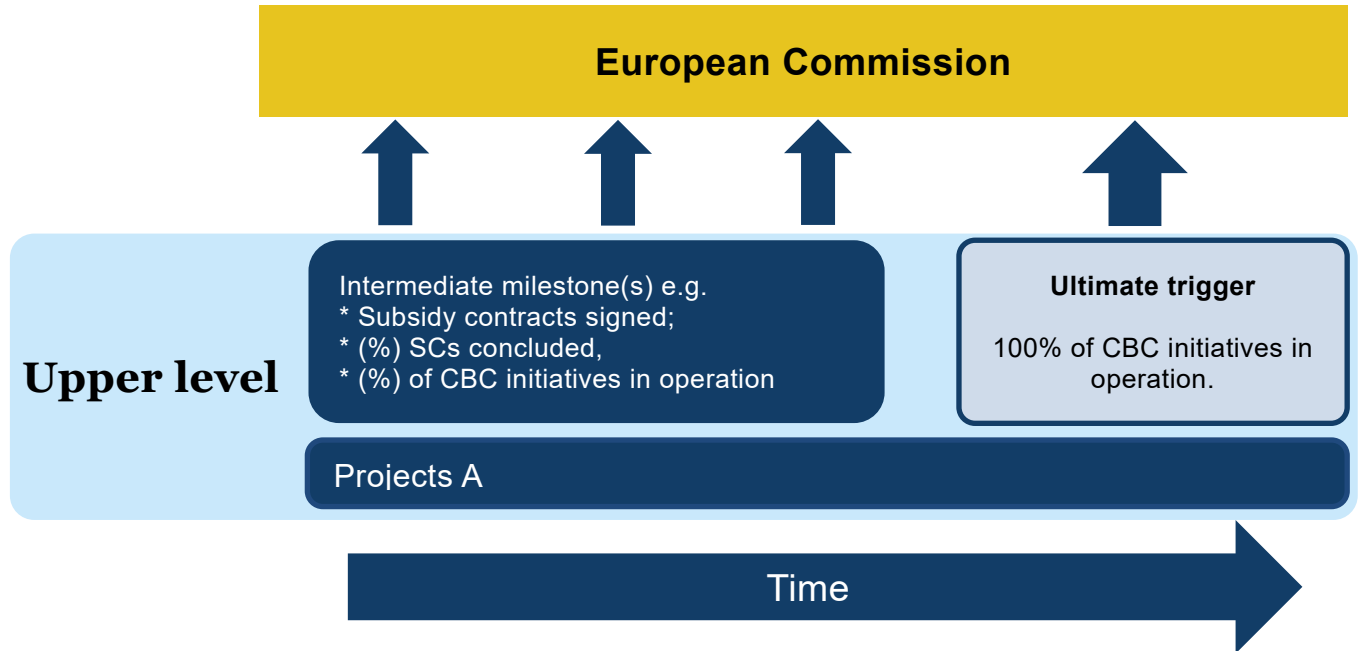
²¹ Like the methodology papers in the current period the methodology for the P-BA should outline the rationale and the calculations underlying the quantification of payment triggers.

²² That is why the calculation of the ultimate payment trigger should count in some projects misdelivering, in simple words 90% equals 100%.

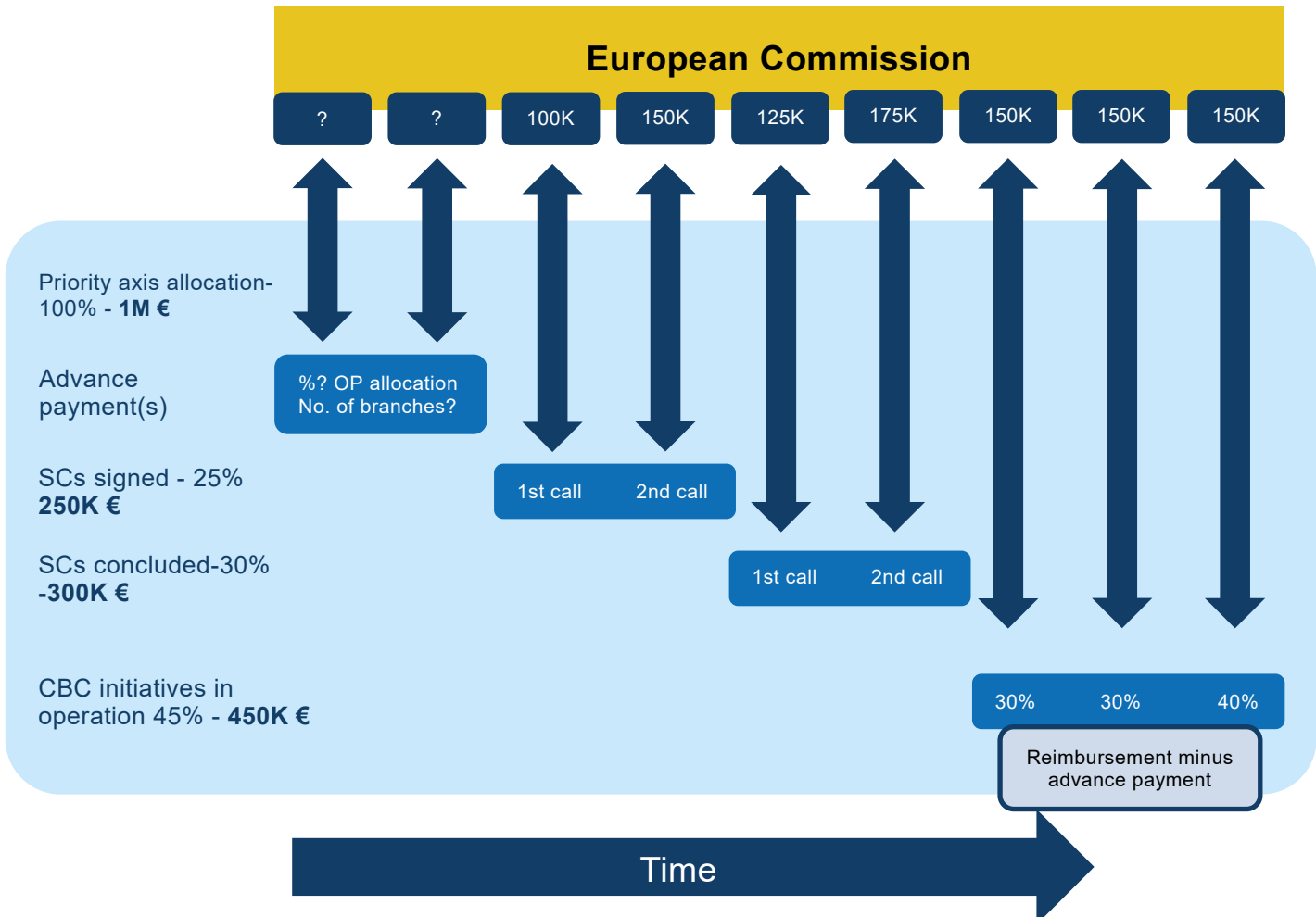
²³ It is important to bear in mind that the introduction of P-BA at a large scale in Interreg would be a novelty for both sides, i.e. the programmes and the EC. Hence, a pragmatic approach to change management is highly recommended.

Annex 1: a visual representation of how P-BA could be applied to Interreg

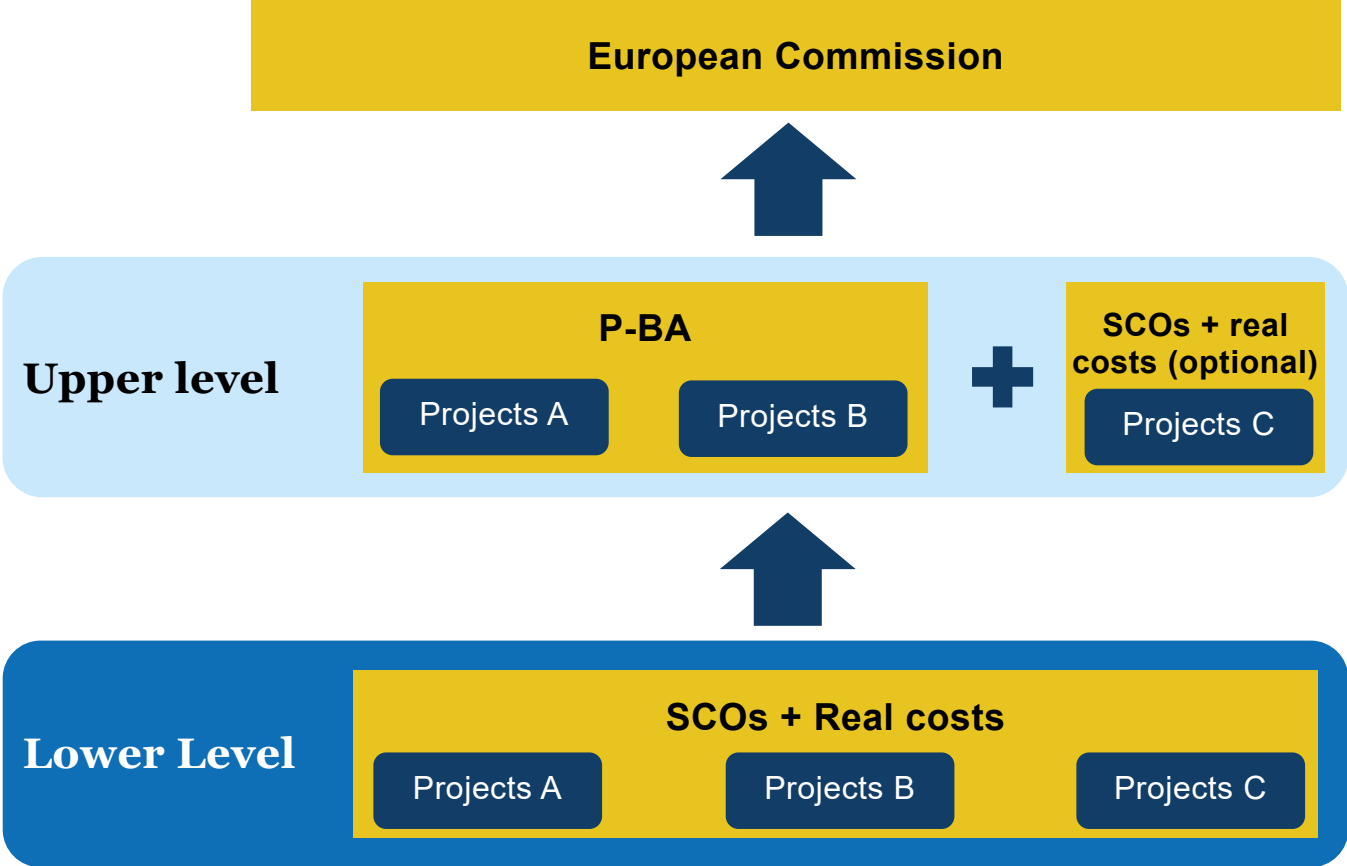
Scheme 1 Upper-level – Intermediate milestones & ultimate payment triggers



Scheme 2 Upper-level reimbursement scheme



Scheme 3 Connecting two levels



Annex 2

List of identified risks and challenges to be addressed during the development phase of the P-BA mechanism on the 'upper level for the Post 2027 Interreg.

- Work on a bespoke set of common result indicators to reflect the change provided by a programme (e.g. innovating projects).
- Option to counting-in the possibility of unsuccessful projects without posing a financial risk for the programme partners (e.g. success rate or risk margin).
- Up-to-date monitoring data required for the identification and classification of programme interventions with a view to designing the P-BA methodology.
- Operational and impact evaluations for this period could support preparation for Post 2027 provided the change to P-BA is known from early on.
- Smooth preparation and negotiation process will require substantial resources and time (between 1-2 years according to current practices). The system has to be up and running from day 1. A major bottleneck is the limited capacity of programme institutions/bodies needed in the preparation phase of new programmes since the implementation of current programmes requires a lot of capacity (referring to MA/JS and to Audit Authorities - provided the AA maintain a decisive role in the set-up of programmes).
- Financial management (advance payment, interim payments, decommitment, potential differences in balance at the programme closure between public contribution on the upper and lower level, Technical Assistance (TA) + initial management costs...) – the system requires overhaul and adjustment to payment by results reality.
- Redefinition of roles and responsibilities of some programme institutions (to be more performance/result oriented).
- P-BA should go along with a more systemic/strategic role of audit, considering risk mitigation for major risks (irregularities, frauds, double financing) but not going into details of project implementation.
- Any substantial novelty in delivery mechanism (but also eligibility, co financing rate) should duly consider horizontal issues such as State aid (GBER provisions) and *de minimis*.
- Changing requirements to a programmes' monitoring systems.
- Any others....

Disclaimer: Cooperation can be complex, and while Interact's job is to make it easier, Interact cannot offer assurances on the accuracy of our pan-European information in any specific context.

Furthermore, understanding and knowledge evolves throughout the programming period. If you spot something out of date or inconsistent, please contact us at communication@interact.eu

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