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SCOs and FNLC in practice in the IPA countries

Final Report

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Abbreviations

AA	Audit Authority
CBC	Cross-border cooperation
CPI	Consumer Price Index
CPR	Common Provision Regulation
EC	European Commission
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
FLC	First Level Control
FNLC	Financing Not Linked to Costs
IPA	Instrument for Pre-accession Assistance
JS	Joint Secretariat
MA	Managing Authority
MSCA	Marie Sklodowska Curie Action
NUP	National URBACT Points
PforR	Program-for-Results Financing
PO	Policy Objective
RRF	Recovery and Resilience Facility
SCO	Simplified Cost Option
SO	Specific Objective

Abstract

This report presents the final results of the study on the use of Simplified Cost Options (SCOs) in 14 Interreg IPA programmes 2021-2027. The analysis is divided in two parts. The first part describes the use of different SCOs by these programmes. This analysis distinguishes between types of SCOs, individual programmes, approaches to developing SCOs and their use for different cost categories. This part concludes with a reflection on the limitations of transferability to other IPA programmes. The second part examines the use of SCOs by different cost categories, for which SCOs are frequently used in Interreg IPA programmes. These are SCOs for staff, travel, events and training, project preparation and closure, and office and administrative costs. Specific approaches for small-scale projects are also described. For each cost category, the analysis closes with a reflection on how to choose the most appropriate approach. The report concludes with recommendations for the future use of SCOs in cooperation programmes and identifies some risks in the development of SCOs.

Executive Summary

The study analyses the use of Simplified Cost Options (SCOs) as a means to reduce administrative burdens and costs in the implementation of cohesion policy, in particular within the Interreg IPA programmes of the European Structural and Investment Funds (ESIF). In the light of past experience with SCOs, the study promotes better and smarter practices in Interreg IPA programmes in the 2021-2027 programming period. To this end, the report describes and analyses SCO practices in different cost categories applied by these programmes. It provides insights and recommendations for the effective use of SCOs in cooperation programmes. With this focus, the report contributes to the debate on cohesion policy after 2027 and the claims for further simplification as highlighted in the guidelines for the next European Commission 2024, the so-called Letta report and the High-level expert group on the future of cohesion policy.

The analysis examines data from 12 out of 14 Interreg IPA programmes for the 2021-2027 programming period. This includes eight of the ten cross-border programmes and four transnational and interregional programmes, such as the Interreg IPA Adriatic-Ionian and URBACT programmes. The two excluded programmes had SCOs under consideration at the time of data collection, but these could not yet be confirmed for the analysis. Three key activities guide this analysis: (1) identification and analysis of SCO practices within these programmes, (2) a detailed review of 30 selected practices, and (3) workshops and discussions involving Commission services and public authorities involved in these programmes. The findings highlight similarities in SCO approaches across programmes and provide insights and recommendations for replicating effective SCO practices in other programmes. To provide further inspiration for SCO applications, complementary information was collected on four SCOs from three other 2021-2027 territorial cooperation programmes, namely the Baltic Sea Region, Central Baltic and the Hungary-Slovenia programmes.

Across the 12 Interreg IPA programmes, 70 SCOs have been identified, although many of these have similarities in that they are managed by the same Member State. While some SCOs are mandatory or specific to certain project types, none are limited to a single policy objective and all identified SCOs are currently only applied at the lower level of reimbursement to beneficiaries. The 12 Interreg IPA programmes mainly use off-the-shelf SCOs provided by EU regulations. These are mostly flat rates. Flat rates for reimbursement of staff, travel and indirect costs are widely used, while other off-the-shelf options are less commonly used. Most programmes use at least one programme specific SCO. Most of these are lump sums. These are often used for preparation and closure costs and for events. The variety of SCOs implemented by the South Adriatic Programme illustrates the flexibility of unit cost approaches for different cost categories and beneficiary specific needs. Overall, while there are no significant structural differences between cross-border and other territorial cooperation programmes, the specific application of unit costs and lump sums varies according to programme needs.

While off-the-shelf SCOs do not require additional documentation or calculations, programme specific SCOs must be supported by calculations demonstrating their fairness, equity, and verifiability under Article 53(3) CPR. Approximately 80% of these programme specific SCOs are based on historical data and/or other calculation methods suggested by the CPR.

The programmes apply SCOs to several cost categories, in particular travel and accommodation, staff and administration costs. In many programmes, SCOs for these three cost categories can be combined, which contributes to a significant simplification. Other cost categories for which the programmes frequently use SCOs include event and project preparation and closure costs. The South Adriatic Programme stands out with a comprehensive set of SCOs covering all major cost categories. Other programmes, such as Euro-MED and IPA Adriatic-Ionian, offer differentiated SCOs depending on the type of project or the origin of the beneficiary. However, in some cases the flexibility of multiple SCO options complicates budget planning and implementation for beneficiaries and programme authorities, potentially reducing the simplification benefits of SCOs.

Two limitations of the study should be noted:

- An alternative to SCOs is the "financing not linked to costs" (FNLC) approach, which shifts from cost-based to results-based reimbursement and which is still rarely used in cohesion policy programmes. Despite its potential to simplify processes, FNLC faces challenges in defining results within Interreg IPA programmes. The challenge lies in the cooperation focus of these programmes. As a result, no FNLC schemes have been identified in Interreg IPA or other Interreg programmes for 2021-2027. Thus, the analysis only considers SCOs.

- The application of SCOs differs significantly between mainstream cohesion policy programmes and Interreg or Interreg IPA programmes. This affects the transferability of these practices. The differences stem from differences in programme size, type of operations, implementation logic and structure of SCOs. These differences mean that while SCO practices from Interreg IPA programmes can be shared between similar territorial cooperation programmes, their application is not directly transferable to mainstream IPA programmes. For the latter, SCOs often need to be tailored to specific policy areas or objectives. Learning from SCO applications is thus more about understanding the strategic approach to identifying and combining SCOs across different cost categories.

The analysis of the different SCO applications distinguishes six cost categories of high relevance in Interreg IPA programmes. In addition to examples from Interreg IPA programmes, examples from other Interreg programmes that are applicable to the IPA context are also included. These illustrate unit cost approaches for staff costs and tailor-made SCOs for small-scale projects. Each cost category includes examples from one or other programme in boxes for illustration and summarises the degree of replicability. To support decision-making on different SCO alternatives, each cost category includes (1) a flowchart summarising the alternatives and requirements for each category and (2) tables with the benefits and challenges of each alternative.

Staff costs can be reimbursed through off-the-shelf or programme specific SCOs:

- Off-the-shelf SCOs for staff costs, notably the flat rate of up to 20% of direct costs other than direct staff costs as defined in Article 39(3)(c) of the Interreg Regulation, are widely used in Interreg IPA programmes because of their simplicity and reduction of administrative burden. This method avoids the need for detailed methodology development by programme authorities but does not always perfectly approximate real costs. This can be problematic in programmes where there are significant salary differences between EU and non-EU beneficiaries. Despite its simplicity, there is a risk if programmes allow beneficiaries to choose their flat rate within a given limit, which could lead to uneven application and challenges in maintaining fairness principles. The other two off-the-shelf options for calculating hourly rates offer more flexibility and a better approximation of real costs than the flat rate.

- Programme specific SCOs, such as unit costs for staff costs, offer a tailored approach that can be more closely aligned with actual costs, thereby reducing the risk of over- or under-compensation inherent in off-the-shelf options. For example, the Interreg IPA South Adriatic programme has effectively used historical data to set differentiated hourly rates by country, type of organisation, and seniority, thereby improving the accuracy and fairness of cost allocation. Such SCOs are potentially more resource intensive to develop. However, depending on the degree of differentiation of unit costs, they provide a balanced solution that reduces administrative burden and error rates. And they are particularly beneficial in managing the diverse cost structures typical of cooperation programmes.

Due to the collaborative nature of Interreg programmes, travel costs are an important cost category for which simplification is crucial. These costs may also be reimbursed using off-the shelf or programme specific SCOs, although the range of off-the shelf options is smaller:

- The off-the-shelf SCO provided by the Interreg Regulation 2021/1059 allows a flat rate of up to 15% of direct staff costs to cover travel costs. This option is widely used in Interreg IPA programmes. However, some programmes apply different rates up to this ceiling, creating inconsistencies and potentially shifting the responsibility for setting rates from Managing Authorities to beneficiaries. This can undermine fairness. Such inconsistencies, together with the socio-economic disparities between EU and non-EU countries, can lead to significant differences in the effectiveness of covering these costs. This suggests that programme specific SCOs may be needed to better address these disparities. Moreover, the method of combining SCOs introduces further complications in the categorisation of costs, affecting the basis for calculating staff and travel costs and potentially leading to under-compensation in regions with lower salaries.

- In the context of the Interreg IPA programmes, a few programme specific SCOs have been developed to more accurately estimate real travel costs. These address the differences in travel costs between EU and non-EU countries, either by using a higher flat rate than the off-the-shelf option for some beneficiaries, or by applying a unit cost approach. Interreg Euro-MED has introduced a recalibrated flat rate of 22% of direct staff costs for IPA beneficiaries, reflecting the higher real travel costs in these countries compared to the EU. Similarly, Interreg IPA South Adriatic has developed unit costs based on a Commission Decision for travel and accommodation in small-scale projects, adjusted for specific distances between countries and available transport modes. These initiatives demonstrate tailor-made approaches to meet the specific needs of different programme participants, aiming at fair reimbursement while maintaining administrative simplification.

In Interreg IPA programmes, the project preparation and completion of projects require considerable coordination efforts. The Interreg Regulation recognises this effort by allowing these costs to be included in eligible expenditure. However, there are no off-the-shelf SCOs for these costs. Programmes must therefore develop specific SCOs, mainly in the form of lump sums. These lump sums are determined on the basis of the outcome of a successfully submitted project application. This greatly simplifies the application process by eliminating the need to account for actual costs incurred. The amount of these lump sums varies considerably between programmes, reflecting differences in the scope and complexity of the estimated project preparations. This variation also extends to the coverage of specific cost categories during project preparation, which may include staff, administrative, travel, and external services costs.

For project closure costs the approach is similar, using lump sums to streamline the administrative process of successfully completing and reporting on a project. Although less common than those for preparation, SCOs for closure costs also aim to reduce the administrative burden. These SCOs cover staff costs associated with final reporting, administrative costs, and sometimes travel costs associated with final project activities. Both preparation and closure lump sums are typically calculated using a mix of historical data, market research data and sometimes pre-determined rates from Commission acts, aiming to strike a balance between fairness, verifiability and administrative efficiency. The methods and challenges in developing these SCOs highlight the potential for wider application in other Interreg IPA programmes, given their benefits in reducing the time and financial resources required for detailed cost tracking.

Events and training are another important activity of Interreg IPA programmes and part of their collaborative nature. Neither the CPR nor the Interreg Regulation provide off-the-shelf SCOs for this purpose. Suitable types of SCOs are unit costs and lump sums, as exemplified especially by the South Adriatic Programme:

- Unit costs are a suitable alternative for the reimbursement of expenses related to events and training as they allow for a clear definition of expected outputs and their associated costs. The Interreg IPA Bulgaria-Türkiye Programme uses unit costs to distinguish between one-day and multi-day events, applying specific daily rates that cover various event-related expenses such as venue rental, equipment, catering and materials for participants. The South Adriatic Programme adjusts unit costs for targeted trainings of small-scale projects by considering factors such as country, duration of training and type of module, using rates from existing Union guidelines to streamline calculations. These examples simplify administrative processes, reduce error margins and ensure a good approximation of actual costs, making it an attractive option for managing recurring activities such as events and training within the programme.

- The use of lump sums to cover the full cost of events and training also simplifies administration by defining a fixed amount to be paid after the event if certain predefined conditions are met. This approach is exemplified by the South Adriatic Programme, which uses lump sums for specific types of events of small-scale projects such as workshops, seminars, and B2B meetings. These lump sums are adjusted according to the number of participants and the duration of the event, with additional considerations for ensuring quality and documenting results. While this method offers significant administrative simplification and budgetary certainty, it also carries some risks. An example is the non-reimbursement of partially delivered events and the need to develop an equitable and verifiable calculation, which may be more challenging than the unit cost approach.

For the reimbursement of indirect costs, the CPR offers several alternatives, all of which are flat rates. Three of them do not require any calculation or documentation by the programme. The four alternatives differ in terms of the rates applied, the basis for their calculation and the cost coverage:

- Interreg IPA programmes rarely use the flat rate of up to 7% of eligible direct costs to cover indirect costs. The requirement for detailed information on all direct costs, may not allow for an optimal approximation of actual costs due to the different cost structures across different programme areas and beneficiary types. The potential mismatch between the flat rate applied and the actual indirect costs incurred may result in over- or under-compensation. Programmes may need to adjust flat rates more specifically by country or type of beneficiary, based on sound data, to ensure fairness and equity.

- The flat rate of up to 15% of eligible direct staff costs is the most commonly used rate in Interreg IPA programmes. It simplifies calculations by referring only to one other important cost category – staff costs – without the uncertainty of all other cost categories. However, it may lead to inequalities in the reimbursement of indirect costs, particularly in projects with high external and investment costs, which may claim a disproportionately high amount of indirect costs.

- The flat rate of up to 25% of all eligible direct costs is not used by Interreg IPA programmes. This may be for the same reasons as for the 7% flat rate, compounded by the additional effort required to establish a fair, equitable, and verifiable calculation basis. While this rate offers a higher potential reimbursement for indirect costs, it requires detailed initial calculations, similar to those required for programme specific SCOs. Despite these requirements, once established, it offers considerable administrative relief, particularly where a calculation has already been made in a previous programming period, allowing it to continue without recalculation.

- Finally, programmes may apply a flat rate of up to 40% of direct staff costs to cover all other costs other than direct staff costs, including indirect costs. This inhibits a potentially significant simplification of the budgeting for projects where staff costs dominate. This approach is suitable for projects with differing cost structures between partners. However, it also introduces complexities in ensuring a fair cost approximation across different projects, especially if applied uniformly without adjustments for specific project or partner circumstances.

Article 53(2) of the CPR requires that small-scale projects not exceeding EUR 200,000, must primarily use SCOs. While this may be achieved through a combination of SCOs, as illustrated by the approach of the South Adriatic Programme, evidence of the Interreg Slovenia-Hungary Programme illustrates how small-scale projects can be implemented using a single SCO per project. The programme has developed tailor-made SCOs for different types of small-scale projects. These include unit costs for cooperation projects involving a limited number of participants, such as training courses, and lump sums for mutual trust-building and staff exchange projects:

- Unit costs for small-scale cooperation projects streamline the management of event-related expenses. In this approach, the unit cost calculation is based on historical data and current estimates to cover all event-related costs per participant. This method simplifies the administrative processes by reducing the burden of financial reporting and verification. The calculated unit costs cover various event costs, including staff, venue and catering. This aims to standardise costs across different event types and sizes, thereby facilitating predictable and equitable funding for different event sizes.

- The lump sum SCO for small-scale mutual trust-building activities provides a pre-defined amount to cover all costs associated with public events such as concerts or fairs. Due to the nature of these events with unpredictable numbers of participants, a unit cost per participant would not be appropriate. This lump sum is calculated on the basis of the typical costs of organising such events, including venue, staff, and administrative expenses. The calculation ensures that all necessary types of costs are fully covered. This approach eliminates the need for detailed financial tracking and reporting per cost type, which significantly reduces the administrative burden on project participants.

To conclude, the analysis highlights the adoption of SCOs in most Interreg IPA programmes, recognising their significant benefits in reducing administrative burden and improving efficiency during project implementation. SCOs, particularly programme specific SCOs, require an initial effort but significantly reduce the workload over time, freeing up resources for crucial on-the-spot checks and minimising the risk of error and fraud. The simplification achieved through SCOs also assists beneficiaries in budget planning and speeds up financial processes, improving the overall management and effectiveness of funding programmes. However, the inherent challenge of achieving optimal cost approximation remains, with the potential for both over- and under-compensation. This requires a careful balance in the selection and development of SCOs across cost categories and possibly different project purposes.

The recommendations highlight the need for careful consideration and possible recalibration of SCOs, particularly when moving from one funding period to the next. Given the variability of lump sums and the potential mismatch that indexation could exacerbate, programmes are encouraged to justify and tailor SCOs to ensure that they are fair, equitable, and verifiable. Collaborative approaches, market analysis and the use of EU-level guidance are suggested to refine the methodology for establishing SCOs, particularly where historical data is lacking. Furthermore, while off-the-shelf SCOs provide a baseline, programme specific adjustments may be necessary to adequately reflect the different cost structures of different projects and beneficiaries. This helps to ensure that SCOs remain relevant and effective in simplifying administrative procedures without sacrificing accuracy or fairness in cost approximation.

1. Introduction

Simplification is becoming increasingly important to tackle administrative costs and burden in the implementation of cohesion policy. Simplified Cost Options (SCOs) are one of these simplification measures introduced in the European Structural and Investment Funds (ESIF). Since the beginning of the 2007-2013 programming period, Member States could first declare indirect costs on a flat rate basis, and since 2009, additional SCO options have been introduced (standard scales of unit costs and lump sums) and the possibility to use all these forms of SCOs has been extended to the European Regional Development Fund (ERDF).

The regulatory framework agreed in December 2013 improved the system used for the European Social Fund (ESF) and the ERDF and the Omnibus Regulation amending the relevant provisions of the Common Provision Regulation (CPR) 2014-2020 has further extended the use of performance-based funding models. In 2019, "financing not linked to costs" (FNLC) was introduced, linking funding directly to the achievement of pre-defined outputs, results or conditions. At the same time, Member States were encouraged to apply SCOs. Not least in view of the funding of grants under the Recovery and Resilience Facility (RRF), the European Court of Auditors (2021, point 102) expects that "performance-based funding will become the dominant form of EU funding in terms of spending covered". For the 2021-2027 programming period, SCOs and FNLC have been proposed as key to reducing the administrative burden and costs for beneficiaries and managing authorities, while maintaining a high level of assurance on legality and regularity. Estimates suggest a reduction of 20-25% in total administrative costs if these options are applied consistently (COM(2018) 375 final, 2018, p. 5).

The purpose of this study is further supported by recent documents and guidelines which also reflect also the debate on cohesion policy after 2027. In her political guidelines for the next European Commission 2024-2029, President von der Leyen underlined the need to learn from past experiences and to use financial capacities in the most efficient way. In this way *"…a lot can be done with the European budget to deliver where it matters the most. ... we have also learnt a lot from this experience – notably the need for simplicity and flexibility, speed and strategic focus in our spending"* (von der Leyen, 2024, p. 29). The report by Enrico Letta (2024) and the Issue paper 8 support the need for further simplification. The Issue paper 8 (Group of high-level specialists on the future of Cohesion Policy, 2023) highlights that *"Despite several efforts at simplification in successive programming periods, the delivery mode of Cohesion Policy is still perceived as too complex. [Thus,] Cohesion Policy rules post-2027 should be streamlined starting from the initial phase of programming and throughout the implementation cycle."* (Group of high-level specialists on the future of Cohesion Policy, 2023, p. 3) At the same time Letta acknowledges the European Commission has made *"significant progress in the area of simplification and reduction of administrative burdens"* (Letta, 2024, p. 120) in recent years.

In light of these experiences and perspectives, this study promotes better and smarter administrative practices in the 2021-2027 programming period in Interreg IPA partner countries and beneficiaries. It illustrates prevailing approaches to the use of SCO in Interreg IPA programmes and selected other Interreg programmes to facilitate the development and use of these simplification tools in these countries. To this end, the report provides insights for a better understanding of the state of SCOs and explores ways to transfer good examples to make the most of these simplifications. The study also aimed to identify and illustrate suitable practices of FNLC. However, the research confirmed the limited use of FNLC in few cohesion policy programmes to date.

Consequently, the focus of the study on simplification approaches is on SCOs rather than on FNLC.

The following chapter summarises the overall scope and methodological approach of the study, thus providing a framework for the study findings. Chapter 3 gives an overview of SCO practices in the 2021-2027Interreg IPA programmes. By differentiating the identified SCO practices not only by type of SCO, but also by types of cost categories, combinations of SCOs used by programmes and approaches to developing SCOs, the chapter provides different access points for interested authorities, whether they are looking for specific types of SCOs or want to gain insight into the SCO practices of a specific Interreg IPA programme. The chapter concludes with two short sections on specific tentative conclusions:

- why FNLC may not be used in Interreg IPA programmes;
- the extent to which the practices of Interreg IPA programmes can be transferred to other contexts and programmes.

Chapter 4 presents the core of the report by systematically examining a variety of SCO approaches according to cost categories. The report distinguishes six cost categories for which SCOs could be identified in Interreg IPA programmes, and which may often be relevant and feasible for SCOs in cooperation programmes. Some of these cost categories and corresponding SCO approaches even illustrate the particularities of territorial cooperation programmes compared to other cohesion policy or IPA programmes. Flowcharts are provided to support the decision-making process when looking for a suitable SCO. The results of the analysis presented in Chapter 4 and the observations from the workshops conducted during the study, as well as further case studies with detailed descriptions of a selection of SCO practices form the basis for the concluding remarks and recommendations presented in the last chapter of this report.

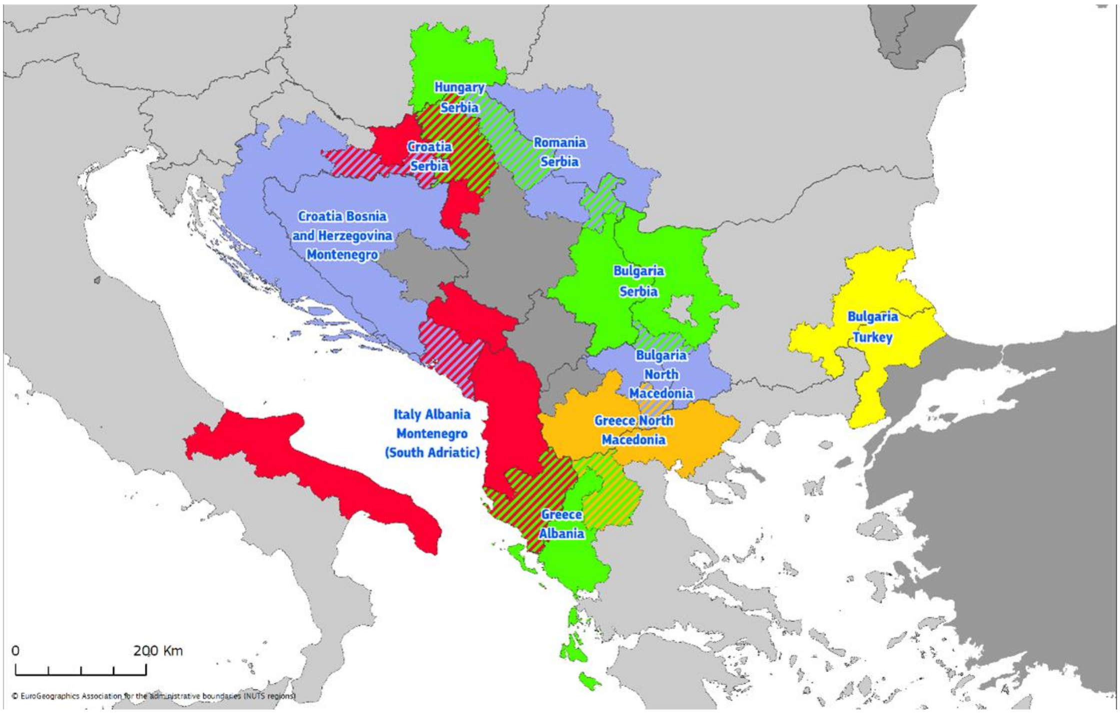
2. Scope and methodology

The study focuses on territorial cooperation programmes of the 2021-2027 programming period in which candidate country authorities participate. These are mainly the ten cross-border Interreg IPA programmes in Figure 1. In addition to these programmes, four other territorial cooperation programmes that benefit from IPA III funds are also included in the analysis, namely three transnational cooperation programmes:

- Interreg IPA Adriatic-Ionian,
- Interreg Danube,
- Interreg Euro-MED,

and the URBACT interregional programme. For simplicity, all references to these 14 programmes will be grouped as "Interreg IPA programmes".

Figure 1: Interreg VI A IPA CBC programmes 2021-2027

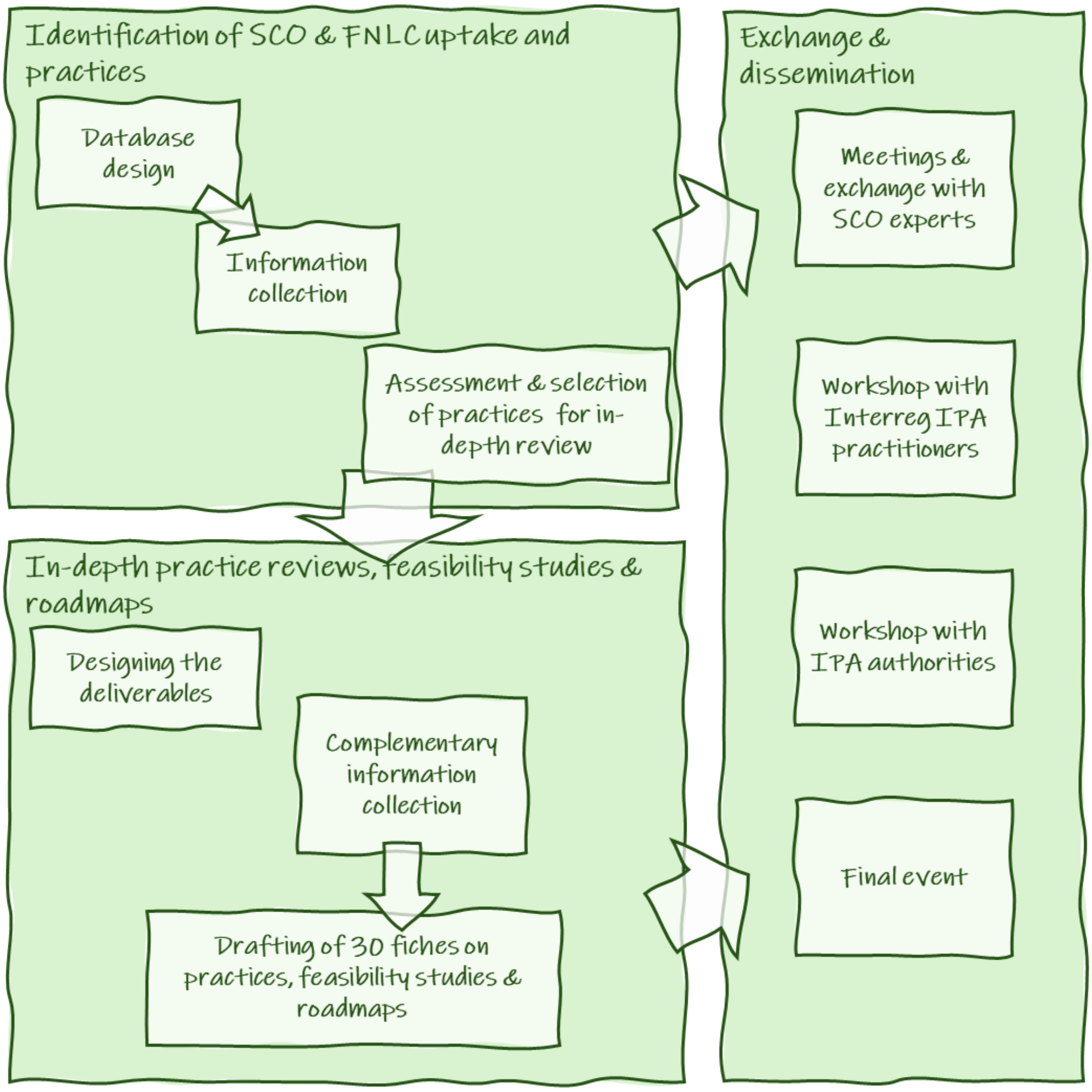


Source: European Commission: https://ec.europa.eu/regional_policy/policy/cooperation/european-territorial/ipa_en

For these 14 territorial cooperation programmes, the study carried out three main activities (Figure 2), which form the basis of this report and the findings on SCO practices presented:

- The first activity focused on the identification of SCO practices in the 14 programmes of the 2021-2027 programming period. In addition to the identification of the SCO approach used, the corresponding document analysis included a structured data collection on a wide range of indicators (Table 1) to allow an assessment of the approaches and the selection of a sample of 30 practices to be analysed in more detail.

Figure 2: Methodological overview of the study's activities



Source: Service provider, 2024

- The second activity involved a more detailed review and analysis of a selection of SCO practices. For these practices, the aim was to obtain differentiated information on the selection of the SCO approach, its development, the objectives of its use and its actual implementation in the programme and its effects. The examples should cover different approaches of the SCOs in the 14 Interreg IPA programmes according to the options provided by the two relevant regulations
  - EU Reg. 2021/1060 – Common Provision Regulation (CPR), Articles 53 to 56 and Articles 94 and 95;
  - EU Reg. 2021/1059 – Interreg Regulation, Articles 39 to 41.

In particular, the aim was to describe as many programme specific SCOs as possible to illustrate a wide variety of options that have not yet been fully exploited. However, the initial review of SCOs in these 14 programmes revealed a considerable similarity in the SCO approaches used and a relatively small number of such programme specific SCOs. To overcome this limitation in the variety of potentially interesting cases, a few additional territorial programmes were screened for potentially interesting SCO approaches that could be useful and replicable also in Interreg IPA programmes. Complementary information was collected from three other 2021-2027 territorial cooperation programmes, namely the Baltic Sea Region, the Central Baltic and the Hungary-Slovenia programmes.

The in-depth review of the selected SCO practices was based on further document analysis, usually including additional SCO development material, as well as interviews with desk officers involved in the respective SCO development. This activity resulted in 30 reports, which are divided into two sections:

- the practice and its feasibility for transfer;
- a roadmap for authorities wishing to implement such an SCO in their own programme.

Table 1 – Indicators of the structured SCO database

Indicators	
General information:	**Specific information on the SCO:**
Programme	Type of calculation method (for programme specific SCOs)
Managing Authority (MA) / Joint Secretariat (JS) developing the SCO	Data used for the SCO calculation (incl. sources, type of data, amount of data, description of the calculation method)
Specific objectives for which the SCO is used	Adjustment methodology or criteria
General information on the SCO:	Categories of cost covered by the SCO
Type of SCO (i.e. flat rate, unit cost, lump sum)	Mandatory vs. optional use of the SCO
Sub-type of SCO (e.g. flat rate according to Art. 54(a) CPR)	Total amount of expenditure expected to be covered
Relevant types of operation covered by SCO	Number / share of operations expected to be covered
Types of beneficiaries using the SCO	Ex-ante assessment existing or not
Indicator triggering reimbursement	Link of lower- to upper-level SCO (i.e. with Art. 94 CPR)
Unit of measurement / flat rate for reimbursement	

Source: Service provider, 2024

- The third activity complements the desk research and interviews with further exchanges with Commission services, public authorities of Interreg and Interreg IPA programme authorities and other authorities from candidate countries. These exchanges were organised in different workshop formats to (a) inform the respective authorities about the study and the preliminary findings, (b) discuss these findings for further elaboration of the study results, and (c) refine the results and develop conclusions. Sharing experiences and discussing the benefits and challenges faced by different stakeholders in the development and use of SCOs provided important additional insights.

3. Use of SCOs in 2021-2027 Interreg IPA programmes

With the focus of the study on 2021-2027 Interreg IPA programmes, a wide range of SCOs should be considered, i.e. all options of the CPR and the Interreg Regulation. Apart from the principal differentiation between flat rates, unit costs and lump sums according to Art. 54 (a) to (c) CPR, this includes a considerable variety of off-the-shelf options (see Table 2).

Table 2 – Off-the-shelf options for SCOs in Interreg IPA programmes

CPR	Interreg Regulation
Flat rate for **indirect costs** up to 7% of direct costs, Article 54(a)	
Flat rate for **indirect costs** up to 15% of direct staff costs, Article 54(b)	Flat rate for **direct staff costs** up to 20% of direct costs other than direct staff costs, Article 39(3)(c)
Flat rate for **indirect costs** up to 25% of direct costs, Article 54(c)	
Hourly rate determined by dividing annual gross employment costs by 1,720 hours or corresponding pro-rata, Article 55(2)(a)	
Hourly rate determined by dividing monthly gross employment costs by the average monthly working time of the person concerned, Article 55(2)(b)	Flat rate up to 15% of the direct staff costs to calculate **travel costs**, Article 41(5)
Flat rate of up to 40% of direct staff costs to cover the **remaining eligible costs**, Article 56(1)	

Source: Service provider, 2024, based on EU Reg. 2021/1060 and EU Reg. 2021/1059

These off-the-shelf options and the options for programme specific SCOs under Art. 53 CPR structured the study's analysis to identify SCO evidence in the 14 Interreg IPA programmes, as detailed in the following sections.[1]

SCOs could be included in the study for 12 of the 14 Interreg IPA programmes. The two programmes not included were Interreg IPA Greece – Albania and Greece – North Macedonia. For both programmes, six SCOs were under consideration at the time of the data collection in Autumn 2023. However, they could not be confirmed and were consequently not considered for any further analysis. All other study steps focused on the remaining 12 programmes.

[1] Additional evidence collected from other Interreg programmes (see methodology in Chapter 2) is not considered for the review of the application of SCOs in 2021-2027 Interreg IPA programmes.

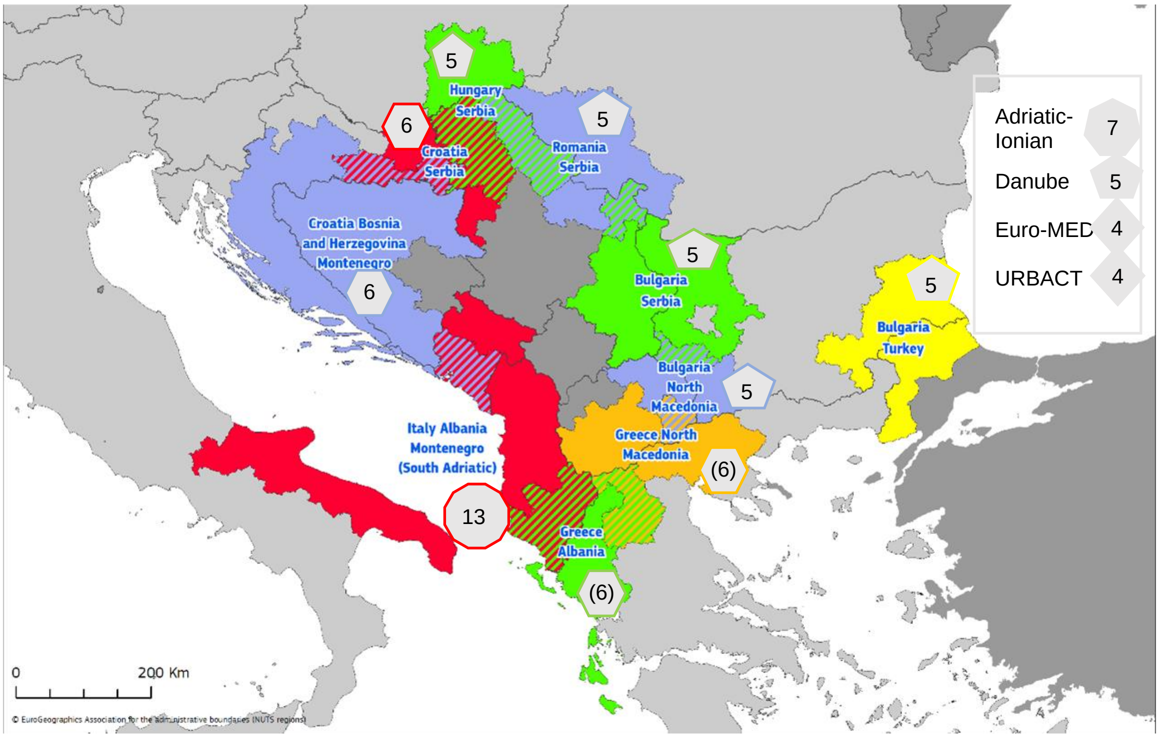
3.1. Use of SCOs across Interreg IPA programmes

The number of SCOs identified per programme is quite similar for the majority of Interreg IPA programmes in the 2021-2027 programming period (see Figure 3). Most of them have around five SCOs. of the only programmes with a higher number of SCOs are the transnational IPA Adriatic-Ionian and South Adriatic programmes, with seven and 13 SCOs respectively. For the 12 programmes with SCOs, a total of 70 SCOs could be identified.

Tentative list of SCOs

A note of caution: The identification of these 70 SCOs represents the state of information at the end of 2023. While all SCOs included in this analysis have been developed by that date, not all of them may have been deployed or may even still be subject to finalisation or approval processes. Nevertheless, they have been included in the analysis to illustrate the full range of SCOs provisionally available in the 2021-2027 Interreg IPA programmes.

Figure 3: Number of SCOs in Interreg VI A IPA CBC programmes 2021-2027*



* Numbers in brackets indicate SCOs under development in December 2023

Source: Service provider, 2024, based on European Commission: https://ec.europa.eu/regional_policy/policy/cooperation/european-territorial/ipa_en

In addition to this similarity in the number of SCOs per programme, the analysis revealed that Interreg IPA programmes managed by the same Member State tend to apply the same types of SCOs.[2] For example, the five SCOs of the Bulgarian-Serbian Interreg IPA programme are also mirrored in the Bulgaria-North Macedonia and Bulgaria-Türkiye programmes. This structure further contributes to an overall limited variation of SCO approaches across the 2021-2027 Interreg IPA programmes, which is much lower than the total number of identified SCOs would suggest at first sight.

The number of SCOs per programme does not automatically mean that several or all SCOs may be combined by one project. Some programmes also provide for different SCOs for different types of projects, in which case either a smaller number of SCOs or no SCO may be combined in a project. For example, the travel and accommodation unit cost of the South Adriatic Programme can be combined with up to seven other SCOs, depending on the types of costs incurred in a project, thereby covering all project costs with SCOs. The Euro-MED Programme is an example where two SCOs have been developed for travel and accommodation costs, differentiating according to the origin of the beneficiary.

Many SCOs implemented by the 12 analysed Interreg IPA programmes are mandatory, either for all projects or for specific types of projects. A typical distinction is between regular projects and small-scale projects, which may also benefit from different SCOs. In some cases, such as the reimbursement of staff costs in the three Interreg IPA CBC programmes involving Bulgaria, the use of SCOs is optional, as project partners can choose between the reimbursement through the relevant SCO or real costs.

While sometimes differentiating between specific types of projects, no SCO in any Interreg IPA programme is limited to a single policy objective (PO) or even a specific objective (SO), as it may be the case in mainstream programmes.[3]

At the time of the analysis, all SCOs used by Interreg IPA programmes were used exclusively at the lower level, i.e. for the reimbursement of beneficiaries by the programme. Upper-level SCOs for the reimbursement of programmes by the EU Commission (Art. 94 CPR) did not yet exist in any of the 12 programmes with finalised lower-level SCOs. Thus, the following analyses in this chapter refer only to the lower-level SCOs.

3.2. Types of SCOs in Interreg IPA programmes

The majority of the SCOs in the 12 programmes can be grouped under one of the off-the-shelf options introduced above, most of which are flat rates. In fact, the Interreg IPA programmes apply nearly all the off-the-shelf options foreseen in the two regulations. Two off-the-shelf SCOs were used by only one programme:

- the hourly rate determined by dividing annual gross employment costs by 1,720 hours or corresponding pro-rata, Article 55(2)(a) CPR; and
- the hourly rate determined by dividing monthly gross employment costs by the average monthly working time of the person concerned, Article 55(2)(b) CPR.

2 If not indicated in another way, the following analysis is mainly based on documents of the corresponding 2021-2027 Interreg IPA programmes.

3 This independence of PO and/or SO in Interreg is also supported by the cases collected by INTERACT (https://interact.eu/).

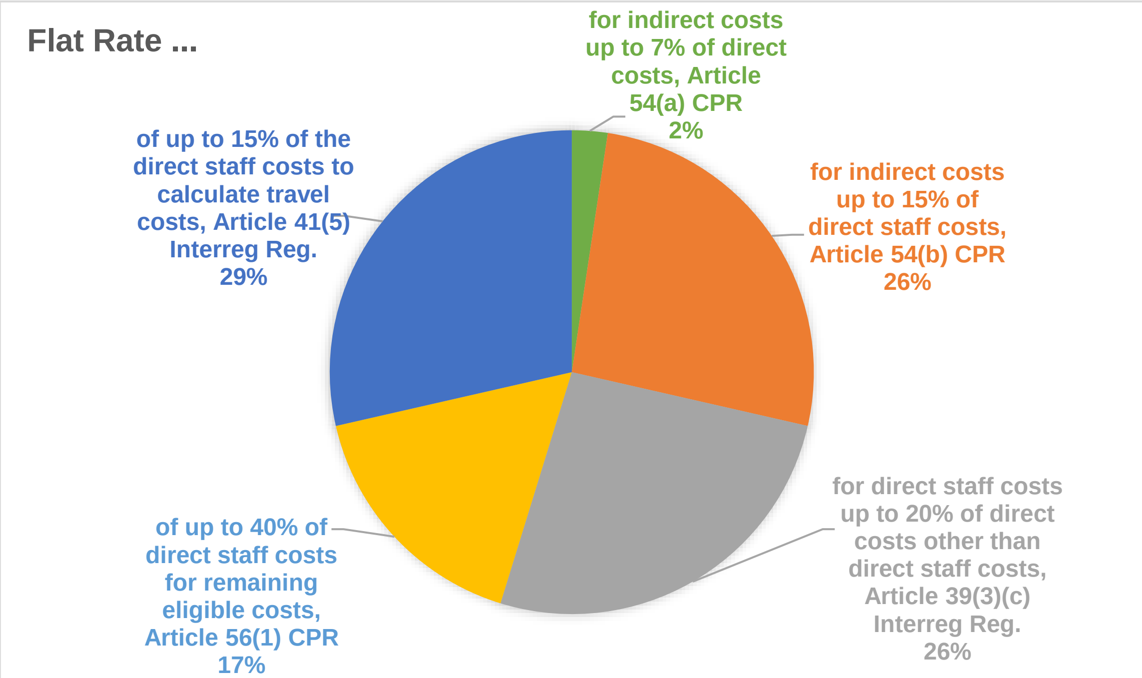
However, evidence from outside the Interreg IPA programmes suggests that the benefit of the two off-the shelf options lies mainly in their potential to calculate programme specific SCOs for staff costs.[4]

Three of the five remaining off-the-shelf flat rates are used by almost all 12 Interreg IPA programmes, while the other two flat rates are used more selectively (see Figure 4). The three dominating flat rates are those of up to

- 15% of staff costs to cover indirect costs;
- 20% of direct costs other than direct staff costs to cover staff costs;
- 15% of staff costs to cover travel costs.

Last but not least, the wide application of the two flat rates introduced by the Interreg Regulation indicates the specific cost structure of Interreg and Interreg IPA projects.

Figure 4: Use of different off-the-shelf flat rates by 2021-2027 Interreg IPA programmes



Source: Service provider, 2024

Article 54(c) CPR offers the possibility to reimburse indirect costs at a flat rate of up to 25% of direct costs, provided that a fair, equitable and verifiable methodology has been applied for the 2021-2027 programming period or the previous one. However, this option has not been used by any of the Interreg IPA programmes analysed.

With the exception of the URBACT Programme, all other Interreg IPA programmes use at least one or two programme specific SCOs in addition to the majority of off-the-shelf SCOs. The other exception to this rule is the South Adriatic Programme, with a total of nine programme specific SCOs (see Table 3). At this level of analysis, there is no

[4] Examples are the programme specific SCO for staff costs developed by the 2021-2027 South Adriatic and Baltic Sea Region programmes.

structural difference between cross-border and other territorial cooperation programmes, with the possible exception of the URBACT Programme. Differences in SCO definitions are typically related to the types of costs and/or beneficiaries or other structural differences rather than to the main SCO alternatives (see section 3.4 below). The SCOs of the URBACT Programme have a particular structure in terms of their application, as only one SCO targets the projects (i.e. URBACT networks), while the other SCOs are only relevant for the National URBACT Points (NUP).

Table 3 – Types of SCOs per Interreg IPA programme

Programme	Total no. of SCOs	Off-the-shelf (mostly flat rates)	Programme specific
Interreg IPA CBC programmes:			
Bulgaria – North Macedonia	5	3	2
Bulgaria - Serbia	5	3	2
Bulgaria – Türkiye	5	3	2
Croatia – Bosnia and Herzegovina – Montenegro	6	4	2
Croatia - Serbia	6	4	2
South Adriatic	13	4	9
Hungary – Serbia	5	4	1
Romania Serbia	5	3	2
Transnational & interregional Interreg IPA programmes:			
IPA Adriatic-Ionian	7	6	1
Danube	5	4	1
Euro-MED	4	2	2
Urbact	4	4	./.

Source: Service provider, 2024

About two thirds of the 26 identified programme specific SCOs implemented by the 2021-2027 Interreg IPA programmes have been developed as lump sums (see Figure 5). The other programme specific SCOs are mainly unit costs and two flat rates, which are not part of the off-the-shelf options. The two programme specific flat rates have been developed to meet programme specific needs:

- in the South Adriatic programme, a flat rate to cover the costs of the Italian First Level Control (FLC); and
- in the Euro-MED programme, a flat rate for the reimbursement of travel and accommodation costs, which are higher than the rate offered by the off-the-shelf

option of Article 41(5) Interreg Regulation, to consider specific needs of beneficiaries from candidate countries.

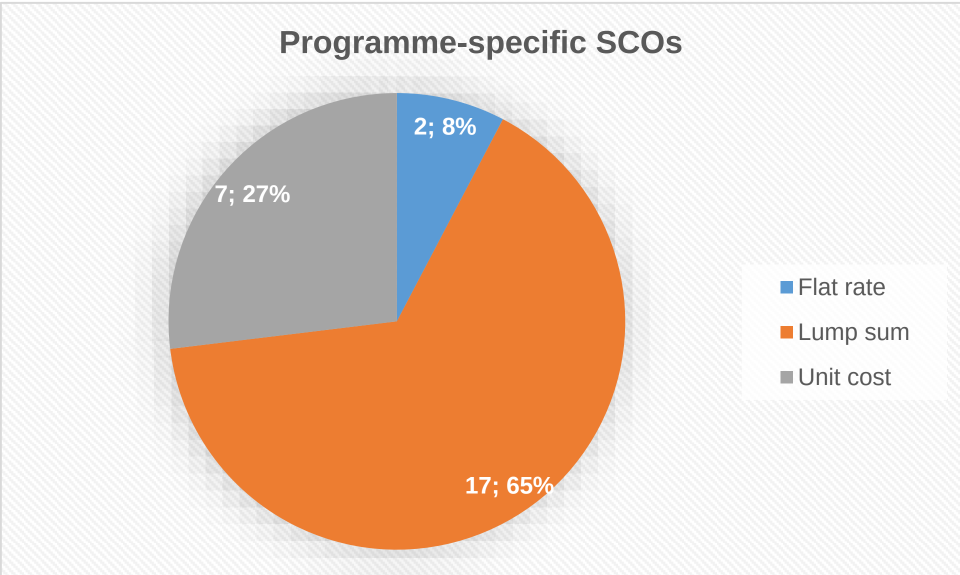
Lump sums are typically used for cost items that can be easily translated into deliverables/outputs defined as a single unit. The lump sum is thus an ex-ante appropriation of the actual costs based on expected deliverables/outputs. In Interreg IPA programmes they are most commonly used for preparation and closure costs, and in a few cases for different types of events. Lump sums imply a "binary" approach; i.e. payment is conditional on the delivery of the agreed deliverables/outputs without the possibility of obtaining payment for partial delivery.

This may explain why, for example, the three Interreg IPA programmes coordinated by the Bulgarian authorities use unit costs more frequently to simplify the reimbursement of event costs. Other examples of the use of unit costs are provided by the South Adriatic Programme, which has developed unit costs for

- Accompanying actions, differentiated by country and by type of participant;
- Targeted training, differentiated by country, duration of the training and type of training module;
- Travel and accommodation, differentiated by transport mode and accommodation and subsistence by country;
- Staff costs, differentiating unit costs per hour by country, type of beneficiary and level of seniority.

The unit cost examples thus illustrate the possible use of unit costs in different cost categories and how they can be adjusted to different types of units depending on the cost structure. They are considered useful whenever it is possible to (1) easily identify and define the expected quantities of a deliverable, activity or output and (2) calculate the unit cost for these quantities.

Figure 5: Programme specific SCOs of 2021-2027 Interreg IPA programmes by type of SCO



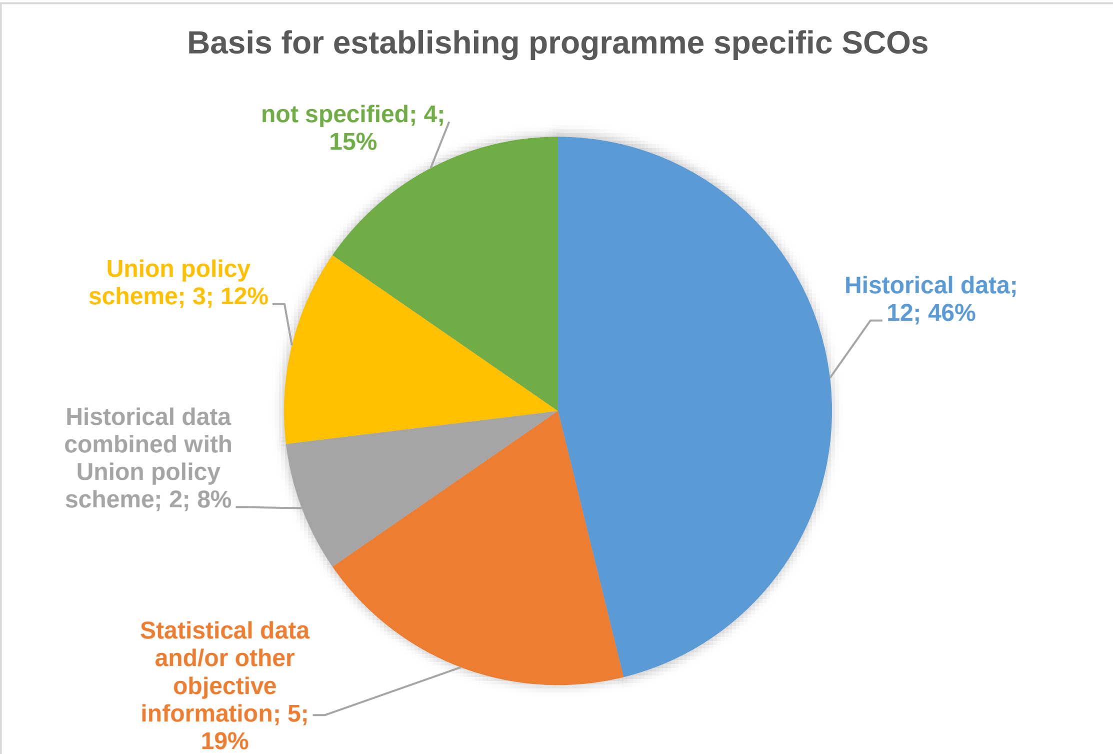
Source: Service provider, 2024

Structural differences between the Interreg IPA CBC programmes and other territorial cooperation programmes could not be observed, although the latter mostly used lump sums and no unit costs. However, the example of the South Adriatic Programme with several unit costs, some of which differ according to the origin of the beneficiary, shows that unit costs can be a very useful simplification measure also for territorial cooperation programmes involving more than two countries. This is also supported by the non-IPA example of a unit cost to calculate staff costs in the Baltic Sea Region Programme.

3.3. Programmes' approaches to SCOs

While off-the-shelf SCOs can be implemented without further supporting documentation demonstrating that the approach is fair, equitable and verifiable, programme authorities need to provide additional calculations or other documentation to ensure that programme specific SCOs meet the requirements of Art. 53(3) CPR.[5] About 80% of the 26 programme specific SCOs in the 2021-2027 Interreg IPA programmes have been developed using one or more of the proposed calculation methods to support a fair, equitable and verifiable approach. Only a few SCOs of the South Adriatic Programme were developed by using an SCO developed by a Union policy for a similar type of operation or by combining such a scheme with other data (see Figure 6).

Figure 6: Methodologies used by Interreg IPA programmes to specify their programme specific SCOs



Source: Service provider, 2024

Almost half of the identified programme specific SCOs identified are based on historical data at the level of beneficiaries of one or more previous programmes. In two cases, the use of statistical data refers to the use of inflation rates to update an SCO already used

5 For upper-level SCOs Art. 94 CPR requires in addition the European Commission's approval of the methodology.

in the previous programming period. For a few SCOs, no specification could be identified beyond the information that a fair, equitable and verifiable calculation method was used.

Table 4 – Number of programme specific SCOs in 2021-2027 Interreg IPA programmes by type of SCO

Type of SCO	Historical data	Statistical data and/or other objective information	Historical data combined with Union policy scheme	Union policy scheme	not specified
Flat rate	2	0	0	0	0
Lump sum	6	5	2	0	4
Unit cost	4	0	0	3	0

Source: Service provider, 2024

A comparison of the approaches to defining programme specific SCOs with the type of SCO further supports the broad viability of using historical data (see Table 4). This can be used for any type of SCO, provided that the relevant cost categories were covered by the programme in the previous programming period or in other predecessor programmes. In contrast, for example, the variety of union schemes potentially useful for Interreg IPA programme activities may be more limited. Similarly, it may not be easy or even possible to develop a programme specific flat rate based on statistical data.

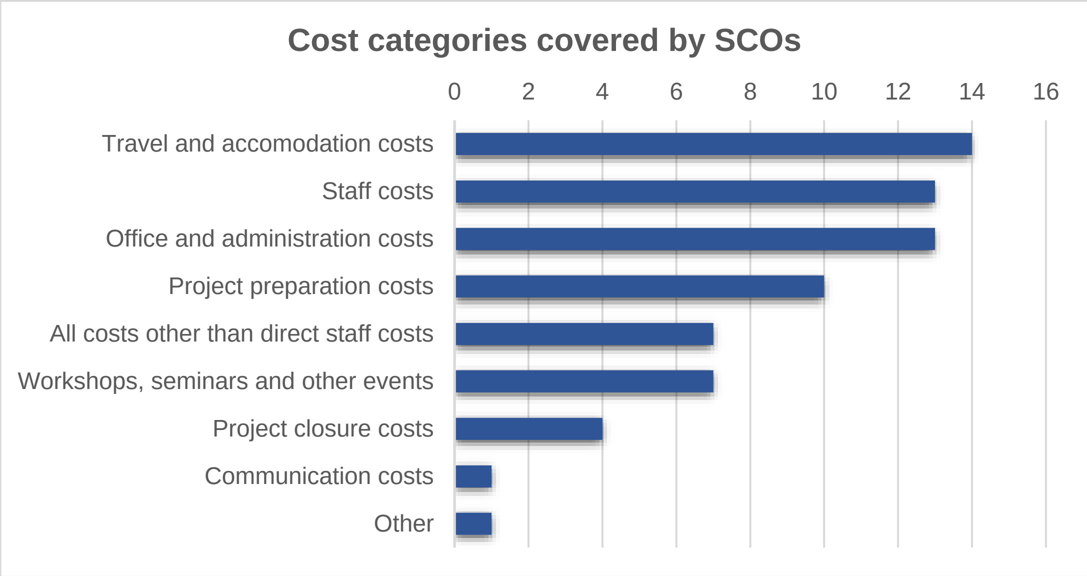
3.4. SCOs by cost categories and combinations of SCO in one operation

2021-2027 Interreg IPA programmes use SCOs for several cost categories. Figure 7 below summarises their use by category. SCOs for **travel and accommodation costs** are the most frequently used, i.e. in all 12 programmes included, although sometimes not for all beneficiaries. Two programmes have even implemented two corresponding SCOs:

- The Euro-MED Programme differentiates the reimbursement of travel and accommodation costs according to the origin of the beneficiary. One of these SCOs is an off-the-shelf option (Article 41(5) Interreg Regulation) and applies to beneficiaries from EU Member States. The other SCO applies a higher flat rate than offered by the Interreg Regulation to compensate for different cost structures for beneficiaries from candidate countries.

- The South Adriatic Programme distinguishes between two SCOs for travel and accommodation costs, depending on the type of project. Beneficiaries of standard and strategic projects use the off-the-shelf option of a 15% flat rate of direct staff costs (Article 41(5) Interreg Regulation) and small-scale projects apply a programme specific unit cost SCO.

Figure 7: Number of SCOs in Interreg IPA countries according to type of cost category



Source: Service provider, 2024

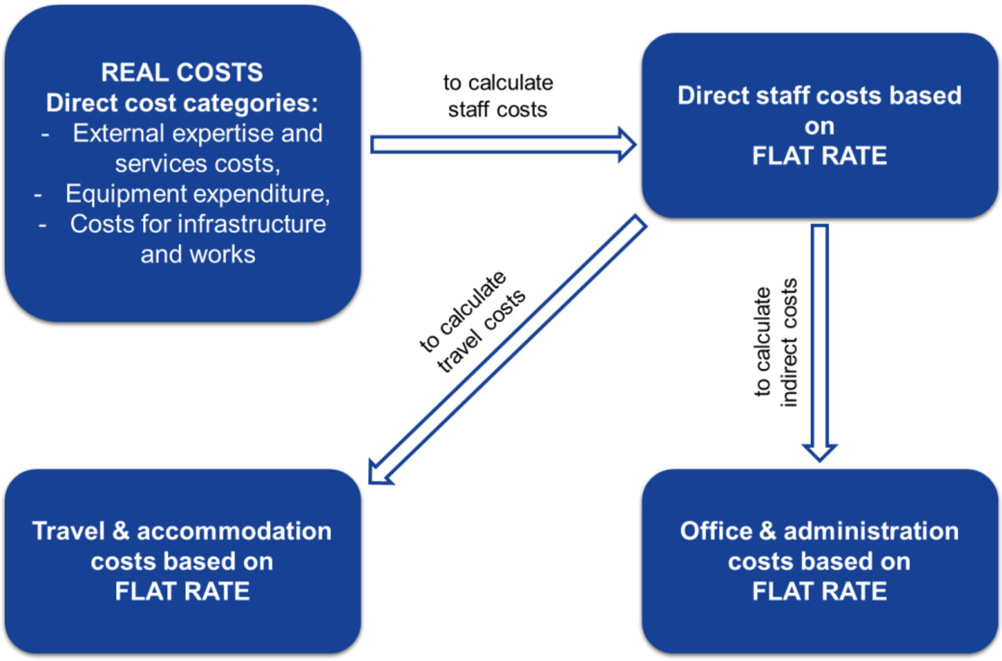
Other cost categories with SCOs in almost all programmes, used at least optionally or for some types of projects and/or beneficiaries, are staff and **office and administration costs**. The URBACT Programme has two SCOs for the reimbursement of office and administration costs, one for URBACT networks and one for NUPs. For **staff costs** again two programmes have two SCO options each:

- The IPA Adriatic-Ionian Programme uses the two off-the shelf unit cost options, i.e. the hourly rate obtained by dividing the annual gross employment cost by 1,720 hours or corresponding pro-rata, and the hourly rate obtained by dividing the monthly gross employment cost by the average monthly working time of the person concerned (Article 55(2) CPR). The programme offers these options as alternatives for calculating the costs of part-time project staff with a flexible number of hours worked per month during the project. Alternatively, staff costs may also be calculated as a flat rate of 20% of other direct costs (Article 39(3)(c) Interreg Regulation). Beneficiaries must choose between the two alternatives at the application stage.

- The South Adriatic Programme has developed a programme specific unit SCO (for standard and strategic projects) for staff costs, i.e. unit costs for hourly rates, differentiated by country, type of beneficiary and level of seniority. Alternatively, the programme also offers the use of the off-the-shelf option to calculate staff costs as 20% of other direct costs (Article 39(3)(c) Interreg Regulation).

The most common combination of the use of SCOs for these three cost categories (i.e. travel and accommodation, office and administration as well as staff costs) is shown in the figure below.

Figure 8: Frequent combination of off-the-shelf flat rates in Interreg IPA programmes



Source: Service provider, 2024

Several Interreg IPA programmes combine three off-the-shelf flat rates, namely the flat rate

- for indirect costs up to 15% of direct staff costs, Article 54(b) CPR,
- for direct staff costs up to 20% of direct costs other than direct staff costs, Article 39(3)(c) Interreg Regulation, and
- of up to 15% of the direct staff costs to calculate travel costs, Article 41(5) Interreg Regulation.

When this combination is used, programmes usually specify the direct cost categories included in their real cost calculation to avoid the risk of double-funding. For example, to apply the flat rate to the calculation of travel and accommodation costs, these cannot be part of the other direct costs that form the basis of the staff cost calculation. Further implications of this combination for travel and accommodation costs are described in sub-section 4.2.1.

Other cost categories for which several 2021-2027 Interreg IPA programmes apply SCOs include **project preparation** (and sometimes also **closure**) **costs**, which are always implemented using lump sums. SCOs for project closure costs have only been developed in programmes that also use a lump sum to reimburse project preparation costs. For **workshops, seminars and other events** involving exchanges or meetings, there are also several SCOs in place in Interreg IPA programmes. However, these refer to only four programmes:

- These are the three programmes with a Bulgarian MA. A unit cost has been developed for each programme, with two different rates for event participants in one-day and multi-day events.

- The South Adriatic Programme differentiates four such SCOs for small-scale projects to take into account the variety of exchange and meeting activities implemented by different projects. These SCOs are specified as
  - Lump sums for workshops, seminars and conferences;
  - Lump sums for incoming missions and B2B missions;
  - Unit costs for accompanying actions;
  - Unit costs for targeted training.

Other common costs in Interreg IPA programmes, such as those for external expertise and services, equipment and infrastructure and works, are not explicitly covered by SCOs in any of these programmes. They are, however, included whenever the flat rate of 40% of direct staff costs is applied to **cover all other eligible costs** – an option offered by seven programmes. This may indicate the difficulty of developing individual SCOs for these cost categories that are sufficiently replicable across a programme's operations. Nevertheless, explicit SCOs may be suitable for these other categories, at least in some cases, as illustrated by the example of a unit cost for project equipment developed by the Interreg Central Baltic Programme (2024).

The analysis does not reveal any structural differences in the use of SCOs by cost category between Interreg IPA CBC and the other programmes.

Complementing the above illustration of a frequent combination of SCOs for three cost categories, Figure 9 illustrates another approach to combinations where the programme offers alternative reimbursement approaches to project partners. In the Danube Programme, for example, project partners can choose whether to report staff or travel and accommodation costs on a real cost basis. This determines the possible use of SCOs for other cost categories. Only the use of the lump sum for project preparation costs is not affected by this choice.

The South Adriatic Programme provides a unique example of the combination of SCOs for small-scale projects. In compliance with Article 53(2) of the CPR, the costs of small-scale projects financed by the programme can only be reimbursed through SCOs. To this end, the programme has developed a wide range of SCOs representing the main cost categories (activities) of its small-scale projects. Their combination allows to cover all costs of the operation. Specifically, SCOs can be selected from the following list is made possible:

- Lump sum for workshop, seminars and conferences;
- Lump sum for incoming missions & B2B meetings;
- Lump sum for joint action plan/model/methods;
- Lump sum for closure cost;
- Standard Scale of Unit Costs for accompanying actions;
- Standard Scale of Unit Costs for targeted training;
- Standard Scale of Unit Costs for travel & accommodation;

- 2% Flat Rate for Italian FLC's cost.

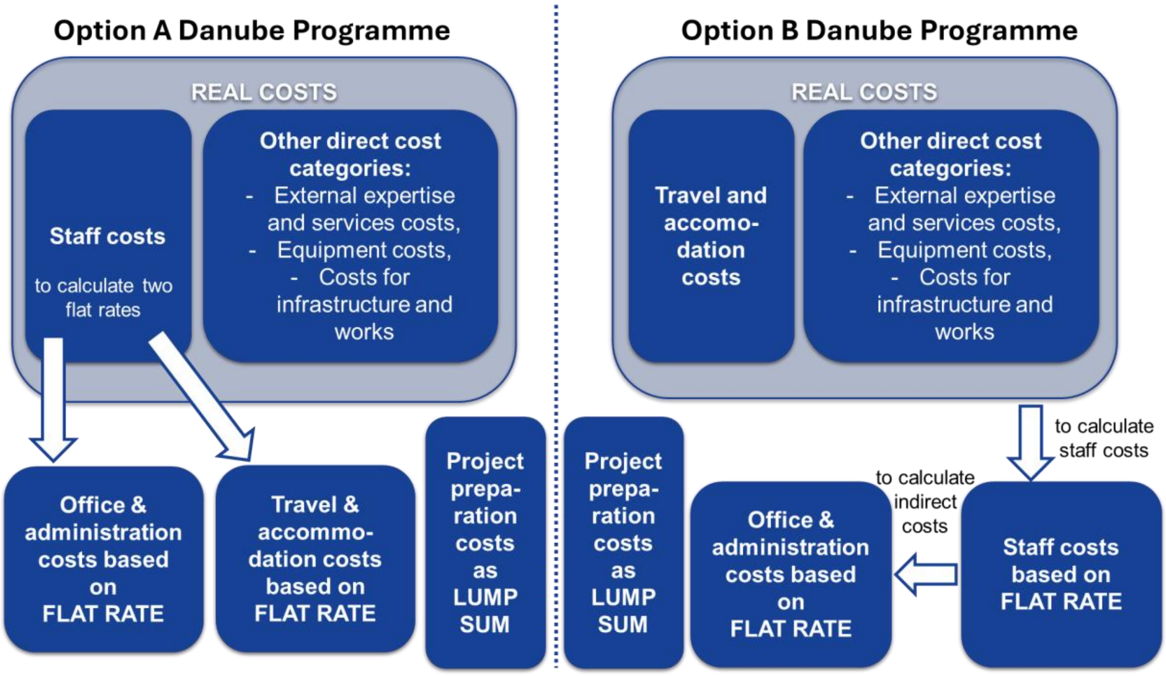
These examples show that there are different ways to combine different SCOs within an operation and that different projects and/or partners can benefit from different combinations of SCOs in the same programme. The latter offers the potential to adapt to different cost structures of partners and projects. However, giving beneficiaries too many options when setting up the budget of a project is not conducive to simplification:

- Applicants need to be aware of the implications of one or another choice;

- Using different calculation methods for partners in the same project may be more burdensome and prone to error than a single approach;

- Both, the development of several options and the control of their correct application, reduce the simplification potential of SCOs for programme authorities.

Figure 9: Illustration of alternative SCO combinations for the same type of operation at the example of the Danube Programme



Source: Service provider, 2024

3.5. The non-use of FNLC

In addition to the simplified reimbursement procedures through SCOs, Article 53(1)(f) CPR also offers the possibility to pay beneficiaries on the basis of "financing not linked to costs" (FNLC). So far, only a few cohesion policy programmes use this option. These include very few ESF and ERDF programmes.[6] This limited use of FNLC confirms that the concept is still relatively new to ESIF funds, which is associated with a limited

[6] See e.g. 14th meeting of the DG Regio SCO Transnational Network (2023): https://ec.europa.eu/regional_policy/policy/how/improving-investment/simplified-cost-options_en

understanding of the concept. In general terms, it offers the opportunity to move from a cost-based to a result-based calculation, within which programmes and beneficiaries can decide for themselves how to achieve the agreed outcomes. Such results-based approaches originate from the experience of the World Bank and in particular its "Program-for-Results Financing" (PforR) (Wes, 2023).

The analysis did not identify any FNLC for Interreg IPA programmes or for Interreg programmes in general. The challenge is typically to define outcomes that are (1) under the control of the beneficiary and/or the programme and (2) sufficiently general to be applied, for example, to all projects under a specific objective or project type to formulate the corresponding result indicator. While such sector and policy specific result formulations have been addressed by some mainstream programmes, Interreg IPA and more generally Interreg programmes tend to face additional challenges in developing FNLC schemes. The main difficulties can be summarised as follows:

- FNLC approaches are designed to overcome capacity issues of authorities implementing programmes and projects. Practical experience of SCOs in Interreg IPA programmes shows that even SCOs require time and skills if programmes wish to design programme specific SCOs rather than using off-the-shelf SCOs. Similarly, FNLC investment in programmes such as Interreg IPA also requires significant input at the design phase.

- This difficulty is closely linked to the structure of Interreg IPA programmes, which tend to be less targeted in terms of themes and measures and often have a wider scope and range of activities. This challenges the need to achieve a common understanding of FNLC concepts at all levels involved in the design and implementation of a programme.

- In contrast to mainstream programmes, Interreg IPA programmes have a different focus on improving cooperation. It is challenging to find measures that represent cooperation results in a harmonious way and cover a sufficient part of the overall programme budget.

Under these circumstances, it is not surprising that no FNLC schemes were identified in the programmes analysed, nor in other Interreg programmes of the 2021-2027 programming period. In contrast, the evidence suggests that even the use of programme specific SCOs can be challenging for the time being and could be further developed to maximise simplification and benefits for beneficiaries of Interreg IPA programmes.

3.6. Limitations of transfer to IPA programmes

The analysis shows further differences in the application of SCOs between mainstream cohesion policy programmes and Interreg or Interreg IPA programmes. These limit the transferability of SCOs from Interreg IPA programmes to other IPA programmes:

- The programmes differ significantly in size, which has implications for the application of the SCO, e.g. in terms of their scope and size. For example, the total programme budget of the 2021-2027 Interreg IPA South Adriatic Programme for the cooperation between Italy, Albania and Montenegro is around EUR 81 million for the whole programming period.[7] The Union's to Albania's 2023 annual

[7] See e.g. https://www.italy-albania-montenegro.eu/index.php/programme/the-programme-in-a-nutshell

action plan under IPA III was almost as high at EU 80 million (European Commission, 2022).

- The type of operations and the size of the measures are very different between the two types of programme. Both are closely linked to the objectives of the mainstream IPA and Interreg IPA programmes, respectively. The objective of Interreg IPA programmes is to intensify cooperation between regions and countries within their territory in policy areas defined in the cooperation programme. The policy areas are subject to the policies and objectives defined for ESIF programmes.

- The implementation logic is different. Mainstream IPA III is subject to annual action plan contributions decided by the European Commission on an annual basis. Interreg IPA programmes, in contrast, are subject to the same seven-year programming periods as other ESIF programmes.

- The structure of SCOs also varies between Interreg or Interreg IPA programmes and ESIF mainstream programmes, respectively. The former do not differentiate SCOs by specific objectives or policy areas, but they apply their SCOs either to all cooperation projects or differentiate between types of projects, such as regular, strategic and small-scale projects. For mainstream programmes, however, it is much more useful to differentiate between policy areas and/or specific objectives, depending on the similarity of measures across specific objectives.

In consequence, the experience of the development and implementation of SCOs in Interreg IPA programmes is transferable to other territorial cooperation programmes but cannot be replicated by IPA programmes. Transferability is thus limited to learning from SCO applications at a meta-level, i.e. how programmes can approach the identification of appropriate SCOs and how different SCOs can be combined to cover as many cost categories as possible.

4. Insights into selected SCO practices

The following sections illustrate the use of SCO practices in Interreg IPA programmes by type of cost category.[8] This structure may assist programme authorities in identifying an appropriate SCO for a specific cost category. In addition, this structure allows a comparison of alternative SCOs for each of the cost categories. The chapter distinguishes between six cost categories that typically occur in Interreg IPA programmes and can be reimbursed using SCOs. Five of the six cost categories are similar to those identified in section 3.4 (Figure 7), for which several 2021-2027 Interreg IPA programmes use SCOs. These cost categories may occur in any type of Interreg IPA project, be it a small-scale or a regular or strategic project. To broaden the view of potentially interesting and inspiring SCOs, the 6th category complements SCOs that explicitly and exclusively reimburse small-scale projects as a whole, including all types of costs incurred in such projects.

To broaden the illustration of SCO approaches within these cost categories, the examples below also include some examples from a selection of other Interreg programmes, which are also considered appropriate for the context of Interreg IPA programmes. These examples are from the

- Interreg Baltic Sea Region Programme 2021-2027 to illustrate a unit cost approach for staff costs;
- Interreg Slovenia-Hungary Programme 2021-2027 to illustrate two alternative approaches to SCOs for small-scale projects, depending on the purpose of the project; and
- Interreg Central Baltic Programme 2021-2027 to illustrate a specific approach within the standardisation of office and administration costs focusing on project management equipment.

Each section concludes with a flowchart to support the decision-making process for one or the other SCO option available per cost category.

4.1. SCOs for staff costs

Due to the nature of Interreg projects and their budget structure, staff costs usually represent a key cost category and a significant proportion of project budgets. In this context, the use of SCOs to cover staff costs has a high potential for simplification for Interreg IPA programme authorities and project beneficiaries.

While "off-the-shelf" SCOs are the most widely used, the experience of one Interreg IPA programme in developing programme specific SCOs to cover staff costs sheds light on the potential of such an approach in the context of Interreg IPA.

[8] If not indicated otherwise, all following information is based on SCO documentation and programme information by the covered Interreg and Interreg IPA programmes.

4.1.1. Off-the-shelf

Interreg Regulation 2021/1059, Article 39(3)(c): *Flat rate for direct staff costs up to 20% of direct costs other than direct staff costs*

As outlined above, Interreg IPA programmes have almost exclusively opted for an off-the-shelf SCO to cover staff costs, i.e. the "up to 20%" flat rate according to Article 39(3)(c) of the Interreg Regulation.

The use of such an SCO results in a significant simplification of the administrative burden and reduction of errors compared to the real costs, while not requiring the development of SCO methodologies and calculations by programme authorities.

At the same time, off-the-shelf flat rates for staff costs (as well as for other cost categories) cannot, by their very nature, always offer the best solution in terms of approximating real costs.

In the specific case of Interreg IPA programmes, salaries may vary significantly between countries (especially in transnational programmes) and between EU and non-EU beneficiaries, with some beneficiaries benefiting more than others from the use of this off-the-shelf SCO, i.e. when the flat rate applied covers more than the actual staff costs or, conversely, 20% of direct costs is not sufficient to cover staff costs. While this is an inherent "risk" of using of off-the-shelf solutions, programmes can overcome such issues by:

- Developing programme specific SCOs for staff costs (see paragraph 4.1.2 below);

- Determining hourly rates using the "1,720 hours method" in accordance with Article 55(2)(a) of the CPR (*by dividing the latest documented annual gross employment costs by 1,720 hours for persons working full-time, or by a corresponding pro-rata of 1 720 hours, for persons working part-time*) – see below.

- Within the same off-the-shelf SCO, offering two different (pre-determined) flat rates to e.g. EU and IPA beneficiaries to better approximate the real costs of staff. In this case, although still within the framework of an off-the-shelf solution, an estimate of the real costs should be made, based on historical or verifiable data, to prove that the flat rate to be applied in each case is justified and has been calculated respecting the principle of fairness.

It should be noted that some Interreg IPA programmes, when adopting this off-the-shelf SCO to cover staff costs, but also in the context of other off-the-shelf options such as those covering indirect costs, have decided to leave it to the beneficiaries to decide which flat rate percentage to use (in this case within the range up to 20%) according to their specific budget structure. This carries the risk of shifting the responsibility for setting flat rates to the beneficiaries and leads to the application of different flat rates depending on the project beneficiary.

While there is no formal impediment to this practice in the regulations, it poses numerous risks for programme authorities and beneficiaries.

A word of caution: The risks of using different flat rates to cover the same category of costs

This approach should be considered risky. Three key aspects are worth mentioning:

1) From a legal perspective, *"it is the **sole responsibility of the Managing Authority** to define the SCO methodology and its parameters"* (European Commission, 2021 Chapter 5.2). Allowing each beneficiary to determine its own flat rate percentage *de facto* transfers the responsibility for defining the SCO from the Managing Authority to the beneficiaries, in sharp contrast with the EC guidelines.
2) According to Article 53(3)(a) of the CPR, SCOs *"shall be established on a **fair, equitable and verifiable method**"*. By providing the flexibility to choose different flat rates, this approach determines the existence of different percentages to cover the same category of costs (e.g. in some cases staff costs are reimbursed as 18% of direct costs, in others as 15%, etc.). As a consequence, the programme could be asked to justify how the application of different percentages ensures **compliance with the principle of fairness**. In other words, the Audit Authority (AA) and/or the European Commission itself may ask the programme for documents justifying the application of different percentages. If the programme does not have a solid data base and documentation to justify this, it risks financial corrections.
3) Finally, this approach **does not bring significant benefits in terms of simplification**. If beneficiaries apply different percentages, the programme authorities will still have to verify each reimbursement request and check the plausibility of the chosen percentage depending on the specific project cost structure and budget distribution. There is therefore a risk that the simplification effort will be negated, if the same approach is used for SCOs covering other cost categories (staff, travel and accommodation) and which can be combined to this SCO.

Table 5 – Benefits and challenges of the use of Art. 39(3)(c) Interreg Regulation to cover staff costs

Benefits	• Significant reduction in administrative costs for programmes and burden on beneficiaries compared to declaring/verifying real costs • Reduction of errors • As an off-the-shelf option, no need to develop methodologies or justify the flat rate chosen
Challenges	• Greater differences in staff costs (e.g. EU vs. IPA salaries, transnational programmes) leading to weaker approximation of real staff costs and risk of overcompensation • Tangible risks of using different flat rates within the same off-the-shelf SCO depending on the beneficiary or project budget structure (i.e. possible lack of compliance with the principle of fairness)

Source: Service provider, 2024

CPR 2021/1060, Article 55(2)(a): *Hourly rate calculated by dividing the latest documented annual gross employment costs by 1,720 hours for persons working full-time, or a corresponding pro-rata of 1,720 hours for persons working part-time.*

The possible weaknesses of considering Article 39(3)(c) of Interreg Regulation as SCO to cover staff costs (e.g. a flat rate that does not adequately approximate real costs for all beneficiaries) can be overcome by considering the development of hourly rates through the methodology offered by Article 55(2)(a) of the CPR, i.e. "*For the purposes of determining direct staff costs, an hourly rate may be calculated […] (a) by dividing the latest documented annual gross employment costs by 1,720 hours for persons working full-time, or a corresponding pro-rata of 1,720 hours for persons working part-time*".

Unlike the standard off-the-shelf SCOs in the CPR and the Interreg Regulation, which provide flat rates for certain categories of costs, Article 55(2) provides an off-the-shelf *methodology*, in the specific case of paragraph (a) a denominator represented by 1,720 hours, from which an SCO can be developed.

The definition of hourly rates can be an appropriate solution for those programmes seeking a better approximation of real costs, for example due to

- significant salary differences between/among participating countries (or types of organisations),
- differences in beneficiaries' involvement in the project throughout the year (full-time, part-time, varying number of hours).

The advantage of such a methodology is the flexibility it can offer to beneficiaries once the hourly rates have been calculated. At the same time, it allows for a better approximation as the rates will vary and depend on each individual's gross annual salary, i.e. the numerator.

$$\textit{Hourly rate} = \frac{Annual\ gross\ salary}{1{,}720\ hours}$$

At the same time, certain challenges and drawbacks may arise from the use of this methodology, such as

- a limited reduction in administrative costs and burden compared to Article 39(3)(c) of the Interreg Regulation or to programme specific SCOs, in terms of necessary calculations and documentation for the audit trail, e.g. proof of contract with gross annual salary, timesheets, etc. at the level of each person involved;
- a higher risk of error compared to Art. 39(3)(c) because each beneficiary calculates his own hourly rate;
- still a risk of a poor approximation of real staff costs, e.g. if the denominator of 1,720 hours is not an accurate estimate of the actual number of hours worked in a given country/organisation in a year, i.e. if the actual number of hours worked is higher than 1,720, the hourly rate provided by the 1,720-hours rule will be higher than the real cost per hour.

In view of these potential challenges, Article 55(2)(a) has only been chosen by one Interreg IPA programme.

Table 6 – Benefits and challenges of the use of Art. 55(2)(a) Interreg Regulation to cover staff costs

Benefits	• Approved methodology to calculate hourly rates (i.e. 1,720 hours denominator) • Greater flexibility for beneficiaries with different levels of involvement (hours worked/year) in the project • Better approximation of real costs compared to Art.39(3)(c)
Risks and challenges	• Less reduction of administrative costs and burden compared to Art.39(3)(c) • Higher risk of error • Risk of poor approximation of real costs/overcompensation if the actual number of hours worked per year is higher than 1,720

Source: Service provider, 2024

CPR 2021/1060, Article 55(2)(b): *Hourly rate calculated by dividing the latest documented monthly gross employment costs by the average monthly working time of the person concerned in accordance with applicable national rules referred to in the employment or work contract or an appointment decision (both referred to as the employment document).*

Similarly to Article 55(2)(a), Article 55(2)(b) offers an off-the-shelf *methodology*.

$$\textit{Hourly rate} = \frac{\textit{Latest documented monthly gross salary}}{\textit{Average monthly working time}}$$

The challenges outlined for Article 55(2)(a) also apply to this methodology. Moreover, the lack of a predefined denominator means that calculations and checks must also be carried out to determine the average monthly working time of each person concerned.

Such a methodology has not been applied in the context of Interreg IPA and is rarely used in the wider context of Interreg and in "mainstream" cohesion policy programmes.

4.1.2. Programme specific SCOs

Unit costs (CPR 2021/1060, Article 53(1)(b)) to cover staff costs

In the context of the analysed Interreg IPA programmes, only one case of programme specific SCO to cover staff costs was identified, i.e. the elaboration of unit costs to cover staff costs by the Interreg IPA South Adriatic programme.

Unit costs can be used for any type of project, activity or cost category where it is possible to easily identify and define:

- the expected quantities of a deliverable, output, activity (in this case hours worked),
- the unit cost of these quantities (INTERACT, 2021).

The development of hourly rates for staff costs is one of the main examples and uses of unit costs. In the context of Interreg IPA, such a tailor-made solution can be considered as the most balanced one to reduce the administrative burden and risk of error for programmes and beneficiaries, while overcoming the potential problems mentioned in the previous paragraph regarding the use of off-the-shelf SCOs, in particular

- Significant differences in salaries between/among participating countries, leading to a higher risk of overcompensation;
- Differences between types of organisations and levels of seniority;
- flexible working hours dedicated to the Interreg project.

The box below outlines the specific case of unit costs developed by Interreg IPA South Adriatic.

Programme: Interreg IPA South Adriatic

Type of SCO: unit cost to cover staff costs (CPR Art. 53(1)(b))

Methodological approach and data used

The unit costs have been established using a fair, equitable and verifiable calculation method in accordance with Article 53(3)(a) CPR. This method may be based on:

(i) statistical data, other objective information or expert judgement;
(ii) verified historical data of individual beneficiaries;
(iii) the application of the usual cost accounting practices of individual beneficiaries.

In the case analysed, verified historical data of individual beneficiaries were used (ii).

The unit costs were established on the basis of a sample of historical data from projects financed by the 2014-2020 Interreg IPA CBC Italy – Albania – Montenegro Programme over a three-year period (2018-2021). The sample related to 32 projects financed through the 1st call for standard projects of the 2014-2020 Programme, at the beneficiary level by specifying the total amount of the verified and certified costs.

For each record of the historical data sample, the direct staff cost per hour was calculated by dividing the eligible gross employment costs over one year per 1,720 hours in accordance with Art. 55(2)(a) CPR which provided the denominator.

The direct staff costs per hour of the sample of historical data were then analysed using a statistical approach, taking into account three variables:

- Country (i.e., Albania, Italy or Montenegro);
- Type of beneficiary (by distinguishing between (i) public bodies/bodies governed by public law, (ii) universities/research centres/other public educational institutions, (iii) private associations/NGOs/foundation/non-profit/social partners);
- Function/role of the person employed in the project distinguishing between three different functions/roles for each type of beneficiary.

The result was the identification of the average hourly costs by country, type of beneficiary and function/role, and the associated standard deviations.

A total of 27 unit costs were elaborated (Three countries à three types of organisation per country à three levels of seniority per type of organisation).

Alternatives considered

Alternative approaches to defining the gross annual employment costs included

- a survey of a sample of beneficiaries (risk: unreliable data/responses)
- reference to official statistics (risk: inconsistency due to lack of harmonisation of data between participating countries).

An alternative approach considered calculating a different denominator to determine the total number of hours worked per year instead of 1,720 hours. However, this was ruled out to avoid a higher risk of error in the unit cost calculation. In general, the off-the-shelf methodology of calculating the denominator provides more certainty from a regulatory perspective. This option is also usually preferred by the European Commission.

Replicability of this programme specific SCO by other Interreg IPA programmes

Given that staff costs typically represent a significant share of the total cost of Interreg IPA operations, the approach used by South Adriatic could be adopted by other Interreg IPA programmes. Furthermore, the differentiation of hourly rates by country (EU/non-EU), type of organisation and level of seniority would be beneficial to all programmes in terms of reducing administrative burden (for beneficiaries) and costs (for the programme), reducing errors and consequently increasing the time available for controllers to carry out on-the-spot checks.

On the other hand, it should be noted that such an approach could prove more burdensome for transnational programmes, i.e. when country-specific hourly rates have to be calculated for a large number of countries.

With regard to the data requirements for determining the annual gross employment costs (i.e. the "numerator"), the programme must have historical data on verified expenditure (real costs), including information on other variables that may affect costs, such as country, type of organisation and level of seniority.

Historical data on staff costs should refer, as in the case of this SCO, to data at beneficiary level from a sample of projects for a number over a period of at least three years. In terms of resources required, the work to develop this SCO should, as an indication, involve two Joint Secretariat officers (and/or external experts), one first level controller per participating country (or more in the case of decentralised FLC systems). A period of at least six months is required to develop the methodology, with most of the time spent collecting historical data from FLCs. This estimate does not include the workload for further exchanges with the European Commission.

A similar and comparable approach, to be considered mainly by transnational programmes, was adopted by the Interreg Baltic Sea programme, which developed nine unit costs for staff costs, one for each participating country[9]. Similarly to South Adriatic, (a sample of) historical data from the previous programming period with 1720 hours as the denominator was used to determine hourly rates in each country, and a comparison with Eurostat data on labour costs was made to verify the historical data. The unit costs were defined in national currencies (four out of nine countries do not have the euro as their national currency, i.e. Denmark, Poland, Sweden and Norway). It should be noted that in this case no distinction was made between types of organisation and level of seniority to minimise the variety of different unit costs. Instead, the programme calculated an average unit cost for typical types of occupations in their projects by ensuring a similar representative coverage of different occupations in the sample of each country. To eliminate the influence of extreme values in the sample, median rather than average hourly unit costs were used. This illustrates another approach to balancing simplification with the approximation of real costs.

[9] Denmark, Estonia, Finland, parts of north-eastern Germany, Latvia, Lithuania, southern Norway, Poland, Sweden. The unit costs developed for the Russian regions previously participating in the programme were dropped as a result of Russia’s exclusion following the Russian invasion of Ukraine.

Table 7 – Benefits and challenges of the development of unit costs to cover staff costs

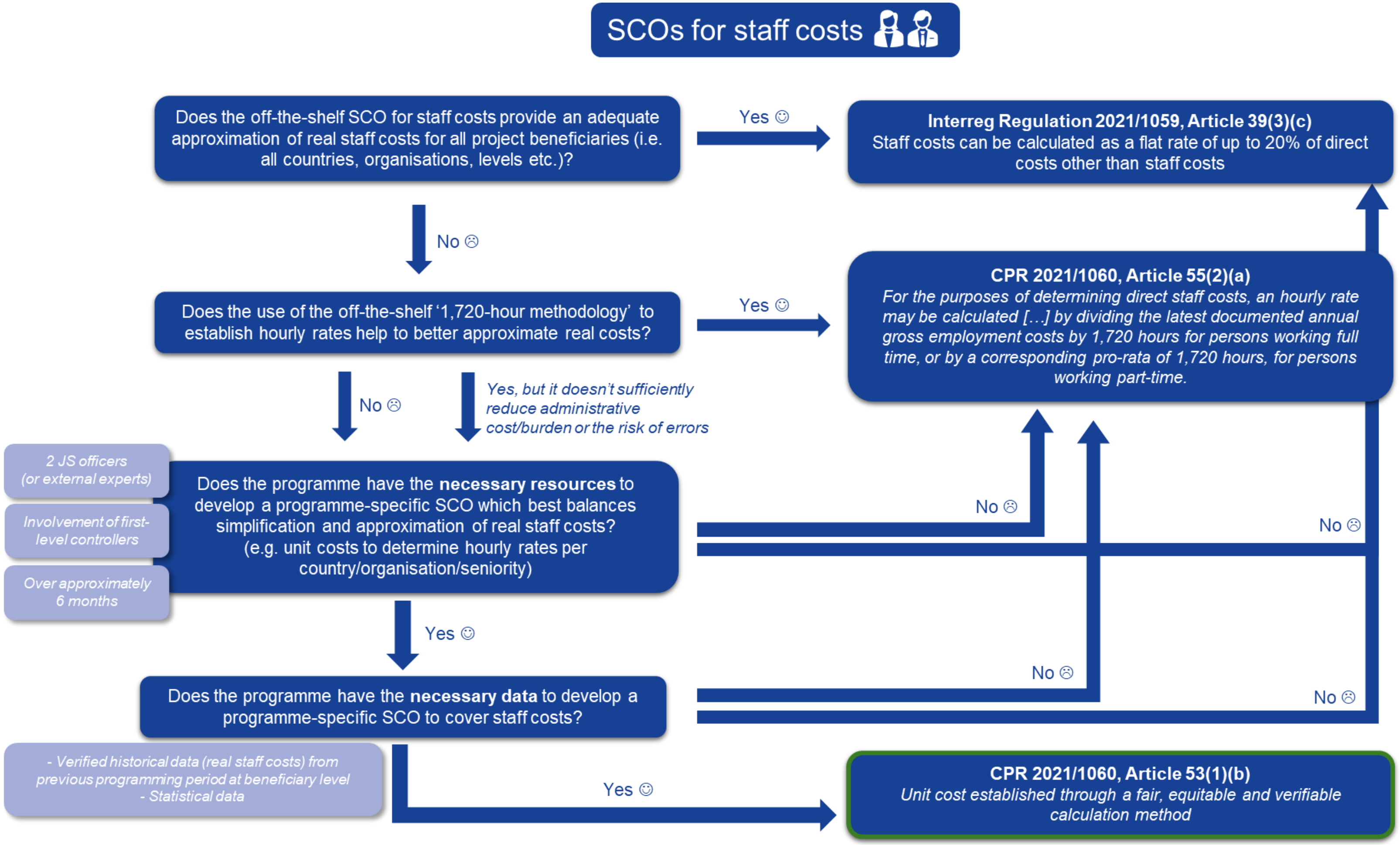
Benefits	• Differentiation of hourly rates e.g. by country, type of organisation and level of seniority allowing a better approximation of real costs (compared to real costs but also flat rates), while reducing the administrative burden on beneficiaries and costs for programme and ensuring manageability. • Reducing the risk of error, • Faster preparation for reimbursement and verification (lighter audit trail) • Transparent budgeting.
Challenges	• Collecting verifiable data on employment costs, including variables affecting costs (country, type of organisation, level of seniority) where historical data is not available or sufficient. • More burdensome SCO design phase, especially when developed by transnational programmes (many countries involved)

Source: Service provider, 2024

4.1.3. Choosing the most appropriate SCO for staff costs

The figure below is intended to help to decide which SCO to implement to cover staff costs, depending on programme needs, resources and data availability.

Figure 10: Flowchart guiding the reasoning behind the choice of the most appropriate SCO to cover staff costs



Source: Service provider, 2024

4.2. SCOs for travel costs

By their very nature, Interreg programmes bring together partners from different countries to implement projects and strengthen cooperation. It is therefore obvious that travel costs are a recurring cost category in Interreg and that simplifying their financial reporting can benefit both programmes and beneficiaries. To this end, the existence of an off-the-shelf SCO within the Interreg Regulation 2021/1059 to cover travel costs already significantly supports this effort. At the same time, certain conditions in the specific context of Interreg IPA may require the development of programme specific SCOs.

4.2.1. Off-the-shelf

Interreg Regulation 2021/1059, Article 41(5): *Flat rate for travel costs up to 15% of direct staff costs*

As outlined in section 3.4, in 14 cases Interreg IPA programmes have opted for the flat rate of up to 15% of direct staff costs to cover travel costs, as provided for in Article 41(5) of Interreg Regulation 2021/1059. All programmes except three (managed by the same Member State) apply the maximum rate allowed. In the three exceptions, a flat rate of "up to 5%" is applied, reflecting the same type of practice adopted by other programmes for staff and indirect costs where different flat rates are applied to the same cost category depending on the beneficiary. As explained in section 4.1.1, such a practice is not in line with the principle of fairness and shifts the responsibility for setting the flat rate from the MA to the beneficiaries.

Notwithstanding this practice, the application of the off-the-shelf SCO to cover travel costs has not shown any specific problems. However, the combination of different off-the-shelf SCOs within an operation may raise some questions. As outlined in section 3.4, several Interreg IPA programmes combine three off-the-shelf flat rates, namely

- for direct staff costs, up to 20% of direct costs other than direct staff costs, Article 39(3)(c) Interreg Regulation,
- up to 15% of direct staff costs to calculate travel costs, Article 41(5) Interreg Regulation, and
- for indirect costs, up to 15% of direct staff costs, Article 54(b) CPR.

The possibility of this type of SCO combination has implications, namely

- The direct costs on which the calculation of staff costs is based cannot include travel costs. Thus, the direct staff costs reimbursed will be more limited because the basis for their calculation is more limited.
- Travel costs are not treated as direct costs, whereas we could assume that they are direct costs in the context of Interreg[10].

[10] "Direct costs are those costs that are directly related to the implementation of the operation or project where the direct link with this individual operation or project can be demonstrated." (European Commission, 2021, Section 3.1.2)

- The claiming of indirect costs, usually for office and administration, means that travel costs do not fall into this category either, i.e. they are neither direct nor indirect, but a third separate category.

Figure 11 below illustrates such implications.

While the off-the-shelf SCO covering travel costs provides a good approximation to real costs for most programmes and significantly reduces administrative costs and the risk of error, the participation of non-EU countries can pose certain risks of under- or over-compensation if the same flat rate is applied in countries with heterogeneous socio-economic contexts. This may be the case, for example, where wage levels are different, but travel costs are similar for partners on either side of a border. In the case of the travel cost flat rate, which is based on direct staff costs, significant differences in salaries between EU and non-EU countries lead to significant differences in the reimbursement of travel costs, to the expense of countries where salaries are lower (but travel costs are usually not).

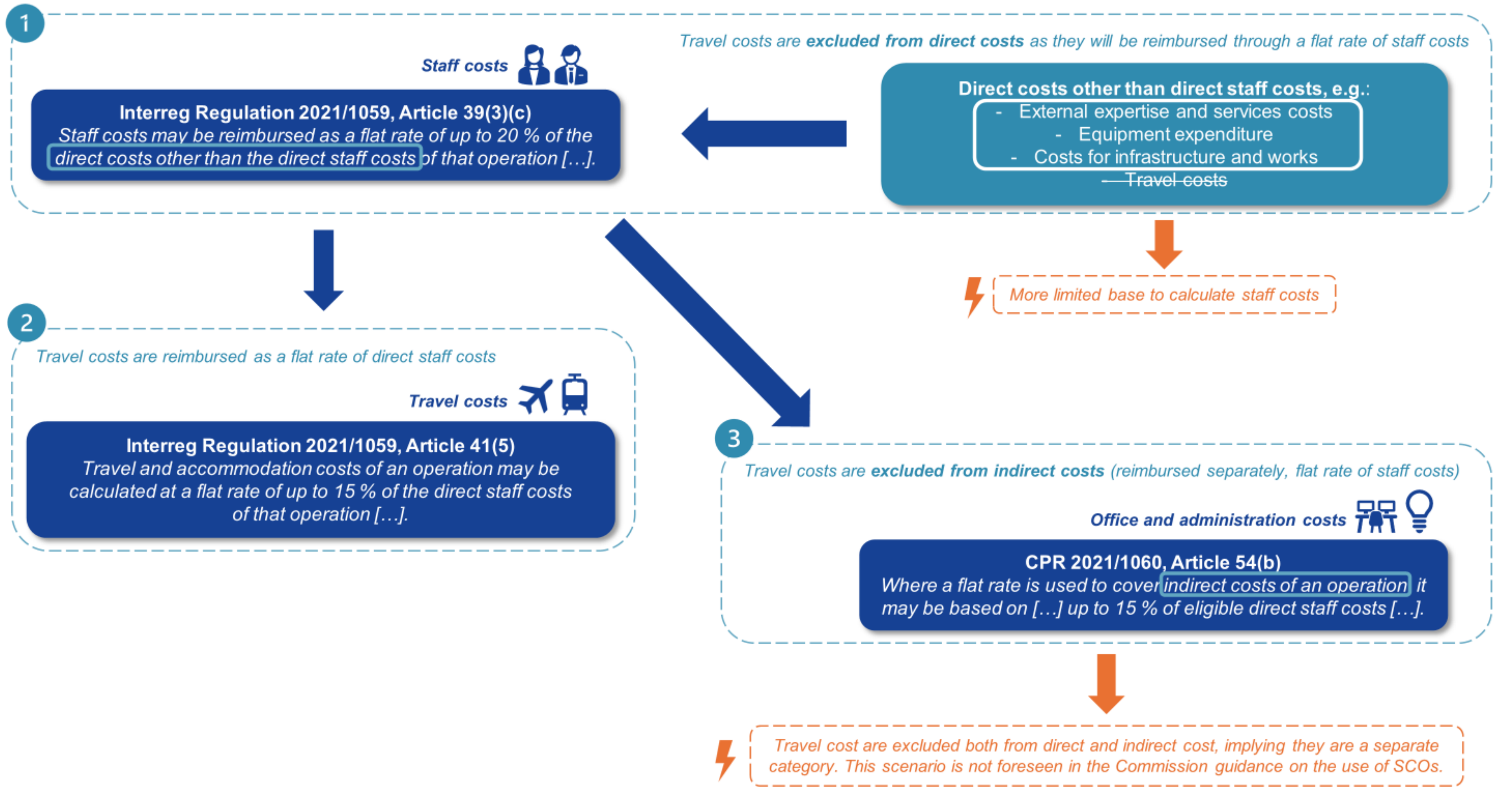
In such a scenario, the development of a programme specific SCO for specific countries or a group of countries may be a possible solution.

Table 8 – Benefits and challenges of the use of Art. 41(5) of the Interreg Regulation to cover travel costs

Benefits	• Significant reduction in administrative costs for programmes and burden on beneficiaries compared to declaring/verifying real costs. • Reduction of errors. • As an off-the-shelf option, no need to develop methodologies or justify the flat rate chosen.
Challenges	• Greater differences in staff costs (e.g. EU vs. IPA salaries, transnational programmes) used as a basis for calculating the flat rate, leading to under-compensation of travel costs in countries with lower salaries. • Tangible risks of using different flat rates within the same off-the-shelf SCO depending on the beneficiary or the budget structure of the project (i.e. possible lack of compliance with the principle of fairness). • Inconsistent interpretation of travel costs as direct/indirect costs when combined with other SCOs covering different cost categories (i.e. staff, office and administration).

Source: Service provider, 2024

Figure 11: Combination of different SCOs and implications for the interpretation of direct and indirect costs



Source: Service provider, 2024

4.2.2. Programme specific SCOs

In the context of the Interreg IPA programmes analysed, only two cases of programme specific SCOs to cover travel costs were identified, i.e. the elaboration of a specific flat rate to cover travel costs of IPA beneficiaries (Interreg Euro-MED) and the use of unit costs developed in other Commission decisions to cover travel costs in small-scale projects (Interreg IPA South Adriatic).

CPR 2021/1060, Article 53(1)(d): *flat-rate financing*

In Interreg, flat rates are normally used to cover specific *categories of costs* (not specific activities). Reimbursement based on flat rates depends on three different types of costs:

- the costs calculated as a flat rate;
- the base costs on which a flat rate is calculated;
- other costs not covered by the previous two categories.

Flat rates should therefore only be used where it is possible to distinguish which types of costs are covered by a flat rate and which are not, to avoid double funding. Flat rates are best suited to high volume, low value transactions where verification is costly. This is the case for travel costs.

In the identified programme specific SCO developed by Interreg Euro-MED, the same flat rate structure used in the off-the-shelf option described above (Interreg regulation Article 41(5)) was adopted (i.e. a flat rate based on direct staff costs). However, the flat rate percentage has been recalculated and increased (22%) to better reflect the context of the IPA countries. The rationale behind the choice of this particular programme specific SCO lies in the need to overcome the discrepancies between staff costs in EU Member State and IPA countries, on which the off-the-shelf SCOs for travel costs are developed. In other words, the lower staff costs in IPA countries lead to lower travel cost amounts compared to EU Member State beneficiaries when using the off-the-shelf SCO. Furthermore, the differentiation between EU and IPA countries provides a better balance between approximation of real costs and simplification.

Programme: Interreg Euro-MED

Type of SCO: flat rate (CPR Art. 53(1)(d)) to calculate travel costs

<u>Methodological approach and data used</u>

The flat rate has been established using a fair, equitable and verifiable calculation method in accordance with CPR Article 53(3)(a). This method may be based on:

(i) statistical data, other objective information or expert judgement;
(ii) verified historical data of individual beneficiaries;
(iii) the application of the usual cost accounting practices of individual beneficiaries.

In the case analysed, verified historical data of individual beneficiaries were used (ii).

The JS carried out an in-depth analysis of travel and accommodation data, focusing on information at beneficiary level and using only verified real costs related to "standard" Interreg project practices in terms of travel (i.e. costs certified until 30 June 2020 for activities not affected by COVID-19).

Firstly, the average share of declared staff costs used for travel and accommodation costs was calculated per fund (ERDF and IPA), taking into account Interreg MED 2014-2020 data at beneficiary level. Based on the dataset, the information obtained on travel costs as a percentage of declared staff costs was compared to the median. The data were considered homogeneous and therefore reliable, as the results obtained by the two methods converged in the same direction (10% ERDF and 22/23% for IPA).

In order to obtain more reliable results, an analysis per country was carried out, also taking into account data from two different transnational Interreg programmes (Balkan MED 2014-2020 and Adrion 2014-2020) and one interregional programme (Interreg Europe) for each participating country.

The information provided by the other Interreg programmes sharing the Euro-MED area and the beneficiaries allowed to consolidate the results obtained for Interreg MED 2014-2020: a flat rate of 15% for ERDF partners and around 22% for IPA partners. These analyses led the programme to opt for an off-the-shelf flat rate for ERDF beneficiaries and an ad hoc flat rate of 22% for beneficiaries from IPA countries.

Replicability of this programme specific SCO by other Interreg IPA programmes

The programme specific SCO of 22% of staff costs to cover travel and accommodation costs of IPA beneficiaries should be highlighted in terms of the effort made by the programme to differentiate between beneficiaries from EU Member States, for whom an off-the-shelf SCO applies, and IPA beneficiaries, for whom this specific flat-rate SCO has been developed. This helps to overcome the discrepancies between EU and non-EU countries in terms of staff costs, on which the travel cost SCOs are based. This is a highly replicable SCO in Interreg IPA programmes as they always include both EU and IPA beneficiaries.

While the approach outlined above is a good solution to overcome the differences in reimbursement of travel costs between programme participating countries, it can still be considered burdensome for programmes in terms of resources and data collection or availability.

Table 9 – Benefits and challenges of the use of a programme specific flat-rate to cover travel costs

Benefits	• Better approximation of real travel costs for all participating countries compared to the off-the-shelf option • Reduction of errors • Significant reduction of administrative costs for programmes and burden for beneficiaries compared to declaring/verifying real costs.
Challenges	• Partial/insufficient availability of historical data. • More burdensome SCO design phase, especially when developed by transnational programmes (many countries involved).

Source: Service provider, 2024

CPR 2021/1060, Article 53(3)(c): ***the amounts for the forms of grants […] are established in accordance with the rules for application of corresponding unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation.***

CPR 2021/1060 Article 53(3)(e): the amounts for the forms of grants […] as flat rates and specific methods established by or on the basis of this Regulation or the Fund-specific Regulations.

When the off-the-self SCO solution does not provide a sufficient balance between the approximation of real costs and administrative simplification, the development of a programme specific SCO can still be considered too difficult for programmes for a variety of reasons, such as lack of time, resources, expertise or unavailability of necessary data. In these cases, programmes can use other justifications to determine an SCO and avoid or at least reduce the need for complex calculations:

- applicable in other Union policies for a similar type of operation (e.g. ESF+ Regulation and its delegated acts, Horizon Europe, Erasmus+, etc.) according to CPR 2021/1060, Article 53(3)(c), or

- established by the CPR or the fund-specific regulations (here: Interreg), including the case of Delegated Acts amending or complementing the aforementioned regulations, according CPR 2021/1060, Article 53)(e).

The use of SCOs (usually unit costs) already applied in the same or other Union policies allows programmes to avoid developing their own methodologies and calculations, while ensuring compliance.

Travel and accommodation costs are a good example to illustrate the potential benefits of such an approach, i.e. by using existing unit costs calculated according to routes and/or distances, means of transport and unit costs for accommodation depending on the country of destination. Such amounts can be found, for example, in the Commission Decision (2021)35 *authorising the use of unit costs for travel, accommodation and subsistence costs under an action or work programme under the 2021-2027 multi-annual financial framework*[11]*.*

This approach has been adopted by the Interreg IPA South Adriatic Programme for its small-scale projects. The box below describes the main points.

Programme: Interreg IPA South Adriatic

Type of SCO: Unit costs (CPR Art. 53(1)(b), established in accordance with the rules for the application of corresponding unit costs, lump sums and flat rates applicable in Union policies for a similar type of operation (CPR Art. 53(3)(c))

<u>Methodological approach and data used</u>

The methodology was established by Commission Decision C(2021)35 authorising the use of unit costs for travel, accommodation and subsistence costs in the context of an action or work programme under the 2021-2027 multiannual financial framework. The choice of this SCO is justified by the distance and accessibility of the roads between the three countries, as the Commission decision takes into account some exceptional situations, in particular for journeys of less than 400 km not covered by land transport (e.g. Helsinki/Tallinn). To calculate the unit

[11] And its amendments included in Commission Decision C(2023) 4928 (European Commission, 2023).

costs for travel and accommodation the programme has taken into account the amounts included in the tables ""5.1 Amounts for return air, rail and combined air/rail journey", "5.2 Amounts for intra-Member State return journeys by land between 50 and 400 km" and "5.5 Amounts for accommodation and subsistence costs" of the aforementioned Commission Decision (2021)35.

However, the Decision did not include information on land transport costs between Albania and Montenegro, which the programme calculated. As there is no train between Albania and Montenegro and the only land transport is by bus, the programme used internet sources (websites of bus companies) to calculate the unit costs for this specific case. In total, there are four unit costs for travel (Puglia-Molise (IT) and Albania-Montenegro by land, Italy-Albania and Italy-Montenegro by air) and three unit costs for accommodation (one per country).

The interesting aspect of the Interreg IPA South Adriatic approach lies in the decision to use a Commission Decision as the basis for the calculation of unit costs. These amounts can effectively be used as off-the-shelf options where the nature of the costs to be covered by the SCO can reasonably be considered similar, thus reducing the time and resources required by the programme to calculate them from scratch. It should be noted, however, that such amounts may need to be supplemented or adjusted, mainly for IPA countries if they are not included in the chosen Commission Decision or Delegated Act, but also for indexation if the amounts have not been calculated recently.

Table 10 – Benefits and challenges of the use of SCOs developed in Delegated Acts or in other Union policies to cover travel costs

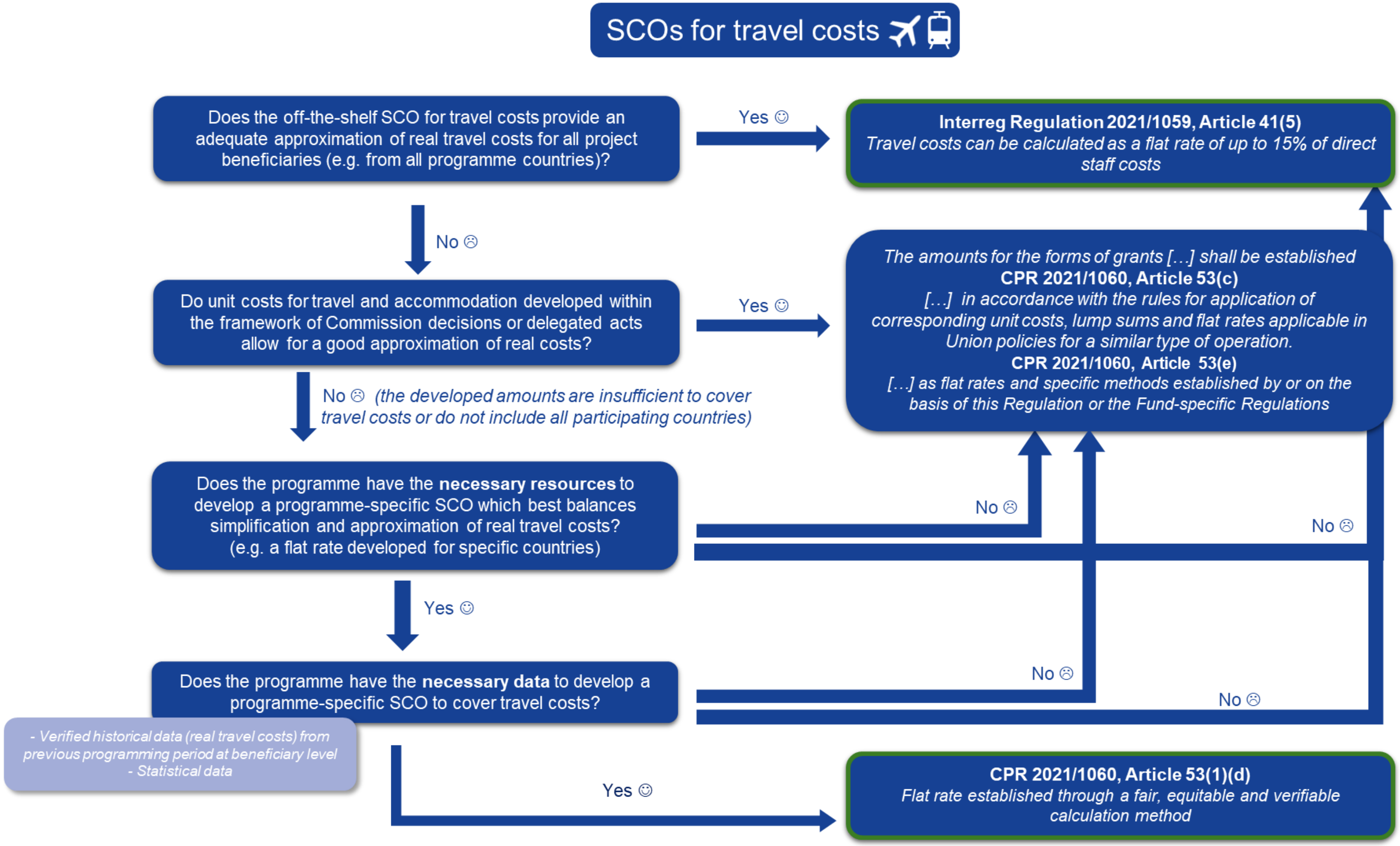
Benefits	• Ready-to-use amounts without the need for programmes to develop methodologies and calculations • Better approximation of real travel costs for all participating countries compared to the off-the-shelf option • Significant reduction of administrative costs for programmes and burden for beneficiaries compared to declaring/verifying real costs • Reduction of errors
Challenges	• Ensuring that the costs to be covered are reasonably similar • Need to adjust amounts for indexation if amounts have not been calculated recently • Need for adjustment or inclusion of new amounts for IPA countries if not provided for in the Decision/Delegated Act.

Source: Service provider, 2024

4.2.3. Choosing the most appropriate SCO for travel costs

The figure below is intended to help to decide which SCO to implement to cover travel costs, depending on the programme needs, resources and data availability.

Figure 12: Flowchart guiding the reasoning behind the choice of the most appropriate SCO to cover travel costs



Source: Service provider, 2024

4.3. Preparation and closure costs

Due to the nature of Interreg projects, the preparation and closure of projects may involve considerable coordination efforts, which may not be known in mainstream programmes. In order to take account of this effort and to support cooperation activities, Article 38(2) Interreg Regulation states that eligible expenditure includes the costs of initiating or initiating and implementing an operation or part thereof.

Neither the CPR nor the Interreg Regulation provide for off-the-shelf SCOs for preparation and closure costs. The following sub-sections therefore focus exclusively on the development and use of programme specific SCOs for these two types of costs. The replicability of approaches is only considered towards the end of this section for project closure costs, as almost all Interreg IPA programmes have introduced an SCO for the preparation of project proposals.

4.3.1. Project preparation costs

Lump sums (CPR 2021/1060, Article 53(1)(c)) to cover preparation costs

All SCOs for the reimbursement of preparation costs have been formulated as lump sums. Lump sums can be used for any type of project or activity where it is easy to pre-define the deliverable or output in terms of a single unit (INTERACT, 2021). With the submission of a project application and project approval, the deliverable of a "project preparation" is apparently proven and defined as a single unit. Representing only a very limited part of the total costs of Interreg IPA operations (around 1%), the use of a lump sum brings a high benefit in terms of the ratio between the potentially reimbursed costs and the effort required to claim them as real costs.

More detailed information was collected for four SCOs, illustrating the differences in the use of lump sums for preparation costs between programmes:

- The explicit coverage of cost categories incurred during project preparation varies.
- Some programmes differentiate the lump sum according to the type of project, while others use a single lump sum.
- Different approaches were used to calculate the lump sums.
- The formulation of the lump sum to be reimbursed differs in some cases.

In all cases, project preparation costs can only be claimed if the project application is successful. The amount relates to each individual project and can only be granted once per project (i.e. it is not dependent on the number of partners). The indicator that usually triggers the reimbursement is the signature of the project contract.

The eligible amount of project preparation costs varies between 2021-2027 Interreg IPA programmes from a few thousand euro to EUR 37,000, which may reflect not only differences in approach but also differences in the effort required. For example, project preparation for transnational cooperation projects tends to be more demanding than for one or the other type of cross-border cooperation project.

Coverage of cost categories

Typical costs covered by preparation lump sums are

- staff costs for developing the project proposal and drafting the application;
- administrative costs incurred during this process;
- travel and accommodation costs incurred in the preparation of the project, which may be related to partnership meetings and/or participation in programme information events; and
- external service costs, such as translation or expert advice.

In some cases, programmes also explicitly provide for the coverage of "any other costs related to the preparation" prior to the signature of the Subsidy Contract and/or Partnership Agreement and some refer to "contracting costs".

Single vs. differentiated lump sums

Of the four cases analysed in depth, two apply a single lump sum and the other two apply differentiated lump sums. The latter illustrate the different approaches that can be taken to introduce differentiation in the reimbursement of preparation costs:

- The example of the South Adriatic Programme distinguishes between EUR 11,200 for regular projects and EUR 5,600 for small-scale projects. In both cases, the amount includes the IPA contribution and national co-financing.
- The Romanian-Serbian Programme differentiates according to the type of investment: The higher lump sum of EUR 13,500 can be claimed for infrastructure investment projects and the lower lump sum of EUR 10,000 for equipment investment projects.

In both cases, the differentiation aims at a better balance between approximation of real costs and simplification of reimbursement. It can be argued that small-scale projects tend to be easier and simpler to develop than other projects. This is particularly true with regard to the different amount and detail of information expected in applications for these projects. Similarly, the effort to develop infrastructure investment projects may be higher than for other investments due to additional coordination efforts. At the same time, the development of such differentiated rates requires sufficiently detailed data and other information to allow for a fair, equitable and verifiable calculation.

Calculation approaches

The calculation methods used by the programmes to estimate the lump sum for preparation costs vary considerably. Some programmes used historical data from the previous programming period. Other programmes combined different data sources. At least in part, the different approaches are also due to the use of a lump sum for preparation costs also in the previous programming period and thus aim to overcome difficulties in defining the SCO for the 2021-2027 programming period. The following examples illustrate some of the alternatives, without claiming to be exhaustive.

- The Interreg IPA Croatia-Bosnia and Herzegovina-Montenegro Programme calculated preparation costs by analysing costs incurred by beneficiaries and combining this data with further market research information. Using this data, the programme calculated the lump sum by distinguishing four categories of costs typically incurred during the application phase of a project.

- The Interreg IPA Romania-Serbia Programme used historical data on project preparation lump sums from different programmes. It combined such data from two Romanian cross-border Interreg programmes 2014-2020 with lump sums from the Interact SCO database. Two categories of lump sums were created, one for projects with infrastructure investments and one without. The averages of the two categories were used for the programme lump sums of the 2021-2027 programming period.

- The Euro-Med Programme also based its lump sum on a previous lump sum and used an indexation method to adjust it to the new programming period. The previous lump sum came from the Interreg MED 2014-2020 Programme. This was indexed using a two-step approach. First, an indexation based on Article 109 CPR was applied, which allows for an annual indexation of 2%. Second, on top of the value calculated for 2027 (i.e. adding 2% for each of the seven years), a 7% "IPA coefficient" was calculated for the whole programming period, assuming that the participation of IPA country beneficiaries would be the same as in the 2014-2020 programming period.

- The South Adriatic Programme also used information on lump sums for the 2014-2020 programming period provided by Interact and combined this with real cost information from another Interreg programme for 2007-2013. Only data from other similar and "close" programmes were included. Extreme values were excluded, both from other programmes' lump sums and the real cost dataset. The remaining data were used to calculate the respective averages, i.e. one for the lump sums and one based on real data. These averages were used to calculate the overall average. To avoid the risk of overcompensation, this average was then reduced by 10%.

The box below illustrates the example of the Croatia-Bosnia and Herzegovina-Montenegro programme to provide more calculation details.

Programme: Interreg IPA Croatia-Bosnia and Herzegovina-Montenegro

Type of SCO: lump sum to cover project preparation costs (CPR Art. 53(1)(c))

<u>Methodological approach and data used</u>

The lump sum was determined using a fair, equitable and verifiable calculation method in accordance with Article 53(3)(a) CPR. In this case, the method was based on verified historical data from individual beneficiaries, combined with market research data, European Commission rates and expert knowledge.

Different steps were taken to calculate the four project preparation cost components of:

(1) To calculate *staff costs*, historical staff costs claimed in the 2014-2020 programming period were used. The monthly salaries per country were used to calculate the average cost per working day for each country.

The calculation of staff cost was based on the expert judgement and previous experience that three organisations, one from each of the three countries, would be involved in the preparation and that each person would spend approximately 12 working days on the preparation of the proposal.

$$\boldsymbol{Staff\ costs = Daily\ staff\ costs\ country\ A * 12 + Daily\ staff\ costs\ country\ B * 12 + Daily\ staff\ costs\ country\ C * 12}$$

(2) *Office and administration costs* were calculated as a flat rate of 15% of staff costs (i.e. applying the off-the-shelf flat rate under Article 54(b) CPR) and therefore did not require additional data.

(3) *External expertise and service costs* were assumed to include translation and consultancy services for which market research was carried out to calculate average costs:

- For each of the three countries, prices per translated standard page were identified through market research, from which an average cost per page could be calculated. This was multiplied by the average number of standard pages per project proposal, which was 33, to calculate total translation costs:
  $$\boldsymbol{Translation\ costs = (Cost\ per\ page\ country\ A + Cost\ per\ page\ country\ B + Cost\ per\ page\ country\ C)}\ /3*33$$
- External support for project preparation, workshops, etc. could be provided by external experts. Market research determined the average daily cost of such services in each of the three countries. Further calculations were made on the assumption that five working days would be used by external experts:
  $$\boldsymbol{Consulting\ costs = \frac{(Daily\ expert\ costs\ A + Daily\ expert\ costs\ B + Daily\ expert\ costs\ C)}{3} * 5}$$

(4) *Travel and accommodation costs* were calculated based on the assumption that three people would attend in an internal preparatory event and two people each attend a programme event such as an InfoDay and a contracting event with programme authorities. The total costs for travel and accommodation were calculated using mainly per diems and travel allowances provided by the European Commission (e.g. per diem provided by DG INTPA).

The total preparation cost was then the sum of these four cost categories, rounded up to the nearest EUR 1,000 value.

Formulation of the lump sum

Typically, lump sums are expressed as an amount of euros to be paid upon fulfilment of the deliverable (here: successful project proposal). A few programmes provide additional information or use a slightly different formulation:

- The documentation of the Bulgaria-Türkiye programmes refers to a lump sum of up to EUR 12,000, which may create uncertainty among project applicants as to how much can be claimed as reimbursement of project preparation costs.

- The Interreg IPA CBC programmes with Croatia, as well as the Euro-Med Programme, indicate potential deviations from the announced lump sum, depending on the EU co-financing rate applicable to the lead partner. For example, for project proposals submitted to either of the two programmes with Croatia, the lump sum to be paid to the lead partner of approved projects is 85% of the lump sum defined in the programme documents, e.g. EUR 6,800 (85% of EUR 8,000) in the Croatia-Bosnia and Herzegovina-Montenegro Programme.

Table 11 – Benefits and challenges of the development of lump sums to cover project preparation costs

Benefits	• The lump sum offers a considerable simplification for a small budget line. It frees the successful applicant from the administrative burden during the preparation of the project proposal and allows them to focus on the development of the proposal. • On the part of the programme authorities, the lump sum reduces administrative costs by minimising the verification effort and avoiding errors, thus freeing time of the programme authorities for other tasks. • Different approaches to the calculation of the lump sum seem feasible.
Challenges	• In the case of differentiated rates, the programme must ensure the availability of sufficient and appropriate data. • The lump sum should not be formulated as an "up to" amount as this may not be fair, equitable and verifiable. The challenge may be to define a fair amount that avoids over- and under-compensation. • Lump sums from other programmes should not be "copied"", nor should amounts from a previous programming period simply be adjusted for inflation. While SCOs are often used to further develop an SCO in the next programming period, care must be taken to ensure that real costs are not separated from the reimbursed lump sum (e.g. due to uneven price changes between cost categories).

Source: Service provider, 2024

4.3.2. Project closure costs

Lump sums (CPR 2021/1060, Article 53(1)(c)) to cover closure costs

All SCOs for the reimbursement of closure costs have been formulated as lump sums and the logic for the reimbursement of project closure costs is similar to that for project preparation costs. Usually, the approval of the final project report triggers the reimbursement of closure costs, i.e. the deliverable of the "project closure" result is achieved with the submission and approval of the final report. The use of a lump sum for project closure costs is less widespread in the 2021-2027 Interreg IPA programmes than the use of project preparation costs. However, lump sums for project closure have only been developed by programmes that also use a lump sum to reimburse preparation costs.

The proportion of project closure costs is usually even lower than for project preparation costs and is usually included in the budget line for the management work package budget line. The use of a lump sum therefore brings a high benefit in terms of the ratio between the costs potentially reimbursed and the effort required to claim them as real costs. The table below gives an overview of the relationship between preparation and closure costs in the four programmes using both lump sums. Excluding infrastructure investment projects, this comparison suggests that project closure costs are around one third to one half of project preparation costs.

Table 12 – Relationship between preparation and closure costs in four Interreg IPA programmes

Programme	Preparation cost (lump sum in Euro)	Closure cost (lump sum in Euro)	Closure cost lump sum as share of preparation cost lump sum (%)
Croatia-Serbia	5,500	2,500	45.5
Croatia-Bosnia and Herzegovina-Montenegro	8,000	4,000	50.0
Romania-Serbia*	13,500 / 10,000	3,000	22.2 / 30.0
South Adriatic**	11,200	5,600	50.0

* The programme does not apply a differentiation between types of projects for closure costs.
** Amounts refer to regular projects only.

Source: Service provider, 2024, based on programme documents

Given the similarity of purpose of the lump sums for project preparation and closure costs, programmes usually use the same calculation for both lump sums. Differences mainly relate to the details of the calculation, such as (1) which other project closure lump sums and/or real costs can be used to make the corresponding calculation, and (2) the assumptions underlying the calculation.

In addition, there is a slight difference in the typical costs covered by a closure lump sum, which covers the following typical costs

- staff costs for drafting the final report and other work to prepare for project closure;
- administrative costs incurred during this process;
- travel and accommodation costs associated with the preparation of the final project report.

The box below summarises the calculation for the Interreg IPA Croatia-Serbia Programme, illustrating the slight differences in the underlying assumptions compared to the calculation of preparatory costs for the Interreg IPA Croatia-Bosnia and Herzegovina-Montenegro Programme in the previous box.

Programme: Interreg IPA Croatia-Serbia

Type of SCO: lump sum to cover project closure costs (CPR Art. 53(1)(c))

Methodological approach and data used

The lump sum was determined using a fair, equitable and verifiable calculation method in accordance with Article 53(3)(a) CPR. In this case, the method was based on verified historical data from individual beneficiaries, combined with market research data, European Commission rates and expert knowledge.

Different steps were taken to calculate the four project preparation cost components:

(1) To calculate *staff costs*, historical staff costs claimed in the 2014-2020 programming period were used. Monthly salaries per country were used to calculate the average cost per working day for each of the two countries.

The calculation of staff costs was based on the expert judgement and previous experience that two organisations, one from each of the two countries, would be involved in the preparation of the project closure documents and that each person would spend approximately ten working days on this work.

$$\boldsymbol{Staff\ costs = Daily\ staff\ costs\ country\ A * 10 + Daily\ staff\ costs\ country\ B * 10}$$

(2) *Office and administration costs* were calculated as a flat rate of 15% of staff costs (i.e. applying the off-the-shelf flat rate under Article 54(b) CPR) and therefore did not require additional data.

(3) *Travel and accommodation costs* were calculated based on the assumption that two people attend an internal workshop to prepare the final project report. The total costs for travel and accommodation were calculated using mainly per diems and travel costs provided by the European Commission (e.g. per diems provided by DG INTPA).

Total closure costs were then the sum of these three cost categories, rounded up.

Table 13 – Benefits and challenges of the development of lump sums to cover project closure costs

Benefits	Challenges	
		Benefits and challenges are the same as for project preparation costs.

Source: Service provider, 2024

<u>Replicability of programme specific SCOs for project closure costs by other Interreg IPA programmes</u>

Given that closure costs typically represent a very small proportion of the total costs of Interreg IPA operations, the approach used by some programmes, which apply the same approach to calculating preparation and closure costs could be adopted by other Interreg IPA programmes.

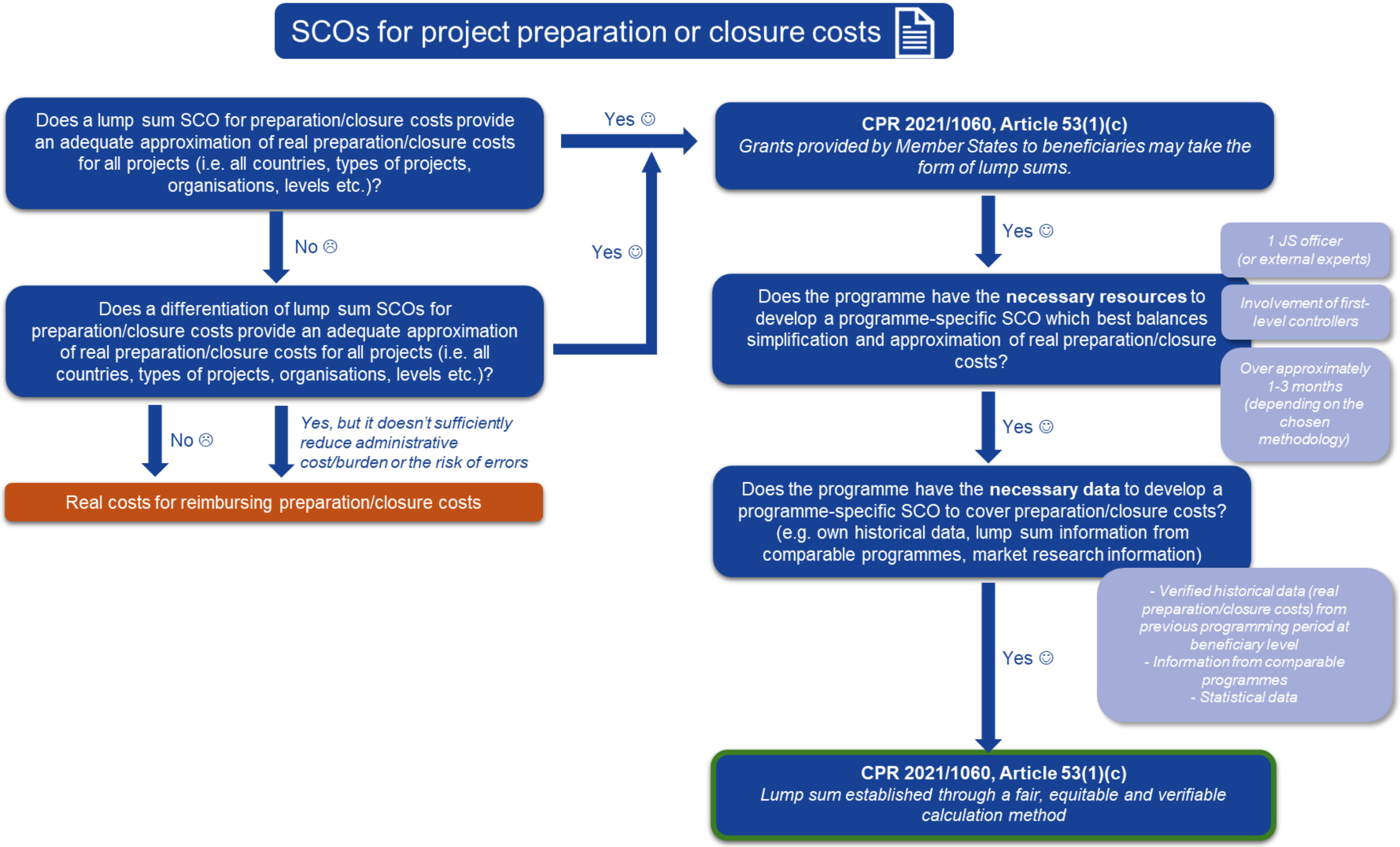
In terms of data requirements for the determination of the lump sum, the programme should have at its disposal historical data on the salaries of the beneficiaries (e.g. through previously claimed staff costs), as well as information on travel and accommodation costs based on historical data or existing amounts provided in Commission delegated acts, and data on service costs (e.g. translation services) where relevant.

In terms of the resources required, the work to develop such SCOs should, as a guideline, involve a Joint Secretariat officer (and/or external experts), one first level controller per participating country (or more in the case of decentralised FLC systems). A period of one to three months is required to develop the methodology, with most of the time spent collecting historical data from the FLCs.

4.3.3. Choosing the most appropriate SCO for project preparation and closure costs

As lump sums are the only appropriate SCO solution for project preparation and closure costs, the figure below focuses on the most appropriate data and calculation methods rather than a choice between SCOs. This figure is intended to help to decide which option to use to develop a lump sum for project preparation and/or closure costs.

Figure 13: Flowchart guiding the reasoning behind the choice of the most appropriate SCO to cover preparation or closure costs



Source: Service provider, 2024

4.4. Events and trainings

Neither the CPR nor the Interreg Regulation provide for an off-the-shelf SCO for events and training. However, such cost categories represent fairly recurrent activities in Interreg projects, so the use of SCOs for their reimbursement can bring significant benefits to programmes and projects in terms of administrative simplification.

The following sub-sections focus on the development and use of programme specific SCOs for events and training, namely unit costs and lump sums.

4.4.1. Use of unit costs

Unit costs (CPR 2021/1060, Article 53(1)(b)) to cover the cost of events and trainings

In the context of the analysed Interreg IPA programmes, two programme specific unit costs were identified to cover the costs of events and trainings, i.e. unit costs to cover the costs of events for standard projects (Interreg IPA Bulgaria-Türkiye) and unit costs for targeted training in the context of small-scale projects (Interreg IPA South Adriatic).

Unit costs are a very appropriate SCO for these cost categories as they can be used for *"any type of project, activity or cost category where it is possible to easily identify and define:*

- *the expected quantities of a deliverable, output, activity (in this case, events/trainings),*
- *unit costs for these quantities."*(INTERACT, 2021, p. 10)

When defining unit costs for such cost categories, it is important to clearly define the types of expenditures covered by the SCO, with the aim of covering all expenditure that can reasonably be associated with the organisation of an event or training. For example, in the case of Interreg IPA Bulgaria-Türkiye event or training costs include the following categories:

- hire of venue;
- hire of equipment, including translation equipment, audio equipment, etc;
- the cost of hiring vehicles to transport participants;
- catering costs for coffee breaks, refreshments, lunches and dinners for participants in the events;
- accommodation costs;
- the purchase of materials for participants in the events – paper, files, folders, cases, CDs, etc. and the printing of invitations, agendas, presentations.

The box below provides a more detailed description of the unit costs developed by IPA Bulgaria-Türkiye.

Programme: Interreg IPA Bulgaria-Türkiye

Type of SCO: unit costs (CPR Art. 53(1)(b)) to cover the cost of one-day and multi-day events

The Interreg IPA Bulgaria-Türkiye Programme has developed its own unit costs for the organisation of events for all standard projects, differentiating the unit costs according to the duration of the event (one day or several days). This distinction according to the duration of the event results in two different *per diem* unit costs. The chosen *per diem* is then applied equally to all participants.

The category "events" includes meetings, conferences, training courses.

Methodological approach and data used

The starting point for the calculation was a database provided by the JS containing historical data of 304 events for 57 projects. Four steps were taken to structure and check the suitability of the entries for the unit cost calculation,:

- The data were evaluated and structured to identify the number of recurring and single-day participants and the number of days the events lasted (for multi-day and one-day events).
- The data were filtered for completeness to ensure full coverage of all event organisation costs in the database.
- Projects where the nature of the events did not match the events to be covered by the SCO (i.e. events for project partners and their teams rather than external events) were excluded.
- To ensure that only costs with verifiable evidence were included in the calculation, projects with approved progress reports but not yet certified costs were excluded from the calculation.

As a result of these steps, 46 projects with certified expenditures between February 2018 and July 2020 remained for calculation. Each record in the filtered database provided information on the total amount of event costs certified, the number of participants and the average cost per participant.

A calculation was then made to differentiate between the cost per participant of single-day and multi-day events. The calculation was carried out with the following steps:

- The data were split into two different groups, one for one-day and one for multi-day events.
- For multi-day events, the eligible gross event costs of each event were summed and then divided by the length of the event (in number of days, according to the grouping). This gave the value of the per diem costs for each project.
- The *per diem* costs were then divided by the number of participants in each event, giving the value of the event cost per day per participant.

Replicability of this programme specific SCO in other Interreg IPA programmes

The approach used by the 2021-2027 Interreg IPA Bulgaria-Türkiye Programme could be adopted by other Interreg IPA programmes to facilitate the reimbursement of event costs. It can be beneficial for all programmes in terms of reducing administrative burden (for beneficiaries) and administrative costs (for the programme), reducing errors and irregularities. The distinction between the duration of events (one-day and several days) allows a better approximation of event costs than a single unit rate. More unit cost categories could be differentiated if deemed appropriate to reflect different costs, e.g. for events in different countries of the programme.

Similarly, the Interreg IPA South Adriatic Programme developed unit costs for targeted training in the context of small-scale projects, differentiated by country, duration and type of training module. In contrast to the SCO practice described above, the South Adriatic

Programme decided to base the methodology on Article 53 (3)(c) CPR, i.e. by using and adapting SCOs developed in other Union policies.

The box below outlines the main aspects of the development of unit costs for targeted training courses.

Programme: Interreg IPA South Adriatic

Type of SCO: unit costs (CPR Art. 53(1)(b) / Art. 53(3)(c)) to cover the cost of targeted training courses in small-scale projects

<u>Methodological approach and data used</u>

In accordance with Article 53(3)(c) CPR on the use of SCOs applicable to other Union policies, the unit cost amounts for training were taken from the Commission Delegated Regulation (EU) 2021/702 amending Delegated Regulation (EU) 2015/2195 supplementing Regulation (EU) 1304/2013 on the ESF, as regards the definition of standard scales of unit costs and lump sums for the reimbursement of expenditure by the Commission to Member States.

The amount per trainee calculated in the Delegated Regulation for Italy is differentiated according to the length of the module (30, 60 or 100 hours) and type (standard, with additional specific support, with meal allowance, with additional specific support and meal allowance), for a total of four types. This resulted in 12 unit costs for Italy.

The amounts proposed in the Commission Delegated Regulation were then adjusted for the IPA countries by using the training costs included in the Marie Sklodowska Curie Action (MSCA) Work Programme 2021-2022 and weighing the percentages compared to Italy to parameterise the amounts. This resulted in adjusted amounts for Albania and Montenegro, also resulting in 12 unit costs for each country.

As the calculation in 2021 was made on the basis of data from the 2014-2020 programming period, a two-year indexation was applied to take account of inflation rate and the value was rounded to the nearest tenth.

The identification of training costs by country, duration and type of module thus resulted in a total of 36 unit costs.

<u>Replicability of this programme specific SCO in other Interreg IPA programmes</u>

As outlined for travel costs in section 4.2, the interesting aspect of the Interreg IPA South Adriatic approach lies in the decision to use a Commission Delegated Regulation as the basis for establishing the unit costs. These amounts can effectively be used as "off-the-shelf" options where the nature of the costs to be covered by the SCO can reasonably be considered similar. This reduces the time and resources required by the programme to calculate them from scratch. Such amounts may need to be adapted, primarily for IPA countries if they are not included in the delegated act chosen, but also in terms of indexation if the amounts in the delegated act have not been calculated recently.

Table 14 – Benefits and challenges of the use of unit costs to cover costs of events and trainings

Benefits	• For such a recurring type of activity, significant reduction in administrative costs for programmes and burden on beneficiaries compared to declaring/verifying real costs • Reduction of errors • When Article 53(3)(c) CPR is applied, ready-to-use amounts mean that programmes do not need to develop methodologies and calculations

Challenges	• Time and resources to be invested at the beginning of the programming period to develop SCO methodology • Need to adjust amounts for indexation if amounts have not been calculated recently (for Article 53(3)(c) CPR) • Need to adjust integrate new amounts for IPA countries if not considered in the EC decision/delegated act (for Article 53(3)(c) CPR)

Source: Service provider, 2024

4.4.2. Use of lump sums

Lump sums (CPR 2021/1060, Article 53(1)(c)) to cover the cost of events and trainings

The cost of events or training courses can also be covered through the use of lump sums, if the programme decides to apply an SCO covering the entire cost of an event, instead of developing unit costs per participant. In this scenario, the completion of the event under certain conditions (defined by the programme) triggers the reimbursement.

Events or training are an ideal category of costs to be covered by a lump sum, as they should be used where the deliverables/outputs and their values can be easily pre-defined as a single unit. Lump sums imply a "binary" approach: if the agreed deliverable/output is delivered by the project, the lump sum is paid, but if it is not, or is only partially delivered, the lump sum is not paid (i.e. the amount of a lump sum cannot be reduced proportionally in case of partial delivery). This can create risks for beneficiaries.

Within the Interreg IPA programmes, the South Adriatic Programme has developed lump sums for events in small-scale projects, namely

- Lump sums to cover the costs of workshops, conferences and seminars;
- Lump sums to cover the costs of missions and B2B meetings.

In both cases, the triggering indicator is defined on the basis of the duration of the event, a minimum number of participants from a minimum number of programme countries (at least two) and the type of event (face-to-face only). These conditions can be met by more than one event taking place at different times and locations, i.e. two events may be combined to reach the minimum number of participants.

The differentiation of lump sums by country allows an optimal balance between administrative manageability and approximation to real costs.

The box below describes the specific case of lump sums developed for workshops, conferences and seminars in small-scale projects.

Programme: Interreg IPA South Adriatic

Type of SCO: Lump sums (CPR Art. 53(1)(c)) to cover the cost of workshops, conferences and seminars in small-scale projects

Projects are eligible for a lump sum reimbursement of the total amount indicated in the table below for the organisation of face-to-face workshops, conferences or seminars lasting one day and involving at least 40 participants per event, coming from at least two different countries in the programme area.

	Italy	Albania	Montenegro
Workshop, seminars and conferences	EUR 18,600	EUR 13,400	EUR 12,600

The output is achieved when the minimum number of 40 participants is reached. This may be achieved as a sum of different participants in more than one event.

During the preparation, implementation and follow-up of workshops, seminars and conferences, partners must demonstrate that sufficient quality standards are ensured (e.g. use of qualified experts, provision of sufficient services for participants, proper documentation of the results of the meeting, distribution of a questionnaire on participants' satisfaction, etc.), to enable the output to be achieved.

Methodological approach and data used

The lump sum has been calculated on the basis of historical data from measures funding similar interventions (similar in terms of types of eligible costs, activities and beneficiaries) in Italy, i.e. mainly data from the 2014-2020 ERDF-ESF Regional Operational Programme of the Puglia Region (where the Managing Authority is located).

Some cost items typical for workshops, seminars and conferences have been taken into account, such as

- executive planning of the event (staff costs and external expertise)
- logistical assistance
- speaker fees
- hire and set-up of venues
- hostess service
- interpreter service
- catering service
- operational secretary
- preparation and implementation of the promotional campaign for the event
- follow-up of the event (reporting, evaluation, press releases, etc.)

Average costs were calculated by type of event and additional variables (location, number of participants/operators, duration) using a weighted average.

Adjustments were made by applying country correction coefficients to take account of the different cost of living in the three countries. For the IPA countries, the amounts were adjusted by taking into account event cost amounts of the Marie Sklodowska Curie Action (MSCA) Work Programme 2021-2022 and by weighting the percentages compared to Italy.

Finally, an ex-ante indexation based on official sources of inflation data, taking into account the Consumer Price Index – All items (CPI) calculated by the International Monetary Fund – for all three countries, was applied to adjust the amounts to the 2021-2027 period.

Replicability of this programme specific SCO in other Interreg IPA programmes

Given that workshops, seminars, and conferences are usually the core outputs of small-scale projects, the approach taken by Interreg IPA South Adriatic could be adopted by other Interreg IPA programmes that fund such types of projects (and outputs). However, this approach can also be extended to standard projects.

A very similar SCO has been developed for "incoming missions and B2B meetings", which are recurring activities of small-scale projects in the programme, using a similar methodology for calculating lump sums per country and a comparable logic for the indicators triggering reimbursement.

Table 15 – Benefits and challenges of the use of lump sums to cover costs of events and trainings

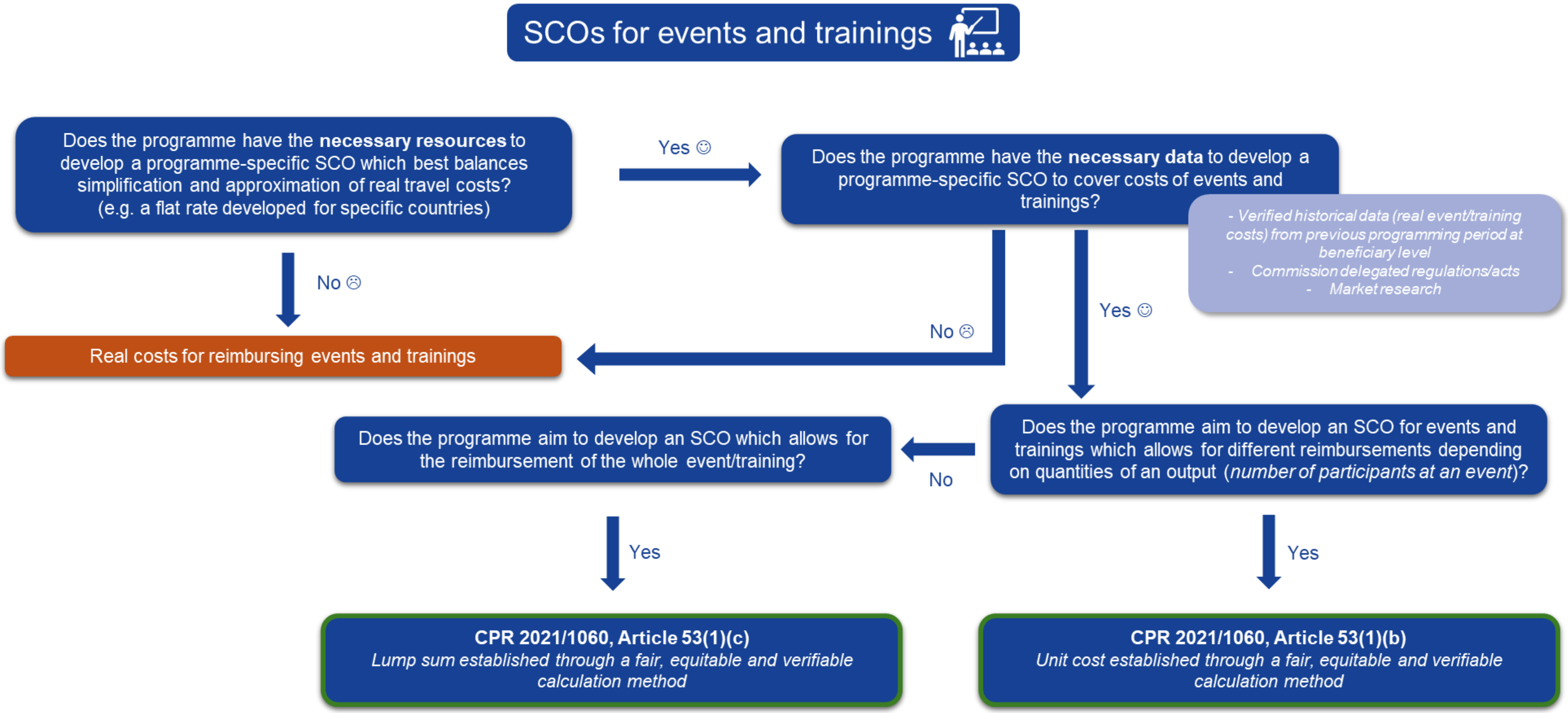
Benefits	• For such a recurring type of activity, significant reduction in administrative costs for programmes and burden on beneficiaries compared to declaring/verifying real costs • Reduction of errors
Challenges	• Time and resources to be invested at the beginning of the programming period to develop the SCO methodology • Risk if events are partially delivered (no reimbursement) • Need to define specific conditions to consider the output delivered (i.e. to trigger reimbursement)

Source: Service provider, 2024

4.4.3. Choosing the most appropriate SCO for events and trainings

The following flowchart shows the possible alternatives to real costs for the reimbursement of event and training costs, based on the CPR and the Interreg IPA practices described above.

Figure 14: Flowchart guiding the reasoning behind the choice of the most appropriate SCO to cover costs of events and trainings



Source: Service provider, 2024

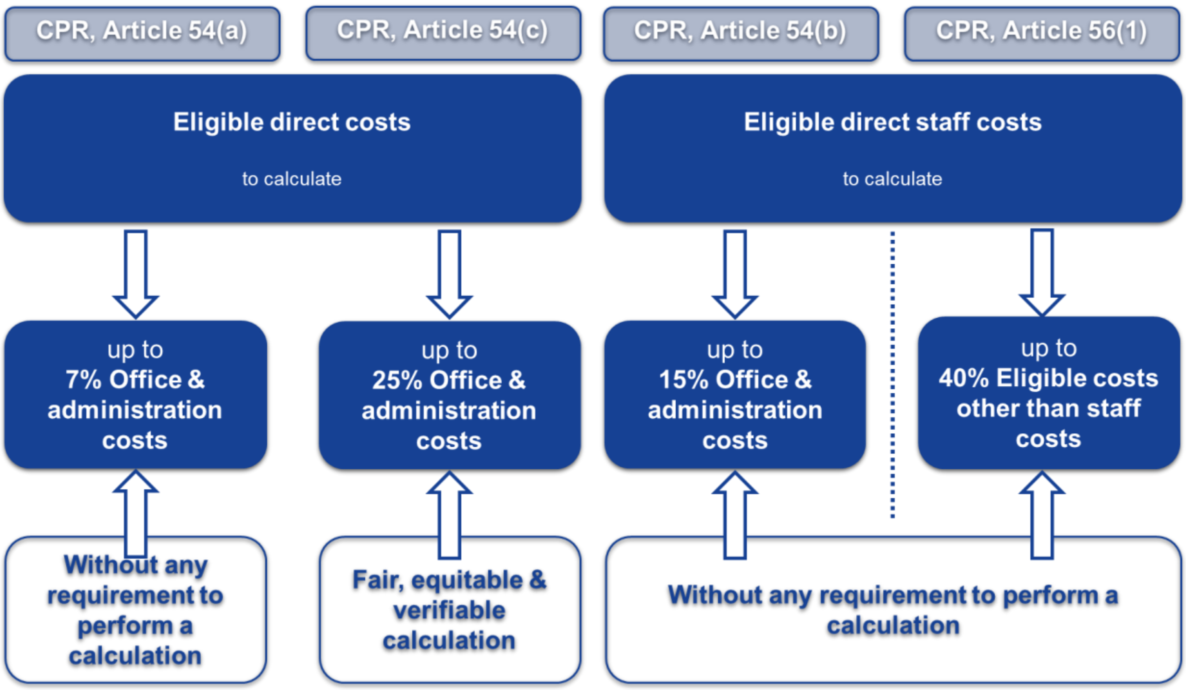
4.5. Office and administration costs (indirect costs)

All project development and implementation (not only ESIF-funded projects) involve office and administration costs. These are costs incurred by the beneficiary that cannot be clearly attributed to a project. Interreg Regulation 2021/1059, Article 40 defines the cost categories of office and administrative costs eligible for Interreg projects. These include office rental, utilities, office supplies, maintenance, IT and communication costs.[12] In general, these costs are directly related to direct costs, i.e. they tend to be proportional to direct costs. Because of this relationship, the use of simplified reimbursements for these costs is widespread and they are often calculated as a flat rate for all or part of the direct costs.

The regulation provides for four alternatives for the flat rate calculation of indirect costs. They differ in terms of the maximum flat rate percentage and the corresponding calculation base (see Figure 15). In the case of the flat rate under CPR 2021/1060, Article 56(1), the flat rate includes indirect costs within the broader category of eligible costs other than staff costs.

All Interreg IPA programmes analysed use at least one flat rate to calculate indirect costs, thus applying the three off-the-shelf SCOs within these four alternatives. All four alternatives are described in detail in the following section. As no programme specific SCO could be identified for this cost category that went beyond the off-the-shelf provisions of the CPR, the following only focuses on the differences between and implications of these alternative SCOs.

Figure 15: Overview of flat rates for calculating indirect costs



Source: Service provider, 2024, based on CPR 2021/1060

12 For the full list of eligible elements, see Regulation 2021/1059, Article 40(1) (European Parliament & European Council, 2021).

4.5.1. Flat rates for indirect costs

CPR 2021/1060, Article 54(a): Flat rate to cover indirect costs up to 7% of eligible direct costs

While flat rates are widely used to cover indirect costs, the rate of up to 7% is rarely used in the Interreg IPA programmes analysed. The calculation of this rate requires information on all other eligible direct costs. As outlined in the Interreg Regulation 2021/1059, Articles 40 to 44, this may typically include

- direct staff costs
- travel and accommodation costs
- costs of external expertise and services
- equipment costs
- costs for infrastructure and works

The rate of up to 7% suggests a limited impact on simplification and reduction of administrative costs and burden. However, the actual benefit also depends on the variety of other cost categories relevant for typical projects in a programme and the use of other SCOs for these other categories.

At the same time, flat rates for office and administration costs (as for any other cost category) may not, by their very nature, always be the best approximation of real costs in all circumstances and for all beneficiaries of a programme.

In the specific case of Interreg IPA programmes, cost structures may differ significantly between countries and between EU and non-EU beneficiaries, or even between types of beneficiaries. As a consequence, the flat rate applied may cover more than the actual share of indirect costs or may be insufficient to cover these costs. To overcome this inherent risk of any off-the-shelf and uniform flat rate, and depending on the differences observed in a programme area, the programmes may consider to the following options

- Setting different flat rates per country, e.g. differentiating between EU and IPA country beneficiaries (or more countries in the case of transnational programmes). While continuing to apply rates within the ceiling of the off-the-shelf SCO (i.e. up to 7% of eligible direct costs), programmes are advised to estimate actual costs based on historical or other verifiable data to ensure that the differentiation of flat rates is justified and respects the principles of fairness and equity.

- Specify flat rates by type of beneficiary, e.g. distinguish between public and private beneficiaries or sub-types thereof. In this case, the same estimation considerations apply as in the previous point.

- Use a higher flat rate based on a fair, equitable and verifiable calculation, thereby developing a programme specific SCO, unless the higher flat rate is calculated within the framework of CPR 2021/1060, Article 54(c), i.e. to a maximum of 25% of the eligible direct staff costs.

When adopting this off-the-shelf SCO to cover indirect costs, the programme should not use the phrase "up to 7%" but should decide on one or more exact flat rates to be applied by beneficiaries. If more than one exact flat rate is used, it should be specified when or to whom which rate applies. Formulating the flat rate as "up to 7%" implies that beneficiaries have to decide which flat rate percentage to use (in this case within the range up to 7%) according to their specific budget structure. This carries the risk of shifting the responsibility for defining the flat rates to the beneficiaries and leads to the application of different flat rates depending on the project beneficiary.

While there is no formal impediment to this practice in the regulations, it poses numerous risks for programme authorities and beneficiaries, namely

- The transfer of responsibility is contrary to EC guidelines.
- The principle of fairness is compromised, especially when more than one flat rate used by a programme is formulated as "up to" flat rate.
- The degree of simplification may be questioned as such an approach is prone to error.

For a more detailed description of these risks, see the box "A word of caution" in section 4.1.1.

Table 16 – Benefits and challenges of the use of Art. 54(a) CPR to cover indirect costs

Benefits	• Reduced administrative costs for programmes and burden on beneficiaries compared to identifying and specifying indirect costs attributable to the operation. • Reduction of errors. • For the off-the-shelf option, there is no need to develop methodologies or justify the flat rate chosen.
Challenges	• Greater differences in cost structures (e.g. EU vs. IPA cost structures, between different types of beneficiaries or for different types of projects) leading to a weaker approximation of real indirect costs. • There is a risk of over- and under-compensation depending on the diversity of cost structures between projects. In the case of under-compensation, there is a risk of low demand (i.e. project proposals), which may affect the quality of outputs achieved. • Tangible risks where, within the same off-the-shelf SCO, different flat rates are used depending on the beneficiary or project budget structure (i.e. possible lack of fairness), unless different flat rates have been defined and are based on verifiable data for different beneficiaries/circumstances.

Source: Service provider, 2024

CPR 2021/1060, Article 54(b): Flat rate to cover indirect costs up to 15% of eligible direct staff costs

This off-the-shelf flat rate is most commonly used by Interreg IPA programmes to cover indirect costs. As it is based on direct staff costs, this flat rate is clearly linked to a single other cost category, without the need to calculate and document other cost categories calculating office and administration costs. It can therefore be considered a simpler method than the one presented above (i.e. up to 7% of eligible direct costs).

When applying this flat rate in Interreg IPA programmes, three main approaches can be distinguished:

- Firstly, staff costs are subject to real costs (e.g. URBACT). In this case there is no link between the use of the flat rate calculate indirect costs and any other SCO.

- Secondly, staff costs are subject to another off-the-shelf flat rate, namely the calculation according to Interreg Regulation 2021/1059, Article 39(3)(c). In this case, other direct costs provide the real cost basis for calculating up to 20% of staff costs, which is then used as the basis for calculating the 15% of indirect costs. Examples of such approaches are common in Interreg IPA programmes and include, for example, the programmes managed by Croatia and Bulgaria and the Danube Programme. In the case of this combination of off-the-shelf SCOs, the occurrence of ineligible direct other costs (compared to the planned budget) has a double impact, first on staff costs and then, consequently, on indirect costs.

- Thirdly, staff costs are calculated using a unit cost, which may be either one of the off-the-shelf unit costs (e.g. ADRION) or a programme specific SCO (e.g. South Adriatic).

The calculation suggests simplifications as it refers to only one other cost category, which may be less prone to risk. At the same time, the share of indirect costs in total costs may be higher or lower than when applying the flat rate of up to 7%, depending on the cost structure of the projects. In other words, projects with a high share of external and investment costs can claim a comparatively higher amount of indirect costs under the Article 54(a) CPR flat rate, whereas projects mainly implementing exchange and cooperation activities with a high share of direct staff costs (other than external service costs) can claim a higher amount of indirect costs under the Article 54(b) CPR flat rate.

At the same time, like the off-the-shelf flat rate for office and administration costs introduced earlier (as well as for any other cost category), this flat rate, by its very nature, may not always be the best approximation of real costs in all circumstances and for all beneficiaries of a programme. This is illustrated not least by the consideration of different budget structures described above when they occur in the same programme. In such cases, programmes may consider alternatives similar to those described for the flat rate of up to 7% under Article 54(a) CPR, or even apply both off-the-shelf flat rates to different types of projects. For the sake of transparency, these types should then be specified in the programme documents.

Beyond these differences, all the other risks and considerations described for the flat rate of up to 7% according to Article 54(a) CPR apply equally to the flat rate of up to 15% under Article 54(b) CPR.

Table 17 – Benefits and challenges of the use of Art. 54(b) CPR to cover indirect costs

Benefits	Challenges	The benefits and challenges are generally the same as for the previous flat rate (i.e. Art.54(a) CPR). Some differences are due to the possible combination with other SCOs in relation to the flat rate covering indirect costs.

Source: Service provider, 2024

CPR 2021/1060, Article 54(c): Flat rate to cover indirect costs up to 25% of eligible direct costs

This flat rate has not been used by any of the Interreg IPA programmes analysed. It has the same calculation base as the flat rate of up to 7%, namely eligible direct costs. Thus, the same benefits, risks and challenges apply depending on the exact formulation of the flat rate and the different ways of calculating the underlying costs. The difference lies in the requirements for applying the higher flat rate of up to 25% under Article 54(c) CPR.

While neither of the two previous off-the-shelf flat rates requires any calculation by the programme authority, Article 54(c) CPR can only be applied if

- the flat rate (between 7% and 25% of eligible direct costs) is based on a fair, equitable and verifiable calculation method; or

- such a calculation has already been made in the 2014-2020 programming period. The use of this previously calculated flat rate can then be continued for similar operations.

This flat rate therefore requires some calculation effort on the part of the programme authority, similar to that required for programme specific SCOs. However, this effort may be somewhat less as the programme authority can focus on data collection and calculation rather than developing its own detailed methodology.

Table 18 – Benefits and challenges of the use of Art. 54(c) CPR to cover indirect costs

Benefits	• Reduced administrative costs for programmes and burden on beneficiaries compared to identifying and specifying indirect costs attributable to the operation. • Reduction of errors. • If the programme has already made a calculation for the 2014-2020 period, the same flat rate can be used again without further calculation effort. • Compared to a programme specific SCO, the effort required by the MA tends to be lower, while the benefit to beneficiaries increases.
Challenges	• Greater differences in cost structures (e.g. EU vs. IPA cost structures, between different types of beneficiaries or for different types of projects) may require more calculation effort to achieve a good approximation of the real indirect costs for different beneficiaries/projects. Otherwise, a single flat rate will lead to a weaker approximation. • If different flat rates have been identified in the calculation, it is necessary to specify clearly and transparently the circumstances for their application (e.g. which project types).

Source: Service provider, 2024

4.5.2. Flat rate for costs including indirect costs

CPR 2021/1060, Article 56(1): Flat rate to cover eligible costs other than direct staff costs of up to 40% of eligible direct staff costs

Unlike the SCOs described in the previous sub-section, this flat rate does not explicitly and solely cover office and administrative costs but includes these costs in the broader category of "eligible costs other than direct staff costs". Thus, depending on the activities of a project, it may include, in addition to office and administration costs, travel and accommodation, external expertise and services, equipment and infrastructure costs.

This last off-the-shelf SCO covering indirect costs is used by a minority of Interreg IPA programmes (e.g. ADRION, South Adriatic). They usually use this option in addition to the flat rate of up to 15% of eligible direct staff costs. Programmes that apply both alternatives offer project applicants the choice to use those combinations of SCOs that better suit their budget structure, for example:

- For projects or project partners with a significant proportion of costs other than staff costs, e.g. where there is extensive use of external services, including a lot of travel or where investments are planned, the flat rate of up to 40% would not be equitable and fair, but the flat rate of up to 15% would be more suitable to approximate real costs.

- On the other hand, there are also many Interreg and Interreg IPA projects in which staff costs represent the majority of all costs (for all or some partners) and for which the application of a flat rate of up to 40% of direct staff costs may represent a considerable simplification and reasonable approximation of other real costs.

Most programmes that offer both options do not differentiate between types of projects but leave the choice to project applicants. By allowing project partners to choose different combinations of SCO, the use of these alternatives is also well suited to address large differences in cost structures between partners within a project, resulting from the different roles, responsibilities and expertise of the partners.

The case of the Hungary-Serbia Interreg IPA Programme deviates slightly from this rule by offering the flat rate option of up to 40% only to small-scale project partners, while the use of SCOs is fixed for all partners in all other projects.

The use of the flat rate of up to 40% brings a significant simplification. It reduces the administrative burden and reduces errors compared to the real costs, without requiring the development of SCO methodologies and calculations by the programme authorities. Simplification for beneficiaries can be maximised if the programme uses a unit cost approach to calculate the underlying direct staff costs, which can be an off-the-shelf or programme specific unit cost. For programmes using a real cost approach to calculate the underlying eligible direct staff costs, the simplification effect is correspondingly lower (see the impact of real staff costs in section 4.1).

At the same time, off-the-shelf flat rates, by their very nature, cannot always offer the best solution in terms of approximating real costs. Therefore, the limitations, challenges and risks mentioned above also apply to a large extent to this off-the-shelf flat rate. However, the complementary use of this flat rate by several Interreg IPA programmes illustrates an additional way of adapting to different budget structures.

Table 19 – Benefits and challenges of the use of Art. 56(1) CPR to eligible costs other than direct staff costs

Benefits	• Significant reduction in administrative costs for programmes and burden on beneficiaries compared to identifying and specifying different cost categories through actual costs or combining multiple forms of reimbursement. • Reduction of errors. • Compared to a programme specific SCO, the effort required by the MA tends to be lower, while the benefit to beneficiaries increases. • It may be best used as an alternative budget option to address specific project or partner budgets with a high proportion of direct staff costs.

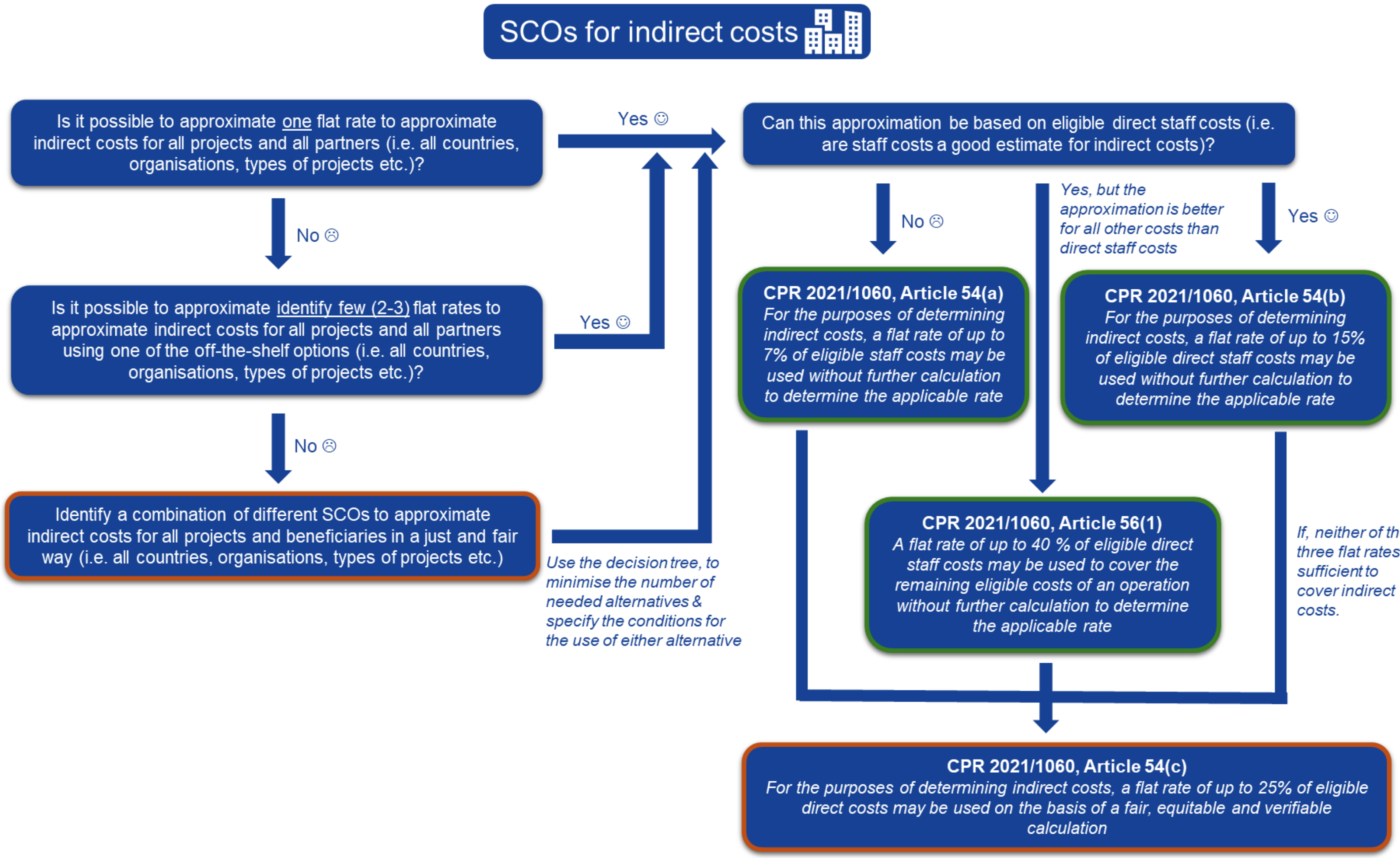
Challenges	• Using only this SCO to calculate, inter alia, indirect costs may be too simplistic as budget structures may vary too much between projects and project partners to ensure a sufficient approximation to real costs. • Programmes may need to identify/define additional SCOs to adequately reflect different budget structures. • Where different flat rates have been calculated, the circumstances for their application (e.g. which project types) need to be clearly and transparently defined.

Source: Service provider, 2024

4.5.3. Choosing the most appropriate SCO for office and administration costs

Since flat rates seem to be the only adequate SCO solution to cover office and administration costs, the following figure focuses on the choice between the four alternatives discussed. This figure is intended to help to decide which option is best suited to the programme's typical project and partner budgets. Due to the complexity of the alternatives and the likelihood that an off-the-shelf alternative will suffice without a fair, equitable and verifiable calculation, the figure does not include an estimate of the resources required to perform such a calculation.

Figure 16: Flowchart guiding the reasoning behind the choice of the most appropriate SCO to cover office and administration costs



Source: Service provider, 2024

4.6. SCOs for small-scale projects

According to Article 53(2) CPR, small-scale projects (i.e. operations not exceeding EUR 200,000) must be reimbursed through SCOs rather than real costs, except for operations where the support constitutes State aid. Another exception is the use of real costs as the basis for calculating flat rate financing. SCOs are therefore central for all Interreg IPA programmes implementing small-scale projects.

All previous types of cost category specific SCOs can in principle be developed for any type of project, whether regular or small-scale projects, or following some other differentiation of project types, or using the same SCO for all projects in an Interreg IPA programme. In addition to developing SCOs for a specific cost category for all or certain types of projects, programmes may also develop SCOs for small-scale projects that cover all cost categories of these projects. The following sub-sections illustrate such an approach using the example of the 2021-2027 Interreg Slovenia-Hungary Programme, which complements the cost-specific SCO approaches of the previous sections.

The 2021-2027 Interreg Slovenia-Hungary Programme has developed three SCOs for small-scale projects by distinguishing three types of such projects. Each type of small-scale project is characterised by certain cooperation features and objectives:

- **Cooperation projects** (based on **unit costs**) implement trainings, workshops, conferences or similar events for a limited number of people. These projects enable or improve cooperation between institutions and the target groups of the programme.

- **Mutual trust-building projects** (based on **lump sums**) organise one-day public events such as concerts, markets or fairs attended by around 200 people, to increase trust among the population in the cross-border region by offering open events.

- **Employee exchange projects** (based on **lump sums**) support cooperation in the field of education and the labour market through the secondment of an employee to the neighbouring country or through the joint employment of two people in a project.

In this way, the 2021-2027 Interreg Slovenia-Hungary Programme covers all small-scale projects or people-to-people actions. This approach is thus based on the **prior identification of the types of people-to-people actions** to be supported during the programming period and can also be used as a means of steering the types of small-scale projects supported. In contrast to the other SCO examples described in the previous sections, the 2021-2027 Interreg Slovenia-Hungary Programme uses these SCOs not only for the reimbursement of the beneficiaries (i.e. at the lower level) but also at the upper level for the reimbursement between the European Commission and the Programme according to Article 94 CPR. Consequently, the development of these three SCOs for small-scale projects not only included the more or less formal involvement of the programme's AA but also required an assessment of the proposed methodology and calculation by the AA.

The first two of these three SCOs are illustrated below to show the possibilities offered by programme specific unit costs and lump sums to simplify the reimbursement of small-scale project in line with Article 53(2) CPR and without having to develop SCOs for the different types of costs incurred in small-scale projects. The two examples also illustrate how the cost categories can be calculated and combined depending on the type of people-to-people action.

While off-the-shelf SCOs are an option for basically all cost categories typically encountered in small-scale projects, the following examples are exclusively **programme specific SCOs**.

4.6.1. Unit costs for small-scale projects

Unit costs (CPR 2021/1060, Article 53(1)(b)) to cover small-scale cooperation activities

As mentioned above, unit costs can be used for any type of project, activity or cost category that can be easily identified and defined:

- the expected quantities of a deliverable, output, activity (in this case costs per participant); and
- unit cost for these quantities.

This programme specific SCO aims at reducing the administrative costs (for programme) and the burden (for the beneficiaries) of financial reporting and verification for small-scale projects and at the same time fulfils the regulatory requirement to use SCO for projects below EUR 200,000 (Art. 53(2), EU Reg. 2021/1060 CPR). The use of a unit cost for small-scale cooperation activities also facilitates the implementation of different types of events with different numbers of participants.

Typical costs incurred in such cooperation projects are

- preparation of the project proposal including its coordination;
- staff;
- administration;
- travel and accommodation;
- translation and interpretation,
- venue, including rooms and equipment;
- catering services;
- moderation of the event.

The calculation of a unit cost per participant is based on several assumptions and calculations of the different types of underlying costs. The methodology uses a combination of different calculations including off-the-shelf SCOs, to define the programme specific unit cost per participant. The box below illustrates the specific example of the Interreg Slovenia-Hungary Programme.

Programme: Interreg Slovenia-Hungary

Type of SCO: unit cost to cover all costs of people-to-people actions in "cooperation projects" (CPR Art. 53(1)(b))

<u>Methodological approach and data used</u>

The unit cost has been established using a fair, equitable and verifiable calculation method in accordance with Article 53(3)(a) CPR. It used the programme's historical data from measures financing similar interventions (in terms of types of eligible costs and activities) from 2014-2020, complemented with statistical data from the Slovenian and Hungarian statistical offices. The latter served as an estimate of the average total gross salaries as of August 2021 and thus as a basis for the estimation of staff costs.

The above types of costs typically incurred in such projects were grouped into four types of costs, for which different steps were taken to calculate the total unit cost per participant:

(1) The calculation of *preparation costs* is based on the assumption that two people (from two partners) have two full-day meetings (a total of four working days of average salary) and that the preparation also involves some administrative costs (i.e. 15% of staff costs according to Article 54(b) CPR) and short distance travel in the cross-border region.

(2) *Translation costs* have been calculated by multiplying the average hourly rate for interpretation by four hours as a minimum event duration. The total calculation includes two events of at least four hours, i.e. twice the event specific translation lump sum.

(3) Participation costs refer to the categories of moderation, venue and catering. To obtain *total participation costs*, a unit cost per participant was calculated and then multiplied by the assumed number of participants in cooperation projects.

As cooperation projects can include different types of events such as workshops, training sessions or conferences, average and median costs per participant were calculated for each type of event:

$$\boldsymbol{Unit\ cost\ per\ participant/day} = \frac{\boldsymbol{\sum no.1day\ events\ type\ x * (mean\ type\ x + \emptyset\ type\ x)/2}}{\boldsymbol{total\ no\ of\ 1day\ events}}$$

The total cost of participation was calculated on the basis of two events with 25 participants each:

$$\boldsymbol{Total\ participation\ costs} \\ = \boldsymbol{unit\ cost\ per\ participant\ per\ day * 25\ participants * 2\ events}$$

(4) *Other costs* include the remaining cost categories, in particular staff, administration, travel and accommodation. On the basis of a review of actual cost structures of projects from the previous programming period (i.e. historical data) and other experience in organising events (expert knowledge), it has been assumed that these costs account for approximately 40% of the total project budget. Consequently, the total project budget size was calculated in relation to the sum of the first three cost categories:

$$\boldsymbol{Total\ project\ budget} = (\boldsymbol{preparation\ costs} + \boldsymbol{translation\ costs} + \\ \boldsymbol{total\ participation\ costs})/\boldsymbol{0.6}$$

Specifically, for these other costs it was assumed that

- each partner needs about ten full-time working days to prepare and implement the event;
- a proportion of 15% of staff costs is required to cover administration costs;

- travel costs of around EUR 100 per partner to attend the event in the programme area (based on historical data).

To obtain the *unit cost per participant per day*, the total project budget was then divided by the assumed number of events (i.e. two) and the number of participants in each event (i.e. 25).

Replicability of this programme specific SCO by Interreg IPA programmes

Considering that people-to-people actions are a typical activity of small-scale Interreg projects and that trainings, workshops and conferences are a typical output of these activities, the approach used in the 2021-2027 Interreg Slovenia-Hungary Programme could also be adopted by Interreg IPA programmes funding such types of projects (and outputs). This approach would require the possibility of identifying standard types of small-scale projects for which specific SCOs can be developed. In turn, such a categorisation of small-scale projects is a means to focus on those types of small-scale projects that are considered most important by the programme authorities to contribute to the intervention logic of the programme.

In the case of significant cost differences between neighbouring countries, unit costs could be calculated separately for each partner country.

The use of such SCOs is beneficial in terms of the reducing administrative costs and burden (for the programme and beneficiaries) associated with the implementation of small-scale projects, reducing errors and thus increasing the time available for controllers to carry out on-the-spot checks. As the use of SCOs is compulsory for small-scale projects under EUR 200,000, the comparison with other SCO options for such projects is particularly interesting (see box on benefits and challenges below).

In terms of data requirements to determine the unit cost, the programme should have certified historical data on the costs of similar projects, including all activities typical for the preparation and organisation of such events. This is best done at the level of individual invoices and only certified and complete datasets should be considered. It is also essential to exclude unreliable data. If not available in the own programme, these data may be collected from other (close and comparable) Interreg IPA programmes, if their data and events sufficiently reflect the situation in the own programme area. Coverage of several years is advantageous, also to assess the potential need to adjust the calculated unit costs over time.

In terms of the resources required, the work to develop such an SCO should, as a guideline, involve two Joint Secretariat officers (and/or external experts) to cover the data sources from both sides of the border. To support an accurate and logical calculation, other JS officers should be involved in exchanges and controls. When implementing the SCO under Article 94 CPR, the SCO is to be established in the cooperation programme and assessed and confirmed by the AA. The development of the methodology will take approximately 12 months, most of which will be spent on collecting historical data and structuring it by type of event. This calculation includes the parallel development of SCOs for different types of small-scale projects.

Table 20 – Benefits and challenges of the development of unit costs to cover all costs for small-scale cooperation costs

Benefits	• The unit cost significantly reduces the administrative costs associated with verifications, reimbursement times and the number of errors, and allows time to be freed up for on-the-spot checks, which in turn helps to avoid possible perverse incentives.

	• It reduces the administrative burden on beneficiaries more than any other combination of reimbursements by focusing on the delivery of outputs. Beneficiaries only have to provide very limited evidence of the project implementation (i.e. the events), without having to submit a large number of supporting documents on costs and contracts. • Greater transparency and predictability of project costs, which helps beneficiaries to plan their cooperation events in line with the available budget per participant, thus reducing the administrative burden. • Beneficiaries will only have to deal with one unit cost compared to applying several SCOs in a small-scale project,.
Challenges	• The first step is to identify typical project types based on historical data and then identify the appropriate types of SCOs, data needs and methodologies. • Adequate historical data must be structured and reviewed. Only certified and complete datasets at individual invoice level should be included, and these should cover several years to contribute to a robust database. • For implementation as upper-level SCO, early involvement and coordination with the AA is recommended.

Source: Service provider, 2024

4.6.2. Lump sum for small-scale projects

Lump sum (CPR 2021/1060, Article 53(1)(c)) to cover small-scale mutual trust building activities

As mentioned above, lump sums can be used whenever it is easy to pre-define the deliverable or output as a single unit. This is the case for public events such as concerts, markets or fairs, where the offer of the event is more important than the exact number of participants.

Similarly to the previous unit cost, this programme specific SCO aims to reduce the administrative costs (for the programme) and the burden (for the beneficiaries) of financial reporting and verification for small-scale projects, while fulfilling the regulatory requirement to use SCOs for projects under EUR 200,000 (Art. 53(2), EU Reg. 2021/1060 CPR). The use of a lump sum for small-scale trust-building activities also facilitates the implementation of different types of public events.

Typical costs incurred in such cooperation projects are

- preparation of the project application including its coordination;
- staff;
- administration;
- travel and accommodation;
- translation and interpretation;
- venue and equipment, including rooms (if relevant);
- moderation of the event.

The calculation of the total project lump sum is based on several assumptions and calculations of the different types of underlying costs. The methodology uses a combination of different calculations and, inter alia, off-the-shelf SCOs to define the programme specific lump sum covering all costs of small-scale mutual trust building projects. The box below illustrates a specific example from the Interreg Slovenia-Hungary Programme.

Programme: Interreg Slovenia-Hungary

Type of SCO: lump sum to cover all costs of people-to-people actions in "mutual trust building projects" (CPR Art. 53(1)(b))

Methodological approach and data used

This SCO has been developed back-to-back with the unit costs described in the previous sub-section, as well as with the third SCO for small-scale projects (lump sum for exchange activities). Consequently, the differences lie in the details of the calculation rather than in the main data sources and methodology.

The unit cost has been established using a fair, equitable and verifiable calculation method in accordance with Article 53(3)(a) CPR. It used the programme's historical data from measures financing similar interventions (in terms of types of eligible costs and activities) from 2014-2020, complemented by statistical data from the Slovenian and Hungarian statistical offices. The latter served as an estimate of the average total gross salaries as of August 2021 and thus as a basis for the estimation of staff costs.

The above types of costs typically incurred in such projects have been grouped into three types of costs, for which different steps have been taken to calculate the total unit cost per participant:

(1) The calculation of *preparation costs* is based on the same assumption as for small-scale cooperation projects (see previous box). I.e. two people (from two partners) have two full-day meetings, which implies some administrative costs and short distance travelling in the cross-border region.

(2) Based on the calculation of unit costs per participant per day, a lump sum for *event costs* was calculated. The unit cost per participant per day was obtained by analysing the historical event costs of all the different types of one-day events that took place in the previous programming period. Consequently, the same calculation of mean and average values was made as described above:

$$\boldsymbol{Unit\ cost\ per\ participant/day} = \frac{\boldsymbol{\sum no.1day\ events\ type\ x * (mean\ type\ x + \emptyset\ type\ x)/2}}{\boldsymbol{total\ no\ of\ 1day\ events}}$$

The lump sum for event costs has been calculated on the assumption that 200 people will attend the event:

$$\boldsymbol{Event\ costs\ lump\ sum = unit\ cost\ per\ participant\ per\ day * 200\ participants}$$

As each project must organise at least two open events, i.e. one per participating country, this lump sum for event costs has been included twice in the calculation of the total lump sum.

(3) *Other costs* include the remaining cost categories, in particular staff, administration, travel and accommodation, translation and external expert costs. On the basis of a review of the actual cost structures of projects from the previous programming period and other experience in organising events (expert knowledge), it has been assumed that these costs account for approximately 40% of the total project budget for this type of project. Consequently, the total project budget was calculated in relation to the first two cost categories:

$$\boldsymbol{Total\ project\ budget = (preparation\ costs + event\ costs * 2)/0.6}$$

Specifically, the following assumptions were made for these other costs

- translation costs for a four-hour event;
- each partner needs about ten full-time working days to prepare and implement the event;
- a proportion of 15% of staff costs to cover administration costs;
- other costs of different categories, depending on the specific project, such as travel and external services (e.g. event providers, suppliers, photographers, security, etc.).

In summary, the comparison between the above unit costs for small-scale cooperation projects and the lump sum for small-scale mutual trust-building projects shows that they are largely based on the same type of data, but with a reversed calculation logic: Instead of calculating the cost per participant from an overall budget, the lump sum starts from an average cost per participant and then calculates the overall budget. The rationale behind these two logics lies in the purpose and countability of deliverables:

- In the case of unit costs for cooperation projects, the **exact number of participants counts**, as the activities aim to strengthen cooperation between institutions or other target groups in the cross-border region.

- In the case of the lump sum for mutual trust-building **events open to the public**, the exact number of participants is not decisive. The main objective is to develop events where citizens or groups of citizens come together, meet and exchange. This is not linked to specific institutional cooperation.

<u>Replicability of this programme specific SCO by Interreg IPA programmes</u>

As mentioned above, people-to-people actions are a typical activity of small-scale Interreg projects. Training, workshops and conferences are a typical output of these activities. Therefore, the approach used by the 2021-2027 Interreg Slovenia-Hungary Programme could also be adopted by Interreg IPA programmes funding such types of projects (and outputs). The approach can only be applied if the programme can identify standard types of small-scale projects for which specific SCOs can be developed. In turn, such a categorisation of small-scale projects is a means to focus on those types of small-scale projects that are considered most important by the programme authorities to contribute to the intervention logic of the programme.

Where there are significant differences in costs between neighbouring countries, programmes can decide whether to calculate an average lump sum and leave the distribution to the project partners, or to calculate separate lump sums for each side of the border.

Similarly to the unit costs mentioned above, the use of such an SCO is beneficial in terms of reducing administrative costs and burden (for the programme and beneficiaries) associated with the implementation of small-scale projects, reducing errors and thus increasing the time available for controllers to carry out on-the-spot checks. As the use of SCOs is compulsory for small-scale projects under EUR 200,000, the comparison with other SCO options for such projects is particularly interesting (see the box on benefits and challenges at the end of sub-section 4.6.1).

With regard to the data requirements for determining the lump sum, the programme should have certified historical data at the level of individual invoices on the costs of similar projects, including all activities typical for the preparation and organisation of such events. It is also essential to exclude unreliable and incomplete data as well as outliers. If not available in the own programme, these data can be collected from other (nearby and comparable) Interreg IPA programmes, if their data and events sufficiently reflect the situation in the own programme area. Coverage of several years is advantageous to also assess the potential need to adjust the calculated lump sum over time.

The development of such an SCO should require, as an indication, two Joint Secretariat officers (and/or external experts) to cover the data sources from the different sides of the border. To support an accurate and logical calculation, other JS officers should be involved in exchanges and controls. When implementing the SCO under Article 94 CPR, the SCO is to be established in the cooperation programme and assessed and confirmed by the AA. The development of the methodology will take approximately 12 months, most of which will be spent on collecting historical data and structuring it by type of event. This calculation includes the parallel development of SCOs for different types of small-scale projects.

Table 21 – Benefits and challenges of the development of lump sums to cover project closure costs

Benefits	Challenges	
		The benefits and challenges are the same as for the SCO unit costs for small-scale projects.

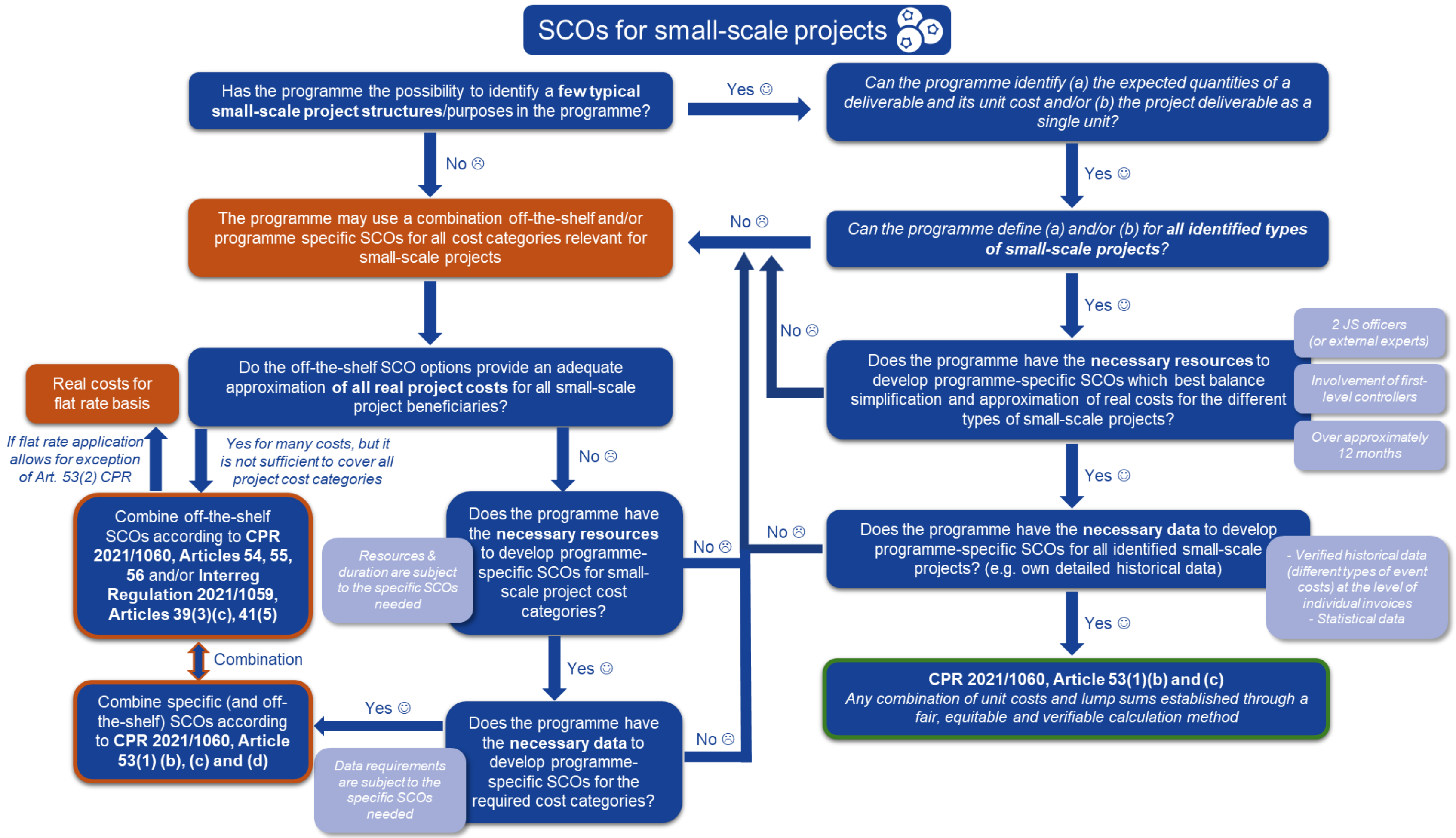
Source: Service provider, 2024

4.6.3. Choosing the most appropriate SCOs for small-scale projects

An SCO covering all types of costs of small-scale projects always requires the development of a programme specific SCO. Therefore, the following figure shows the corresponding access points for programme specific SCOs covering all small-scale project costs compared to approaches where small-scale projects are reimbursed through cost-specific SCOs.

In any case, all projects subject to Article 53(2) CPR (i.e. small-scale projects with total costs not exceeding EUR 200,000) **must be fully reimbursed by SCOs and may only use real costs if they apply flat rate financing. In this case, real costs are eligible for the cost categories, on which flat rate financing is based**.

Figure 17: Flowchart guiding the reasoning behind the choice of the most appropriate SCO to reimburse small-scale projects



Source: Service provider, 2024

5. Conclusions and recommendations

The analysis of individual SCO practices in the 2021-2027 Interreg IPA programmes and their cross-analysis allows further conclusions beyond those highlighted above for individual cost categories. Some of the following conclusions are also based on the analysis of individual SCO practices not presented in this report, but in separate documents.

Before going into more detail on individual conclusions and recommendations, it is worth noting the main target groups of this report:

- The analysis may be best suited to inspire other **cooperation programmes**, not least future Interreg IPA programmes currently under the IPA-IPA regime. For these programmes, and for further implementation of SCOs in currently existing Interreg IPA programmes, the individual experience and the cross-cutting analysis may be most inspiring.

- Other **authorities in the candidate countries** may also find inspiration. However, as a note of caution, they are not advised to apply the findings to mainstream programmes. For them, the inspiration is more limited to the understanding of how SCOs can be used, what methodologies are available and what needs to be considered more generally. Due to the different nature of activities and outputs in cooperation and mainstream programmes, the individual practices are usually not appropriate for mainstream programmes.

The analysis of different types of SCOs and for different cost categories has already highlighted the individual benefits of using SCOs. In general, the use of SCOs affects the **working routines of the programmes**. In particular, for programme specific SCOs, it implies an up-front workload, while reducing the workload during programme implementation. This increase in efficiency presupposes, that the resources freed up during implementation can be effectively used for on-the-spot checks to confirm the correct application of the SCOs, i.e. without the need for undue corrections and adjustments.

The use of SCOs always implies an **approximation of real costs**. The aim is to achieve the best possible approximation. However, this also means that over- and under-compensation are inherent in the system. But they should be balanced overall between cost categories, projects, beneficiaries etc. In other words, SCOs are an important and appropriate means of achieving simplification, even if they take time to prepare. In addition to these general benefits and the specific benefits mentioned above, SCOs contribute to other positive effects:

- SCOs help **reduce errors and miscalculations**. Through automated calculations, e.g. of flat rates, lump sums or the multiplier for a unit cost, the risks of miscalculated budgets are minimised. This is an appropriate means of helping programmes to achieve an overall error rate of less than 2% to apply the enhanced proportionality arrangements (Article 84, CPR).

- SCOs can also help project beneficiaries to better **plan their project budget** in relation to real costs already at the application stage, since the budget available for a given output can be fixed (in the case of a lump sum) or the use of a unit cost for staff can simplify the calculation of expected staff costs.

- Beneficiaries may also benefit from reduced **administrative burden**, as SCOs typically reduce documentation requirements. This has two other positive effects for beneficiaries. Firstly, they can redirect working time previously spent on administration towards content, cooperation and outputs. Secondly, easier approval and control of financial reports usually helps to **speed up reimbursements to beneficiaries**.

- Finally, SCOs could potentially contribute to **reducing the need for budget corrections**. Although this cannot yet be finally assessed, there are at least some tentative indications to this effect. For example, the payment of lump sums is conditional on the implementation of the activity covered by the lump sum. As a result, reimbursement is directly linked to achievements, without the need for adjustments or recalculation of outputs (e.g. number of events).

- This in turn is a means of improving the **quality of the monitoring system**. Programmes can more easily consider linking SCOs, payments and output indicators. For example, using the number of events as an output indicator and linking a lump sum to the delivery of an event allows to directly link financial and output indicators.

Over time, and not least because of inflation, both unit costs and lump sums usually need **adjustment**. This may be necessary both within a programming period and, in particular, when moving from one programming period to the next. This raises the question of how to proceed in future programming periods when SCOs are to be used continuously and historical data at the level of beneficiaries is no longer available due to the previous use of SCOs. This raises the question of the extent to which indexation is an appropriate means of adjusting SCOs or whether a new calculation is needed.

For the next programming period, this question may be most relevant for project preparation and closure costs in the context of Interreg IPA programmes, as many programmes use lump sums for one or both of these types of costs. A review of the programmes shows that the lump sums for these costs are very heterogeneous, i.e. they vary by several hundred percentage points. Some of this heterogeneity may be justified by different programme structures etc., but some differences are likely to be questionable. Better justification may therefore be needed to achieve fair, equitable and verifiable lump sums in the future. Indexation could exacerbate any injustices that may already exist.

This may become even more important if programmes wish to update the existing SCO for future programmes. In other words, potentially existing discrepancies may be further increased. If programmes wish to implement SCOs not only at the lower level for reimbursement to their beneficiaries, but also at the upper level for reimbursement between the European Commission and the programme, the assessment needs to be even more robust. Several approaches could be considered to **overcome the lack of historical data**:

- Cooperation between programmes may help to achieve a more consistent approach when developing these SCOs across Interreg IPA programmes.

- The Croatian MA carried out a market analysis which could be used as a good example of how to overcome the lack of historical data. At the same time, this approach ensures an up-to-date consideration of costs at the time of the analysis.

- European guidance, e.g. from Interact, could help programmes to identify an appropriate methodology and thereby initiate a structured approach to conducting market analysis.

- The European Commission could reduce the risks of inappropriate unit costs for programmes by developing a standard hourly rate (by country) as an off-the-shelf option.

However, in other cases, Interreg IPA programmes may lack their own historical data to develop SCOs. For instance, this may be due to a lack of relevant project activities in the previous programming period. Sometimes programmes copy and paste SCOs from neighbouring programmes. While this may not be a problem for off-the-shelf SCOs, programmes are not advised doing this for programme specific SCOs. Instead, programmes may **copy the methodology** or be inspired by the methodological approach of other programmes. In addition to the above solutions to overcome the lack of own historical data for SCOs covering project preparation and closure costs, other data sources and possibilities should be considered:

- Programmes should explore the use of other information at EU-level. For example, the information provided by delegated acts or union schemes provides robust cost estimates. So far, this source of information has rarely been used. Even if not all relevant rates are available for candidate countries, the use of these schemes for Member States reduces the calculation effort. On this basis, programmes can then adjust the values for candidate countries using statistical data.

- Market analysis and/or statistical data can be used to overcome a lack of historical data. The specific source will depend on the cost categories for which an SCO is to be developed.

The aim of introducing SCOs is to achieve simplification without jeopardising legitimate expenditure and reimbursement procedures. To achieve simplification effectively, it is necessary to (a) minimise distortions due to inadequate approximation and (b) avoid too much flexibility and possible misunderstandings in the application of SCOs:

- **Inadequate approximation** may occur when off-the-shelf flat rates are applied which do not adequately reflect the cost structures of the projects. Such structures may affect all or part of the beneficiaries. Examples may include differences in costs or cost structures between beneficiaries in different countries. An example is the application of the off-the-shelf flat rate for travel costs based on staff costs. Due to lower salaries in candidate countries compared to Member States, the maximum off-the-shelf flat rate for the travel costs may not be sufficient to reimburse travel costs of beneficiaries from candidate countries. This means that programmes are well advised to critically reflect on the cost structure of their projects and beneficiaries before applying off-the-shelf SCOs. If they conclude that the off-the-shelf flat rates do not sufficiently reflect the beneficiaries' project cost structures, programmes are better off developing programme specific SCOs (including programme specific flat rates) rather than offering inadequate flat rates.

- **Off-the-shelf flat rates** in the CPR or the Interreg Regulation are usually formulated as "up to" percentages. This implies that programmes can use any percentage up to this rate without having to develop a calculation methodology and demonstrating the fairness and equitability of the rate chosen. However, the use of a flexible rate within the off-the-shelf ceiling cannot be considered a simplification. On the contrary, it means shifting the decision on the appropriate rate from the programme authorities to the beneficiaries. This flexibility could lead to situations where the same type of beneficiary in the same country receives different compensation due to different flat rates chosen. As a consequence, fairness and equitability may be questioned in such cases. Instead, it should be the responsibility of the programme authorities to define the different rates for different types of beneficiaries, projects, countries, etc. where a single flat rate does not adequately reflect cost structures. **Beneficiaries may be consulted to help programme authorities make informed decision**, but they should not bear the burden of decision-making.

However, to simplify control procedures, programmes are advised to avoid too many different rates, but to keep differentiation as simple and limited as possible, i.e. to allow for justifiable over- and/or undercompensation.

- Too **many alternatives for setting up budgets** do not lead to simplification. Again, it shifts decision-making from programme authorities to beneficiaries. Where different types of projects or roles of partners within projects require the use of different SCOs or combinations thereof, programmes should provide guidance and help applicants to best assess the suitable budget structure. This may include guidance on suitable budget structures for one or the other option. In addition, such guidance should be thoroughly tested to effectively contribute to transparency and clarity for beneficiaries.

- To maximise the benefits of SCOs, programmes may offer a **combination of different SCOs** for an operation. This combination should be clear, unambiguous and transparent in the allocation of the relevant cost categories to the SCOs.

- **Direct cost categories** include all types of costs other than indirect costs, i.e. administrative and office costs. Sometimes programmes use the off-the-shelf flat rate for direct staff costs of up to 20% of the direct costs other than direct staff costs in accordance with Article 39(3)(c), Interreg Regulation, without including all other direct costs. By clearly specifying the cost categories on which the flat rate calculation is based, programmes support correct application. However, they often exclude travel and accommodation costs from the calculation base. This means that the basis for calculating eligible direct staff costs is reduced, which may be to the detriment of beneficiaries or lead to some misunderstanding of the distinction between direct and indirect cost categories.

In the current programming period 2021-2027, the use of **small-scale projects**, i.e. projects with a maximum volume of eligible costs of EUR 200,000, in Interreg IPA programmes seems to be limited. Examples of programmes implementing such projects are the South Adriatic, Romania-Serbia or Hungary Serbia programmes. However, this form of cooperation is common in other Interreg programmes. It may therefore become more important in future Interreg IPA programmes. To take this potential into account, the specificities of the SCOs for these projects are considered below.

Article 53(2) CPR limits the use of real costs for small-scale projects, i.e. projects with a maximum volume of eligible costs of EUR 200,000, to exceptional cases. Apart from State aid relevant investments, parts of small-scale projects may only be reimbursed on the basis of real costs if they serve as a calculation basis for flat rate financing. However, to reduce the administrative burden for beneficiaries of small-scale projects, programmes are advised to avoid any real costs for these projects. The study's analysis suggests at least **three main types of alternative approaches** (see Figure 18 below for an illustration), all of which are suitable for avoiding any real costs in small-scale projects:

1. **Combining the off-the-shelf flat rate for all costs other than staff costs with a unit cost for staff costs.** The use of the flat rate of up to 40% of the eligible direct staff costs to calculate all other eligible costs of an operation (Article 56(1), CPR) allows either to calculate the direct staff costs on the basis of real costs or, preferably to use another SCO to calculate staff costs. This means that all small-scale projects are subject to two SCOs. The SCO for staff costs can be determined by

   (a) using the off-the-shelf "1,720 hour method" (Article 55(2)(a), CPR) to establish hourly rates;

   (b) using the off-the-shelf calculation of hourly rates based on the most recent monthly gross employment costs and corresponding working hours;

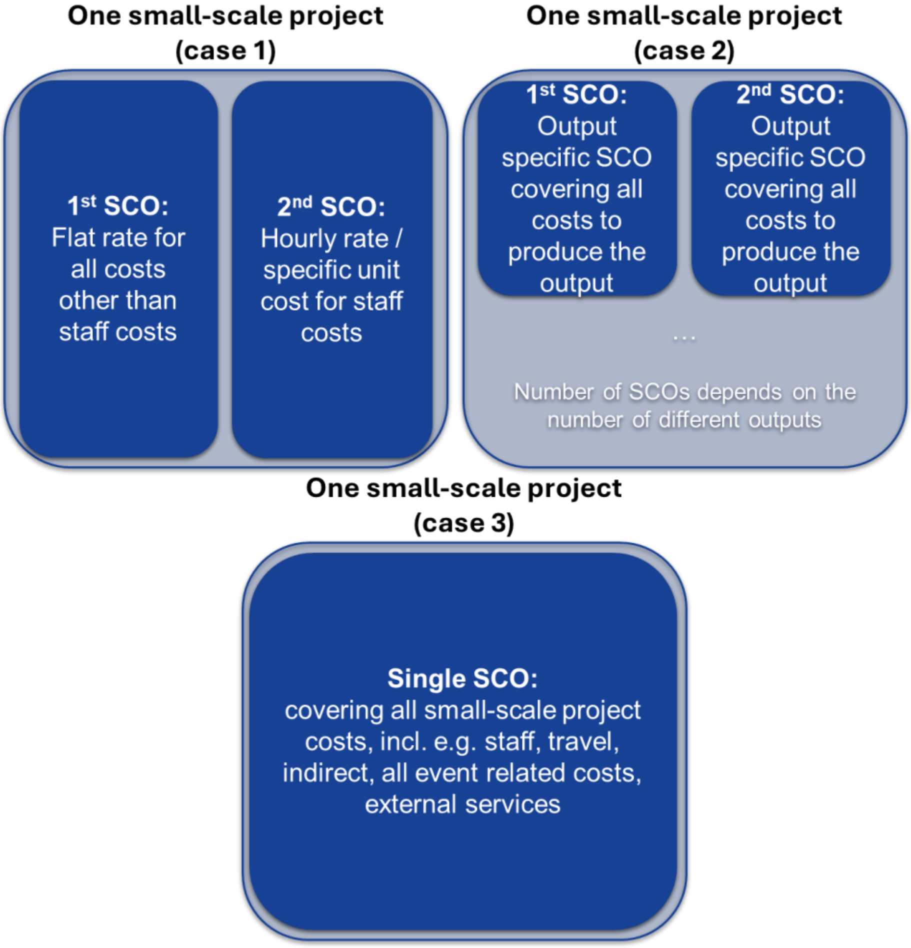
   (c) developing a programme specific unit cost to approximate the hourly rate(s), thus allowing programmes to adapt to different staff cost levels according to country and/or seniority.

2. **Combining different lump sums and/or unit costs defined for all types of outputs produced by small-scale projects.** The South Adriatic Programme provides an example of such an approach, where different SCOs are applied for different types of outputs. For example, if a small-scale project organised a workshop and two B2B meetings, for which different lump sums were calculated, the project would be reimbursed once for the workshop lump sum and twice for the B2B meetings lump sum.

   The calculation of such output related SCOs implies that the lump sum or unit cost calculation includes all cost categories relevant for the corresponding output, e.g. to calculate the necessary staff costs, travel costs, indirect costs, etc.

3. **Develop a programme specific SCO for each main type of small-scale project in the programme.** This approach has been applied by the Slovenia-Hungary Interreg Programme 2021-2027. The programme identified a total of three types of small-scale projects, with different characteristics and objectives. In this case, each small-scale project is reimbursed through a single SCO. In turn, each SCO includes all types of cost categories considered relevant for achieving the objectives of the corresponding project type. This SCO can be calculated as a unit cost or as a lump sum.

Figure 18: Illustration of SCO combinations in small-scale projects for the three alternatives



Source: Service provider, 2024

Many programmes tend to use off-the-shelf SCOs rather than programme specific SCOs. There are several reasons for this, ranging from lack of capacity to uncertainty. To overcome these limitations, there may be a need for (a) more off-the-shelf options, taking into account the specificities of e.g. IPA countries, and (b) more capacity building to overcome uncertainty and support the use of tailor-made solutions.

While this study has shed light on the experience of SCOs in Interreg IPA programmes, further cooperation and analysis may be needed to improve cooperation between authorities and to further benefit from the experience. This could include targeted cooperation events between Interreg and Interreg IPA authorities, including authorities from IPA countries, and studies on SCOs in IPA countries. Similar assessments may be needed for other comparable contexts, such as the NEXT programmes. Not least to overcome potential inconsistencies in calculation and reimbursement mechanisms between EU programmes and national rules, authorities are advised to involve national stakeholders and authorities already in the design of SCOs. This may include an ex-ante analysis of the national regulatory system to identify potential challenges and inconsistencies. Experience from Interreg programmes implemented at internal EU borders also illustrates the benefits of early reflection and exchange between the cooperation programme and the audit authorities.

In conclusion, the analysis of SCOs in Interreg IPA programmes for 2021-2027 reveals some key findings on their benefits. With its practical guidance on different types of SCOs and cost categories, this report is also a contribution to the debate on cohesion policy after 2027. It addresses several access points for simplification as called for in Issues paper 8 (Group of high-level specialists on the future of Cohesion Policy, 2023) and the report by Enrico Letta (2024) and is also in line with the political guidelines for the next European Commission 2024-2029 (von der Leyen, 2024).

The study confirms that SCOs offer significant potential to simplify administrative processes, reduce errors and increase efficiency, in particular by automating calculations and freeing up resources for on-the-spot checks. However, their successful implementation requires careful consideration of cost structures, as inadequate approximations and excessive flexibility can undermine fairness and effectiveness. While off-the-shelf SCOs are often preferred, programme specific solutions may be more appropriate in certain contexts. One example is small-scale projects. Finally, there is potential to optimise the use of SCOs through more tailored capacity building, cooperation between authorities and early involvement of national stakeholders to not only take advantage of established SCOs, but to develop and implement them in an effective and efficient way.

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