

Post 2027 | Consultation Report

1. Performance-based approaches and SCO

14 January 2025

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

This report is part of Interact's [Post 2027 Consultation reports](#)

Overview

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

Nevertheless, at the early stage of reflections on the post 2027 period and in response to the direction of current discussions of future delivery mechanisms, Interact together with practitioners from several programme MAs/JSs⁴ investigated the P-BA mechanism from the Interreg perspective. The aim was to understand the implications of adopting a P-BA approach in Interreg and in particular, to assess the risks and opportunities; and define necessary pre-conditions of utilisation of P-BA in Interreg.

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

² HLG Report

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

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

Terminology

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

Summary of findings

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

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

- At the **lower level**, P-BA, if employed, should be optional (due to no ERDF real-life examples and experiences), with programmes retaining ability to deliver cost-based (SCO or real cost) interventions. This is due to outputs under Interreg projects, based on multi-partner cooperation and with long term results that are not immediately visible.
- The current systems already provide a good balance between
 - simplified access to European funds for Interreg beneficiaries, allowing them to focus on project implementation and results on the one hand,
 - the provision of a sufficient degree of assurance on the good use of public funds on the other hand. Error rates in Interreg are low (far below 2%), assurance aspects like the respect of public procurement rules are provided, and anti-fraud strategies are in place)
- At the **upper level**, while not the optimal mechanism in the view of several practitioners, this could be viable:
 - subject to the inclusion of a number of pre-conditions, outlined in this paper, which should be read as a whole package, not separate items; and
 - provided that flexibility for programmes to deliver cost-based interventions at the lower level is retained, and
 - It would require further discussion of several technical points, (see Annex 2).
- In opinion of the practitioners, simplifications introduced in current programming period and extensively used in Interreg such as a risk-based management verification (RBMV) and simplified

cost options (SCOs)⁵, have brought significant simplifications and reductions of administrative burden and this direction of simplifications for projects should be continued⁶.

- Finally, it should be underlined that the average Interreg error rate based on the reportable Total Error Rate for many consecutive years has been well below the materiality level of 2%. Despite of inherent Interreg specificity, the current expenditure-based system of control and audit is efficient and working.

Consultation approach

Building on the outcomes 2024 Interreg Knowledge Fair P-BA dedicated session⁷, where Interreg programmes expressed their concerns regarding the applicability of such a model to the Interreg environment, Interact started to search for publications related to P-BA and experts working with such a mechanism. In the following step, Interact established a Performers Working Group composed of practitioners representing 16 Interreg programmes' MAs/JSs⁸ and TESIM that expressed the willingness to invest their time and resources to explore further such a mechanism for Post 2027 Interreg and to hear more practical examples. The goal for the group was to design preconditions and a framework of a potential scenario that might be suitable for Post 2027 Interreg. It should be underlined, that the objective of the work was not to develop a fully-fledged model, but a generic framework, focused on the big picture, listing the modalities/challenges to be tackled in the later stage of development⁹.

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

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

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

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

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

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

What is working?

P-BA

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

Interreg practices

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

¹⁰ Also labelled as 'upper level'

¹¹ Also labelled as 'lower level'

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

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

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

The efficiency gains, as other listed above elements of P-BA are not clear yet. Practical evidence from FNLC in ERDF is very limited (and absent in Interreg). Findings for RRF are not fully convincing at this stage:

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

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

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

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

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

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

Key messages

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

Upper level

- Scope & depth of application: Applying P-BA at the upper-level should be based on some important pillars of the delivery system (see below); going beyond the upper-level as a mandatory option is considered a disruptive scenario posing significant challenges.
- It will require a generic, simple, flexible, and universal system of payment triggers consisting of process-based milestones and achievement-based targets that is suitable for the use across many programmes with comparatively small volumes.
- Early start is a key factor for success. That means a clear direction from the EC to programmes about the cornerstones of the future P-BA system, to launch resources supporting and guiding deployment, avoiding time-consuming discussions during the programming process. Reliable sources of information and sound historical data will be of utmost importance. Learning from the 2021-2027 performance framework methodologies and monitoring system should be exploited.
- Financing reforms (like those financed by the RRF¹⁷) under Interreg is impossible due to the characteristic of the programmes, involving more than one Partner State (between 2 to 36 Partner States).
- Carefully assess and take the best of current practices, both P-BA under the RRF and FNCL under the CPR.

Lower level

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

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

Both levels

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

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

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

A potential scenario – cornerstones and pre-conditions

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

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

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

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

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

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

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

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

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

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

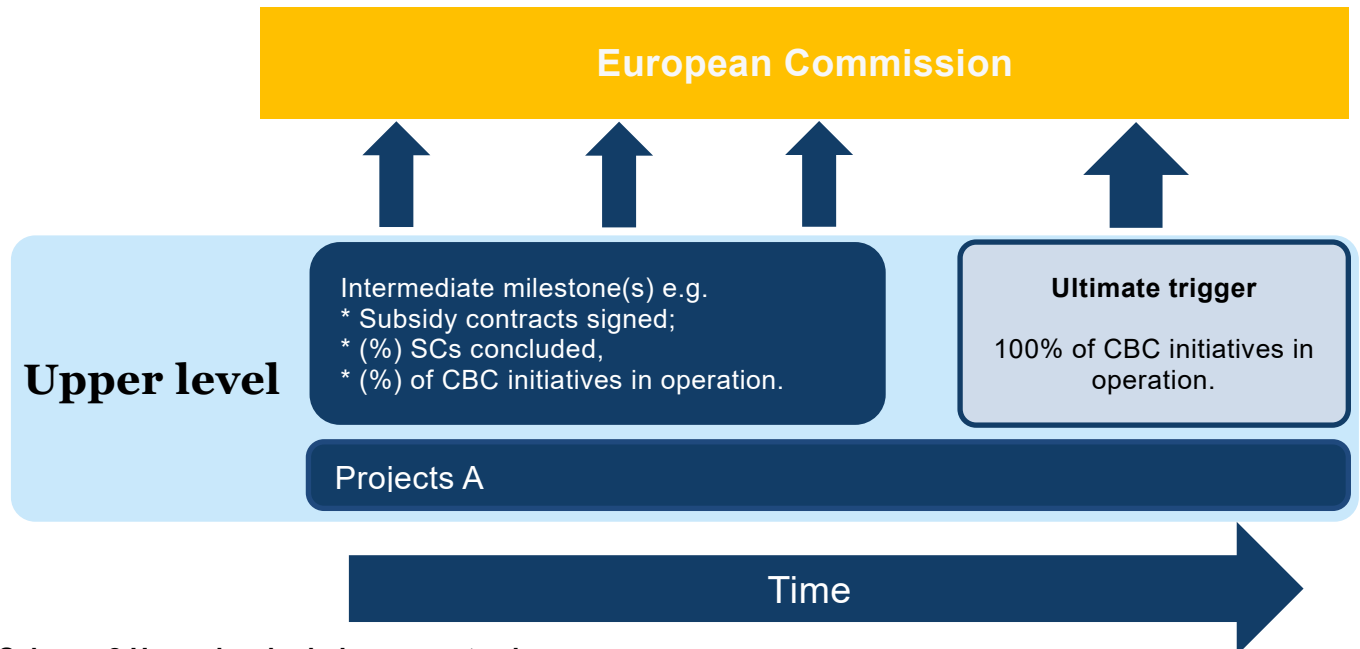
The three schemes in Annex 1 provide a visual representation of the cornerstones and assumptions described above.

Please note: The introduction of real cost in scheme 3 is not a must. It is more of a reminder that also the increased use of SCOs at the upper level bears the potential for considerable efficiency gains.

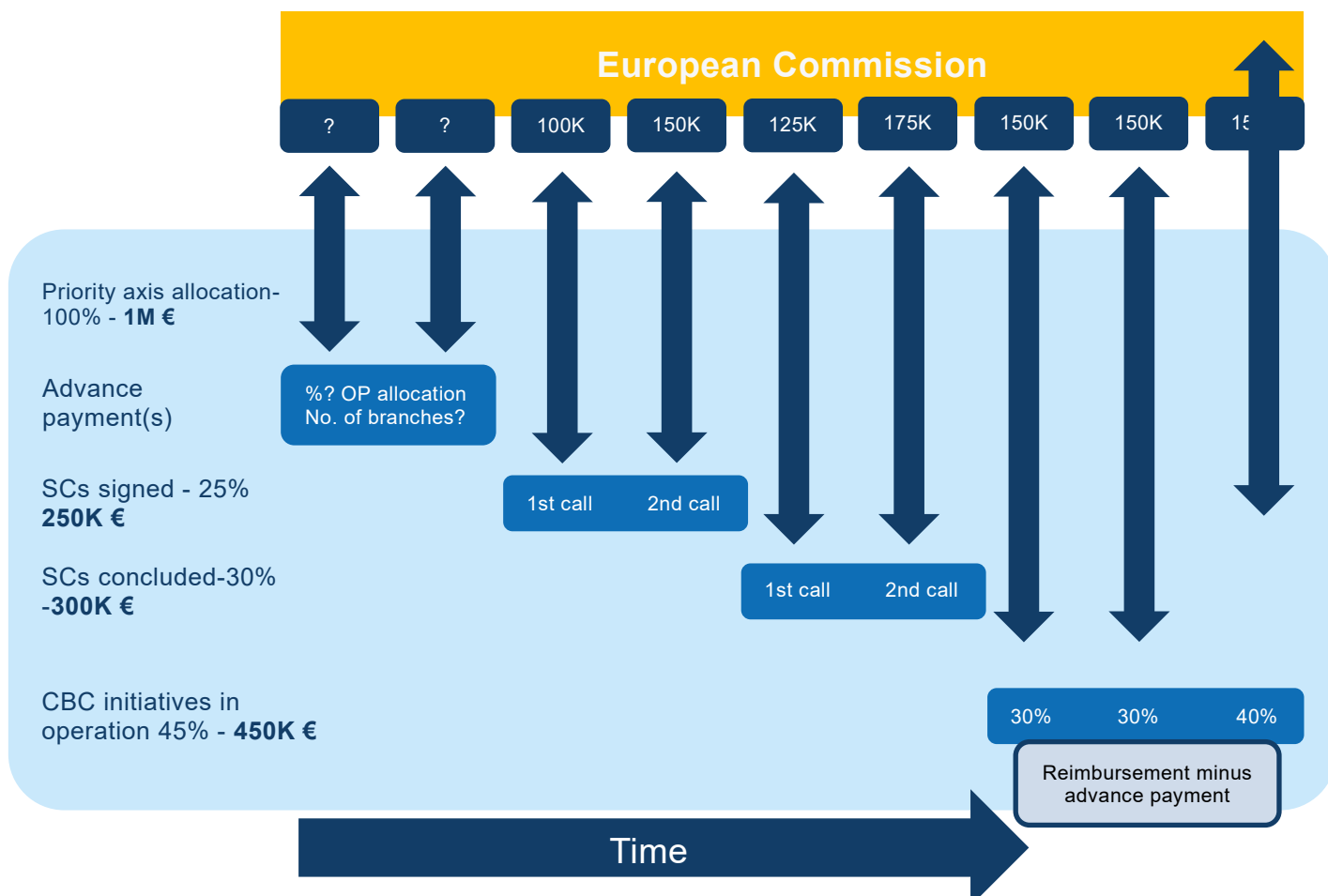
Annex 1

Example - a visual representation of how P-BA could be applied to Interreg

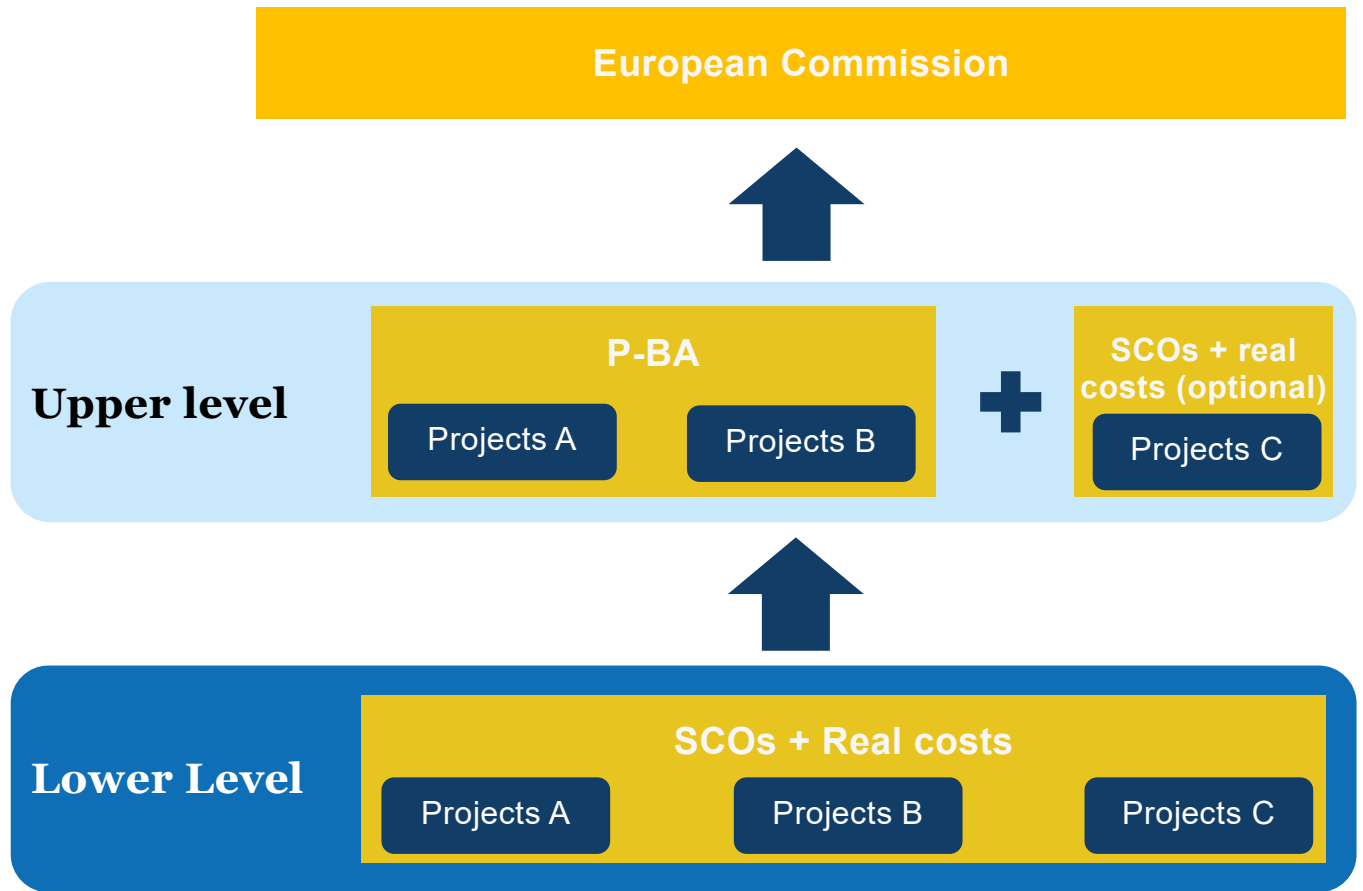
Scheme 1 Upper-level – Intermediate milestones & ultimate payment triggers



Scheme 2 Upper-level reimbursement scheme



Scheme 3 Connecting two levels



Annex 2

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

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

Annex 3

Harvesting event takeaways- outcomes of P-BA sessions

The P-BA as the future delivery model in Interreg discussion paper was discussed during three sessions at the Post 2027 Harvesting event (which took place in Brussels on 25-26 November 2024).

The results of discussions during the sessions confirmed, what is indicated in the paper – there is no unanimous opinion among Interreg programmes on the topic. Three main camps can be spotted: programmes that are reluctant to try/ to change into P-BA, programmes that changed their mindset, from being hesitant to a willingness to try, and finally, the programmes that perceived the introduction of P-BA as an evolution of simplifications methods and opportunity for their programme.

The main concern expressed particularly by programmes hesitant to P-BA was why to change the system that works, build on all experiences, and introduce simplifications throughout over 30 years of experience, turning into a system with very limited experience in the cohesion policy.

In the opposite corner were programmes that perceive the P-BA as a natural evolution (a process) of the simplification system, moving from real costs, through units, heading toward results. That is why the optionality of such a system, with the possibility to join and pilot from the get-go, but at the later stage for many programmes would be a preferred solution.

The discussions focused on several challenges highlighted in the discussion paper:

Redefinition of framework of Interreg indicators and their role in the future model – moving away from the input indicators (currently widely used by programmes), introduction of process indicators (e.g. number of contracted projects, number of concluded projects), extensive application of output indicators (as programme-dependant indicators) as the ultimate triggers, with very limited result or impact indicators as too exposed to the risk of influence of external factors. A very good starting point for the discussion on that topic is the recently published study on the uptake of Interreg indicators in 2021-2027²⁴.

Further on the indicators topic, this requires an in-depth discussion of the indicators system for soft projects, to well capture the change brought by such types of projects. This is particularly important in the context of transactional programmes.

²⁴ Available on [the Interact website](#).

Next to discussing indicators, the potential introduction of the P-BA delivery model requires extensive discussion of the quality of outputs, e.g., what quality is in an output-based model, and how to assess and measure it.

The risk of failure, e.g. represented by incompleting projects, should be accepted and factored in future methodologies calculating outputs.

That means the redefinition of the role of auditors and controllers in programmes, a switch from financial to quality experts. The introduction of P-BA programme will need performance audits, which will be something completely different from current audit practices. During one of the sessions, it was pointed out that involvement of auditors in controllers in the design of the system from day 1 could be beneficial for further implementation of the system.

Another challenge discussed was redesigning most of the processes in the programme life cycle, accompanied by adapting IT monitoring systems. Because of very limited experience, the switch would also require building in 'emergency exits' in the procedures to prevent potential program malfunctions due to unpredictable situations.

All that means the extensive use of various programme resources (e.g. staff, financial resources) working on two different systems (implementing of well-known 2021-2027 and designing a brand new one with limited information and zero experience in Interreg). During the discussions it was also highlighted, that in the case of the design of a new performance/output-based system, there is a tendency to search for well-known solutions in the cost-based system, which is a step in the wrong direction. In case of financial resources that requires significantly higher advance payments to cover the majority of preparation costs.

During the discussions certain opportunities for the introduction of the P-BA model were also highlighted:

With the switch to P-BA more upfront financing will be needed for the design of the system, but even more for advance payments for beneficiaries. This has been requested for many years but never accomplished. This will allow also programmes to open for the new beneficiaries.

P-BA can speed up the implementation of programmes, allow to focus on the delivery of outputs, instead of chasing financial documents,

With further simplifications it is expected to further reduce the administrative burden.

Regardless the opinion differences on the P-BA, there is a willingness among programmes to work together to develop the future model for Interreg, if P-BA is going to be the new reality.

But to take another step the Interreg community needs support from the EC colleagues. That means more details and directions on the future model requirements. These details are needed very soon, and are something the performers working group²⁵ will continue to work on.

Interact also invites programmes to study the collection of papers related to the topic²⁶, and the framework with three schemes in annex 1. The schemes are just examples, and by no means should be understood as a benchmark. This framework has to be further developed together with programmes, and Interact invites programmes to further exchanges on it.

Further work on the development of P-BA model will continue together with the Indicators Working Group.

²⁵ Details of the 'Performers group' are available on the Networks page of [Interact's website](#). The group continues to welcome new members.

²⁶ To be found under [the miro board,link](#)

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