

## Executive summary

Introduction of the simplified cost options (hereafter - SCO) in the management of the EU funds has opened way for more efficient administration of the funding, lowering risk of errors, reduction of administrative burden and greater focus on achievement of results.

The aim of this study was to evaluate ex-ante what are possibilities for expanding the use of the SCO in the implementation of the EU funded programme for Latvia in 2021-2027 period. Furthermore the study had to take a closer look at the possible usage of the SCO for costs of training activities and personnel remuneration costs (both for project management and for implementation of project (operation)), and propose two horizontal methodologies for application of SCO for these cost categories. The study covered only direct eligible costs.

Methodology of research included both quantitative and qualitative analysis of data on application of SCO in current 2014-2020 programming period and anticipated use of SCO in 2021-2027 period. Data on actual expenditure (characteristics, typology, trends) incurred by beneficiaries during implementation of 2014-2020 programme was analysed, as well as plans of the authorities regarding the implementation of 2021-2020 programme were assessed. Substantial limitations to the data availability and quality derived from the timing of undertaking the study as the period of preparing the study most of operations supported under the 2014-2020 programmes were ongoing, while rollout of 2021-2020 was still in the preparatory stage and hence number of implementation modalities were not known (decided). Data about experience of SCO usage at the level of EU and other EU member states were also considered to support the argument of using the SCO in Latvia.

To assess the feasibility of using the SCO in 2021-2027 program the lowest possible data level of programming was used i.e. the level of individual measures under each specific aid objective (hereafter – SAMP). Each SAMP was assessed from point of view of (1) regulatory feasibility of applying SCO; (2) effectiveness and (3) practical feasibility of applying SCO. As a result of the assessment five key conclusions were reach and each conclusion could be attributed to a specific SAMP:

- 1) SCO is compulsory and should be used to cover all expenditure in SAMP where cost of an operation does not exceed EUR 200 000.
- 2) In SAMP where costs of an operation exceed EUR 200 000 but under these operations it is planned to have sub-operations below the threshold of EUR 200 000 that will target a larger number of ultimate beneficiaries (who would need to provide proof of expenditure actually incurred if the SCO is not offered) the SCO should cover fully all expenditure at the level of the ultimate beneficiaries.
- 3) In SAMP where costs of an operation exceed EUR 200 000, but the logic of the intervention foresees a large group of beneficiaries (e.g. municipalities, municipal enterprises, companies, universities) and structure of eligible costs that are conducive to applications of the SCO, the approach should be found to design SAMP specific SCO methodologies that would allow to use unit cost or flat rate at least for part of total eligible costs.
- 4) SAMP with lower feasibility of applying SCO (e.g. one entity is a single beneficiary in the operation selected in a restricted call for applications), the SCO usage is optional and can be reduced to certain horizontal SCO methodologies (e.g. flat rate for remuneration of project management personnel).

- 5) Application of SCO in SAMP is not feasible due to limits deriving from provisions of state aid or due to the fact that financial instrument is chosen as the implementation method.

See the illustrations no. 1 and no. 2 for breakdown of SAMP in accordance of five conclusions, as well as distribution of SAMP in line of assessment against the criteria of effectiveness and practical feasibility.

The analysis of feasibility of SCO usage in the implementation of Latvian 2021-2027 programme shows a large potential in meantime it is obvious that the logic of intervention and the way of defining achievable results will need further adjustment to make it happen.

In-depth analysis of aspects of using the SCO for costs of training activities and personnel remuneration costs (both for project management and for implementation of project (operation)) revealed that there is potential to use SCO and propose horizontal SCO methodologies that could be applied across the program. Unit cost such as hourly rate for personnel remuneration or rate to be paid for one man-day of training has been proposed. Flat rates for the costs of personnel remuneration has been proposed.

Though these are proposed as universal (cross cutting) rates to be applied to whole programme, there might be certain limitations in the scope of application due to the low levels of homogeneity in the cost data from 2014-2020 that has been used to determine these rates. To avoid the risks of overcompensation or undercompensation application of the universal rates should be reassessed when deciding on implementation provisions for individual SAMP. If need be designated SCO methodology should be developed for the SAMP in question.