



Recommendation paper on Financing Not Linked to Costs

ESF Transnational Network on Simplification

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List of abbreviations

AA: Audit Authority

CPR: Common Provisions Regulation for the 2021-2027 programming period

DG EMPL: Directorate-General for Employment, Social Affairs and Inclusion

ESF+: European Social Fund +

ESI Funds: European Structural and Investment Funds

EU: European Union

FNLC: Financing not linked to costs

IB: Intermediate body

MA: Managing authority

NCB: National coordination body for Cohesion Policy/EU Funds

PES: Public Employment Services

SCO: Simplified cost options

TN: ESF Transnational Network on Simplification

Introduction

The concept and content of this recommendation paper on financing not linked to costs (FNLC) were designed by the ESF Transnational Network on Simplification (TN).

Established in 2015, the TN involves over 350 representatives of ESF+ managing authorities (MA), intermediate bodies (IB), audit authorities (AA), national coordination bodies (NCB) and ESF+ stakeholders from all Member States of the European Union (EU), as well as several Directorates-General of the European Commission, coordinated by DG EMPL, Unit G2.

Aim of the paper

This paper aims to support ESF+ authorities and stakeholders in designing and implementing FNLC schemes. It presents key recommendations from discussions within the TN, as well as experiences of Member States that have developed FNLC schemes.

Target audience

The paper is primarily aimed at representatives of ESF+ authorities and stakeholders with little or no experience in FNLC design, as well as authorities from other EU funds and programmes.

Approach

The paper is based on two key assumptions, validated by TN members:

- It does not add requirements or interpretations of legal provisions and should not be a source of ‘gold-plating’ ⁽¹⁾.
- It presents both good and not-so-good practices, dos and don’ts.

Sources and legal framework

Key sources of information in preparing the paper were:

- Presentations by officials of DG EMPL and REGIO-EMPL Joint Audit Directorate for Cohesion and representatives of Member States experienced in the design of FNLC schemes.
- FNLC schemes developed by ESF+ authorities: Annex V – Appendix 2 to the Common Provisions Regulation (CPR) ⁽²⁾.

⁽¹⁾ Gold-plating is the process by which a Member State, in transposing EU Directives into national law or implementing EU legislation, imposes additional requirements, obligations or standards that go beyond the requirements or standards foreseen in the transposed legislation (European Commission, 2015). The term is often used in the context of the implementation of the European Structural and Investment Funds (ESI Funds) to describe the administrative supplementary requirements and burdens imposed on beneficiaries by the ESI Funds national and sub-national authorities, both in response to EU-level procedures and stemming from national administrative traditions and customs (High-Level-Group on Simplification, 2016).

⁽²⁾ Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the

- FNLC schemes adopted by the European Commission under Article 95(4) CPR.
- FNLC models developed by DG EMPL and by the TN, covering different types of ESF+ operations.
- FNLC-relevant 2021-2027 Q&A published by the European Commission.
- The ‘explanatory note on the application of 95 (3) CPR - how assurance is provided when implementing a Financing Not Linked to Costs (FNLC) scheme’, prepared by the Services of the Commission.
- Studies on the use of FNLC contracted by the European Commission ⁽³⁾.
- Study on lessons learnt from implementation of the Recovery and Resilience Facility ⁽⁴⁾.
- Outcomes of group discussions at TN meetings and multi-country workshops on FNLC organised in conjunction with the meetings.

The paper refers to provisions under the legal framework of the Cohesion Policy Funds for the 2021-2027 programming period - in particular, to the CPR adopted for this period.

Structure of the paper

The paper is structured around several key points (questions) on FNLC design and implementation identified by TN members:

- *What is FNLC:* section 1 presents the main aspects defining FNLC, as well as a short comparative analysis of FNLC and simplified cost options (SCOs).
- *Why FNLC should be used:* section 2 illustrates advantages of FNLC.
- *When and where to use FNLC:* section 3 presents recommendations on the scope of FNLC schemes, particularly suitable types of operation.
- *Who to involve in FNLC design:* section 4 offers recommendations on the collaboration needed between authorities.
- *How to design FNLC schemes:* section 5 includes recommendations on the design of FNLC proposals.
- *How to implement FNLC schemes:* section 6 presents recommendations for implementing FNLC schemes.

Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy.

⁽³⁾ E.g. European Commission, *Study on the uptake of Simplified Cost Options (SCO) and Financing Not Linked to Costs (FNLC) for Common Provisions Regulation (CPR) Funds in the 2014-2020 and 2021-2027 programming periods*, 2025, available at:

https://ec.europa.eu/regional_policy/sources/studies/2025/SCO_FNLC_for_CPR_study_2014_2020_and_2021_2027.pdf

⁽⁴⁾ Mapping of performance-based schemes in the National Recovery and Resilience Plans and conditions for successful use in ESF+ Programmes, 2023.

- Finally, section 7 summarises the key recommendations identified by TN members.

Annexes to the paper present examples of:

- Conditions, results and indicators (Annex I)
- Methods to establish FNLC amounts (Annex II)
- Management verifications and arrangements for compliance with applicable law (Annex III).

1. Defining FNLC

Article 51 of the CPR defines FNLC as a form of Union contribution based on:

- (i) the fulfilment of conditions; or
- (ii) the achievement of results.

Where FNLC is used, the amounts to be reimbursed are linked to the fulfilment of conditions or the achievement of results. They are determined *ex ante* (i.e. prior to implementation of the FNLC scheme) either by:

- Member States submitting FNLC proposals to the Commission, under Article 95(1) CPR, together with the ESF+ programme, or as a request for programme amendment. The proposals are submitted in accordance with the specific template set out in Annex V, Appendix 2 to the CPR. Following a positive assessment by the Commission, the FNLC scheme is approved, together with the programme or the request for its amendment; or
- the European Commission adopting a delegated act under Article 95(4) of the CPR, establishing amounts for Union-level financing by type of operation (EU-level FNLC) ⁽⁵⁾.

Pursuant to the provisions of the Financial Regulation ⁽⁶⁾, the methods to establish FNLC shall ensure:

- Respect for the principle of sound financial management. With respect to the appropriateness of the amounts linked to the fulfilment of the respective conditions or the achievement of results, the Commission and the Member State should ensure that the resources employed are adequate for the investments undertaken.
- Reasonable compliance ⁽⁷⁾ with the principles of co-financing and no double funding.

⁽⁵⁾ E.g. the FNLC scheme on provision of emergency (residential and non-residential) services to victims of domestic violence and to homeless persons under point 7 of COMMISSION DELEGATED REGULATION (EU) 2023/1676 [L_2023216EN.01001101.xml \(europa.eu\)](#)

⁽⁶⁾ Regulation (EU, Euratom) 2024/2509 on the financial rules applicable to the general budget of the Union (recast).

Other than these guiding principles, the CPR does not refer to methods to determine the amounts within FNLC schemes. Possible approaches for establishing the amounts to be reimbursed based on the fulfilment of conditions and achievement of results, based on the experience of Member States with FNLC schemes, are presented in section 5 of this paper.

FNLC can be used for reimbursements from the Commission to Member States (the so-called “upper level”) and from the Member States to the beneficiaries (the so-called “lower level”). Grants provided by Member States to beneficiaries may take the form of FNLC only if they are covered by reimbursement of the Union Contribution pursuant to Article 95 CPR. When FNLC is used for reimbursement from the Commission (“upper level”), Member States can reimburse beneficiaries (“lower level”) using different forms of reimbursement, such as SCOs or actual costs incurred by beneficiaries (i.e. “real costs”). However, as explained in the following sections of this paper, it is strongly recommended to use FNLC also at the “lower level”, to fully enhance simplification also for beneficiaries.

Compared to other simplification measures (e.g. SCOs), FNLC is relatively new, being used for the first time in the 2014-2020 programming period.

ESF+ practitioners within the ESF TN on Simplification often deal with the question of the difference between FNLC and SCOs. Table 1 presents a comparative analysis of the differences (and similarities) between these two simplification measures.

(7) CPR uses the wording ‘reasonable compliance’. TN members note that this could lead to subjective decisions. It is important to ensure, *ex ante*, that the method to establish FNLC complies with the principles of co-financing and no double funding.

Table 1 – Differences between FNLC and SCOs

Key aspects	SCOs ⁽⁸⁾	FNLC
Definition	'SCO are amounts or percentages that represent the <u>best possible approximation of actual (real) eligible costs</u> incurred in practice when implementing an action'.	FNLC is a form of reimbursement based on conditions or results. The amounts set out in FNLC schemes are not defined as approximation of actual (real) eligible cost (i.e. reimbursement is not linked to costs).
Timing	Both SCOs and FNLC should be defined <i>ex ante</i> (i.e. before the actions covered by the simplification measures are implemented).	
Approach	SCOs are based on 'processes', 'outcomes' or 'results' ⁽⁹⁾ .	FNLC is based on the achievement of pre-agreed 'conditions' or 'results'.
Methods	CPR provides several methods to calculate SCOs.	No specific method is envisaged. The principle of sound financial management shall be respected.
Off-the-shelf options	Several off-the-shelf options are included in the CPR. EU-level SCOs can be established by the Commission under Article 94(4) CPR.	Possibility of EU-level FNLC adopted by the Commission under Article 95(4) CPR.
Mandatory use	In principle, the use of SCOs is optional. Exception: where the total cost of an operation does not exceed EUR 200 000, the use of SCO is mandatory, except for operations for which the support constitutes State aid.	Use of FNLC is always optional.
Adoption and assessment by Member States	SCOs can be used by Member States under Article 53 or Article 94 CPR. Under Article 94, ex ante assessment by the AA is mandatory prior to Commission approval (highly recommended under Article 53).	FNLC are used by Member States under Article 95 CPR. The proposals are assessed by the Commission (as for SCOs under Article 94), but ex ante assessment by the AA is not mandatory, though consulting the AA is highly recommended.
Verifications and audit	Where SCOs and FNLC are used, verifications and audits are limited to checking that the conditions (or results) triggering reimbursement are fulfilled. The underlying costs of operations covered by SCOs or FNLC shall not be subject to verifications or audits. It is also important to note that methodologies establishing FNLC and SCOs adopted under Article 94 CPR shall not be subject to audits.	
Reimbursement bases	Both SCOs and FNLC can be used for reimbursements from the Commission to Member States and from Member States to the beneficiaries (in the case of FNLC, grants provided by Member States to beneficiaries may take the form of FNLC only if such grants are covered by a reimbursement of the Union Contribution pursuant to Article 95 CPR).	

⁽⁸⁾ European Commission: Directorate-General for Employment, Social Affairs and Inclusion and Santin, L., *Simplified cost options – A practitioners' manual*, Publications Office, 2021, <https://data.europa.eu/doi/10.2767/509770>

⁽⁹⁾ SCOs could refer to different types of indicators, such as

- **Process-based:** where SCOs are linked to corresponding units of input (e.g. cost per trainer hours) or output (e.g. cost per course hour, cost per trainee hours)
- **Result-based (or outcome-based):** valuing SCOs in terms of results/outcomes achieved within the operation (e.g. cost per person involved in employment services finding a job, cost per student successfully completing a training course).

2. Why FNLC should be used

FNLC has several advantages for ESF+ authorities and stakeholders, some of which are common to SCOs:

- **Reduced administrative costs and burdens.** Recital (34) CPR states that 'where a financing scheme not linked to costs is used in a programme, the underlying costs linked to the implementation of that scheme should not be subject to any verifications or audits'. This significantly alleviates administrative costs (for the authorities) and burden (for beneficiaries).
- **Enhanced focus on policy objectives and results.** Setting up an FNLC scheme requires the MA to clearly define what will be financed, for what objectives, and under which specific conditions.
- **More effective policy development and implementation.** Beneficiaries can concentrate on fulfilling the conditions and achieving the results to realise policy objectives.
- **Lower error rate** compared to real costs. Similar to what has been reported for SCOs by the European Court of Auditors⁽¹⁰⁾, projects with costs declared using simplified rules are less error-prone, suggesting that more extensive use of FNLC will have a positive impact on error rates.

FNLC has several additional advantages compared to SCOs:

- **Calculation method is not required.** Given that FNLC should not lead to the *best possible approximation of actual (real) costs* (as in the case of SCOs), the MA is not required to develop a calculation method to establish the amounts linked to conditions and results. Rather, the requirement is to justify the amounts in compliance with the principle of sound financial management. Depending on the approach chosen to establish the amounts (see section 5), Member States need to prepare a budget justifying that the amounts for reimbursement included in the FNLC scheme are reasonable (not excessive or extreme). Since there is no need to link these amounts to actual implementation cost estimation, this budgeting exercise should be less complex and burdensome compared to the average calculation method required for SCOs.
- **FNLC allows greater flexibility** in determining the amounts linked to conditions and results. For example, the amounts could be established on the basis of savings in public expenditure through achieving the results envisaged by the scheme.
- **Enhanced possibilities to achieve challenging results.** The achievement of more challenging results could be incentivised by establishing higher amounts, such as top ups for addressing more challenging target groups, with lower chances

⁽¹⁰⁾ According to the multiannual overview of audit results published by the European Court of Auditors in 2024 'every 24th transaction involving SCOs was affected by error, compared to every fifth transaction based on reimbursement of actual costs'. In other words, the frequency of error in transactions based on reimbursement of actual (real) costs was almost five times higher than in transactions involving SCOs. See European Court of Auditors – *An overview of the assurance framework and the key factors contributing to errors in 2014-2020 cohesion spending*, 2024, at: <https://www.eca.europa.eu/en/publications/RV-2024-03>

of success¹¹, unlike SCOs, where amounts represent a proxy to the actual costs incurred by beneficiaries.

- **Enhanced programming and transparency.** FNLC require to set clear and measurable conditions, results and intermediate deliverables and allows to concentrate resources on programming and implementing ESF+ operations, rather than on reporting and verifying actual costs. Pre-established conditions and results also enhance predictability and transparency in the use of funds.
- **Faster spending.** The experience of ESF+ authorities shows that FNLC could enable faster spending.
- **Paradigm shift in approach to ESF+.** FNLC is not solely an instrument to finance projects, but also enhances possibilities for approaching ESF+ as a 'policy instrument'.

3. When and where to use FNLC

Although FNLC is theoretically applicable to any ESF+ intervention, several aspects should be considered when assessing whether an operation is suitable for this form of reimbursement:

- **'Size' (percentage of budget covered) of the operation.** The CPR does not provide for a minimum amount to be covered by FNLC proposals under Article 95. However, setting up FNLC schemes involves work for the MA (designing the scheme and preparing the proposal), the Commission (assessing the proposal) and possibly, the AA (whose involvement and assessment are highly recommended). It is advisable that FNLC proposals submitted for approval by the Commission cover a considerable percentage of programme contribution. E.g. Hungary and Romania, each with two FNLC schemes, are expected to cover 36% and 11% respectively of their ESF+ budget⁽¹²⁾.
- **Policy-based approach.** Members of the TN have noted that FNLC should be seen as a form of 'policy-based financing', whereas SCOs are better viewed as a measure to simplify the financing of 'projects'. The scope of FNLC (types of operations covered) should include interventions that could have a considerable impact on achieving key policy objectives. It is worth noting that several Member States have used FNLC to cover operations which involve structural reforms at national level (e.g. education system reform, public employment services modernisation, social inclusion policy enhancement).

⁽¹¹⁾ As in the case of the operations under ESF+ facilitating the integration of young persons into the labour market, education and society in the framework of the Aim, Learn, Master, Achieve (ALMA) initiative (Delegated Regulation (EU)2022/2175 of 5 August 2022) or for the FNLC scheme on provision of emergency (residential and non-residential) services to victims of domestic violence and to homeless persons under point 7 of Commission Delegated Regulation (EU) 2023/1676.

⁽¹²⁾ European Commission, *Study on the uptake of Simplified Cost Options (SCO) and Financing Not Linked to Costs (FNLC) for Common Provisions Regulation (CPR) Funds in the 2014-2020 and 2021-2027 programming periods*, 2025, available at: https://ec.europa.eu/regional_policy/sources/studies/2025/SCO_FNLC_for_CPR_study_2014_2020_and_2021_2027.pdf.

- **Possibility to identify clear and measurable conditions or results.** Defining an FNLC proposal implies a clear, *ex ante* definition of technical standards for the types of operation covered and conditions or results to be achieved to trigger the payments. The description of the type of operations covered by the FNLC scheme is a key aspect to be covered by proposals under Article 95 CPR. The description should be clear and sufficiently comprehensive to enable assessment of the proposal. MAs should avoid including technical specifications that may hinder flexibility or generate unnecessary constraints, so beneficiaries can focus on what to achieve, rather than how to achieve it. Similar to SCOs, the target group, conditions and/or results triggering payment should be clearly defined for all operations covered by the FNLC scheme. Selecting recurrent and stable operations (i.e. formerly financed under conditions that would not change significantly over time) could facilitate setting conditions and results. FNLC could also be viewed as an effective solution to finance innovative policy schemes (see section 2).

- **Possibility to use off-the-shelf options for**
 - operations under ESF+ and JTF that help to reduce the number of people at risk of poverty or social exclusion by providing residential and non-residential services for victims of domestic violence and people experiencing short-term or long-term homelessness (Delegated Regulation (EU)2023/1676 of 7 July 2023), and
 - operations under ESF+ facilitating the integration of young persons into the labour market, education and society in the framework of the “Aim, Learn, Master, Achieve (ALMA) initiative (Delegated Regulation (EU)2022/2175 of 5 August 2022).

Since the conditions for reimbursement under FNLC are set in a Delegated Regulation, including the types of operations covered, the results to be achieved or conditions to be fulfilled and the amount of such reimbursement, these off-the-shelf options can significantly reduce or even exclude the administrative burden of developing an FNLC scheme.

- **Possibility to refer to specific examples and models for FNLC developed by DG EMPL or the TN.** These models can alleviate the burden of developing an FNLC scheme, offering guidance and references that can facilitate the definition of an FNLC proposal.

The experience of ESF+ authorities which have been developing FNLC schemes, shows that this form of reimbursement has been already used for various policy areas (Employment, Education, Social Inclusion) and specific objectives (see table 2).

Table 2 – Coverage of ESF+ Specific Objectives per FNLC

Specific Objectives	% of FNLC schemes covering the Specific Objective
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4.1 - Access to employment and activation measures for all	35%
4.2 - Modernising labour market institutions	6%
4.3 - Gender balanced labour market participation	6%
4.4 - Adaptation of workers and enterprises to change	6%
4.5 - Improving education and training systems	12%
4.6 - Quality and inclusive education and training systems	0%
4.7 - Lifelong learning and career transitions	12%
4.8 - Active inclusion and employability	24%
4.9 - Integration of third country nationals	0%
4.10 - Integration of marginalised communities such as Roma	0%
4.11 - Equal access to quality social and healthcare services	0%
4.12 - Social integration of people at risk	12%
4.13 - Addressing material deprivation	0%
FNLC Schemes with no Specific Objective noted by respondents	29%

Source: European Commission, Study on the uptake of Simplified Cost Options (SCO) and Financing Not Linked to Costs (FNLC) for Common Provisions Regulation (CPR) Funds in the 2014-2020 and 2021-2027 programming periods, 2025

4. Who should be involved in designing an FNLC scheme?

According to the CPR, it is the sole responsibility of the MA to prepare and submit an FNLC proposal to the Commission for adoption under Article 95.

Involving stakeholders in the setup of FNLC schemes is crucial not only for open communication but also to identify common goals and to guarantee a shared understanding during implementation. This collaborative approach helps prevent misunderstandings about roles and responsibilities, ensuring clarity on who does what and when. Additionally, it minimises the risk of unexpected issues arising during implementation. For instance, when defining the audit trail all stakeholders should understand from the beginning how to maintain completeness and how to ensure access to the necessary information and documentation.

Preliminary experiences of early adopters indicate that such FNLC schemes are best designed not only in close collaboration between authorities involved in implementing the funds, but also in dialogue with other stakeholders:

- **Policymakers, IBs and line ministries.** Taking into account the need to clearly define technical standards for the types of operations and indicators, as well as the potential impact of decisions on the design of the FNLC schemes at policy level, policymakers, IBs and line ministries should be involved in the decision-making process. Defining FNLC is not merely an administrative process.
- **AA.** The *ex ante* assessment of FNLC proposals by the AA is not mandatory, but consultation is recommended by members of the TN, as for SCOs ⁽¹³⁾. Under

⁽¹³⁾ European Commission: Directorate-General for Employment, Social Affairs and Inclusion and Santin, L., Ex ante assessment of simplified cost options and partnerships between managing authorities and audit authorities – How to do it?, Publications Office, 2021, <https://data.europa.eu/doi/10.2767/113929>

Article 95 CPR, the Commission's adoption of the proposal ensures legal certainty on the compliance of the FNLC scheme with EU rules. However, consulting the AA facilitates better proposal design and prevents misunderstandings (e.g. on the audit approach and audit trail) or potential errors during implementation. This significantly mitigates risks related to implementation of the scheme. According to the latest study on the uptake of SCOs and FNLC ⁽¹⁴⁾, in 83% of FNLC schemes developed by ESF+ authorities the AA was consulted throughout the design phase.

- **ESF+ stakeholders and beneficiaries.** FNLC implies a paradigm shift and change in mindset for authorities and stakeholders, particularly for programmes with little or no experience of implementing results-based approaches. Learning from more experienced MAs, during proposal design ESF+ stakeholders and beneficiaries should be kept informed of key aspects and practical implications (pros and potential cons) of FNLC implementation. Consulting stakeholders early on paves the way to better (and more sustainable) implementation of FNLC schemes. In addition, social partners have important contributions to make to the design of the policy approach and the FNLC scheme.
- **European Commission.** Early, ideally informal, consultation with the Commission is strongly recommended to facilitate smooth and swift adoption of the scheme.



5. How to design FNLC proposals



Recommendations on how to design FNLC proposals under Article 95 CPR were identified by members of the ESF TN on Simplification.

Table 3 presents these recommendations in line with the template for submitting FNLC proposals to the Commission. It refers to items included in section B of Annex V, Appendix 2 to the CPR.

⁽¹⁴⁾ European Commission, *Study on the uptake of Simplified Cost Options (SCO) and Financing Not Linked to Costs (FNLC) for Common Provisions Regulation (CPR) Funds in the 2014-2020 and 2021-2027 programming periods*, 2025, available at: https://ec.europa.eu/regional_policy/sources/studies/2025/SCO_FNLC_for_CPR_study_2014_2020_and_2021_2027.pdf

Table 3 – Recommendations on FNLC design



Items in section B of Annex V, Appendix 2	Do's 	Don'ts 
1. Description of operation type	<ul style="list-style-type: none"> It is essential to clearly describe the types of operation and specific objectives covered by the FNLC scheme (i.e. what does the MA want to finance and for what specific objectives). 	<ul style="list-style-type: none"> Avoid unclear or incomplete descriptions that make it difficult for the Commission to start the assessment and impossible for beneficiaries and stakeholders to understand the conditions or results to be achieved.
2. Specific objective(s)	<ul style="list-style-type: none"> Keep the description simple and to the point. Cross-references to the programme or other external sources (e.g. relevant legal acts formally adopted by the Member State) could be included in the description. Keeping the description simple is also essential to allow beneficiaries to concentrate on achieving results or conditions ('what'), rather than meeting (unnecessary) technical standards ('how') (see section 3). Ensure that the description of the operation is fully consistent with the ESF+ programme. The description should clearly indicate the operation's beneficiary (or type of beneficiary), as defined in Article 2 of the CPR. Where relevant, the scheme can be linked to more than one specific objective. In section 2 of the template, the MA should indicate the specific objective(s) of the fund-specific regulation to which the FNLC scheme refers. <p>Examples of operation types in FNLC schemes developed by ESF+ authorities are presented in Annex I</p>	<ul style="list-style-type: none"> Avoid including information that is unnecessary to defining the scope of the FNLC scheme and assessing the proposal. Such information could hamper flexibility during implementation (Annex V, Appendix 2, is part of the ESF+ programme). Don't be too prescriptive. Avoid unnecessary constraints for beneficiaries. Including overly specific technical standards that are too specific and would undermine flexibility in implementation and, eventually, the ability of beneficiaries to achieve conditions and results. Avoid including actions, requirements or outcomes that are not consistent with the programme / not eligible under the programme.

Items in section B of Annex V, Appendix 2	Do's 	Don'ts 
3. Conditions to be fulfilled or results to be achieved	<p>Conditions or results should be:</p> <ul style="list-style-type: none"> ▪ Relevant, closely linked to the policy objectives to be reached. Where possible and relevant, aim for outcomes such as qualifications obtained following training, employment following active labour market policies, etc. ▪ Consistent with the types of operation covered by the scheme (section 1) and with the logical framework of the scheme. ▪ Clear and unequivocal. It is also very important to clearly define the conditions and results. Specify any possible interdependences among them, which could generate interdependent intermediate deliverables (see section 7) ⁽¹⁵⁾. Ensure a valid intervention logic, both in terms of logical sequence of events and timing. ▪ Feasible/sustainable in relation to the technical specifications and the amounts paid on fulfilment/achievement. ▪ Measurable and easy to verify. Ensure a correct baseline has been established to measure progress and a clear and feasible audit trail can be established to demonstrate achievement <p>Examples of conditions and results in FNLC schemes developed by ESF+ authorities are presented in Annex I</p>	<p>Conditions or results should <u>NOT</u> be:</p> <ul style="list-style-type: none"> ▪ Irrelevant. Avoid conditions and results which are not relevant for achieving policy objectives. Avoid including too many conditions and results ⁽¹⁶⁾ and focus only on the most relevant for the achievement of policy objectives. ▪ Inconsistent. Don't include conditions and results that are not fully consistent with the description of the type of operation and with the logical framework of the scheme. ▪ Unclear and equivocal. Avoid any risk of misunderstanding/misinterpretation (e.g. whether or not a specific condition or result is achieved). This would be key to exclude uncertainty in implementation (for beneficiaries) and control (for responsible authorities) and to reduce the risk of errors. ▪ Not feasible / sustainable. Avoid conditions and results that cannot be achieved with the given resources or that go beyond the capacity of beneficiaries ⁽¹⁷⁾. ▪ Not measurable and easy to verify. For example, avoiding qualities that are difficult to verify/asses, such as "improved" counselling services or "high quality training".



⁽¹⁵⁾ E.g. Condition 1 in an FNLC scheme is to *formally adopt technical specifications for the modernisation of Public Employment Services (minimum requirements for the services and minimum qualifications of operators providing the services)* and condition 2 is to *deliver modernised services to xxxx individuals*. In this case, it is clear that the provision of modernised services cannot start before condition 1 is fulfilled.

⁽¹⁶⁾ Less experienced MAs tend to include too many conditions and results in the first version of the draft FNLC scheme. This involves two potential issues: (i) higher burden in implementation and control and (ii) higher risk of inconsistencies and, eventually, errors.

⁽¹⁷⁾ E.g. Expecting local NGOs or schools to achieve a result such as "increase of the number children enrolled in primary education at national level".



Items in section B of Annex V, Appendix 2	Do's 	Don'ts 
4. Deadline for the fulfilment of conditions or results to be achieved ⁽¹⁸⁾	<ul style="list-style-type: none"> Set a realistic deadline, taking into account: (i) the time required for beneficiaries to fulfil the conditions / achieve the results and (ii) the time required for the MA to verify the conditions / results. The (final) deadline for implementation of the scheme must be compliant with CPR provisions on eligibility of expenditure. 	<ul style="list-style-type: none"> Avoid setting deadlines that are not realistic / feasible, in the attempt to anticipate reimbursement. Don't include deadlines beyond the eligibility period.
5. Indicator definition	<ul style="list-style-type: none"> Indicators and units of measurement should reflect the criteria described in the “do’s” for section 3 (definition of conditions and results). 	<ul style="list-style-type: none"> Indicators and units of measurement should avoid the “don’ts” described in section 3 (definition of conditions and results).
6. Unit of measurement for conditions to be fulfilled/ results to be achieved to trigger reimbursement by the Commission	<ul style="list-style-type: none"> FNLC indicators could be linked to (coincide with) ESF+ common or programme-specific indicators. This would generate several advantages: (i) referring to well-established indicators which are already in use in the programme enhances certainty on how indicators are defined and should be measured and ensures that the indicators are relevant for the programme, (ii) it simplifies implementation, as data from the monitoring of FNLC indicators could be used for the programmes' monitoring and evaluation. <p>Examples of indicators used in the FNLC schemes are presented in Annex I</p>	

⁽¹⁸⁾ It is important to note that this section of Appendix 2 includes the (final) deadline by when the FNLC scheme must be implemented. Intermediate deadlines (for each intermediate deliverables) are to be included in section 7 of the template.

Items in section B of Annex V, Appendix 2	Do's 	Don'ts 
<p>7. Intermediate deliverables (if applicable) triggering reimbursement by the Commission with a schedule for reimbursements</p>	<ul style="list-style-type: none"> ▪ Setting intermediate deliverables (milestones) is highly recommended, particularly where the FNLC scheme is also used for reimbursements to beneficiaries, to mitigate the risk of financial disequilibrium (see the “don'ts”). ▪ Setting intermediate deliverables also enhances financial sustainability, allowing more frequent payments. ▪ Interdependent or cumulative milestones ⁽¹⁹⁾ could be set, provided that they are justified by the intervention logic. ▪ Some flexibility can be allowed in the ‘envisaged date’ to be indicated for each intermediate deliverable (unlike the deadline in section 4). It is important to specify that intermediate deliverable deadlines are ‘indicative’, to allow flexibility during implementation. Nonetheless, it is important to respect the logical sequence of the intermediate steps/deliverables. Furthermore, in case cumulative targets are set this has to be clearly defined (e.g. 100 by year 1, 100 additional units (and 200 (cumulatively) by year 2) and verifiable to avoid double counting ▪ The amounts to be reimbursed by the Commission for each intermediate deliverable should be realistic (in compliance with sound financial management). It is recommended that the audit authority assesses these amounts. <p>Examples of methods to establish FNLC amounts are presented in Annex II</p>	<ul style="list-style-type: none"> ▪ Avoid setting up an FNLC scheme with no intermediate deliverables and including only a (final) condition/result. This “binary approach” would involve a high risk of financial disequilibrium ⁽²⁰⁾. ▪ Don't set too many intermediate deliverables. This will increase burden during implementation. ▪ Setting numerous interdependent or cumulative milestones could hinder the flexibility of the FNLC scheme. The achievement of milestones should not be conditional on achieving a subsequent (final) result or condition, as this would clearly nullify the positive effect of milestones mitigating the risk of financial disequilibrium. ▪ Avoid intermediate deadlines that are not realistic / feasible, in an attempt to anticipate reimbursement. ▪ Avoid proposing amounts which are not realistic or not justified (i.e. where it is impossible to assess compliance with sound financial management).



⁽¹⁹⁾ Where the achievement of one or more milestones is conditional on achieving other (previous or even subsequent) milestones within the FNLC scheme.

⁽²⁰⁾ Amounts set out in the FNLC scheme are reimbursed only if predefined conditions are fulfilled or results are achieved. If those conditions or results are not (entirely) achieved, no reimbursement is possible. In practice, this could lead to a binary situation of payment/no payment, depending on full achievement. Establishing milestones that trigger partial payments related to specific intermediate conditions clearly defined upfront (within the FNLC proposal) is an effective mitigation measure.

Items in section B of Annex V, Appendix 2	Do's 	Don'ts 
8. Total amount (including EU and national funding)	<ul style="list-style-type: none"> Where necessary, conversion between the euro and another currency shall be made according to the provisions of the Financial Regulation and the CPR. 	
9. Adjustment(s) method	<ul style="list-style-type: none"> Adjustment refers to the amounts for reimbursement and not the conditions, results or milestones set out in the FNLC scheme. The same principles and recommendations should be observed as for adjustment methods for SCOs ⁽²¹⁾. The adjustment method and its calculation shall be based on well-established, objective indicators that reflect economic or sectoral changes over time ⁽²²⁾. 	<ul style="list-style-type: none"> Avoid proposing adjustment methods covering conditions, results or milestones in the FNLC scheme. Avoid proposing unclear or incomplete methods (i.e. where it is not possible to identify the criteria or index to be considered for the adjustment).
<p>10. Verification of the achievement of the result or condition (and where relevant, the intermediate deliverables):</p> <ul style="list-style-type: none"> - describe what document(s)/system will be used to verify the achievement of the result or condition (and where relevant, each of the intermediate deliverables) - describe how management verifications (including on-the-spot) will be carried out, and by whom. 	<ul style="list-style-type: none"> The audit trail shall include all obligatory elements for reimbursement of the Union Contribution by the Commission under Article 95, indicated in Annex XIII, Section IV CPR. The audit trail should be <u>exhaustive</u> (i.e. include all information/documents needed to demonstrate that results, conditions and intermediate deliverables have been achieved). The description of how management verifications will be carried out and by whom and of the arrangements to collect and store relevant documents must be clear and 	<ul style="list-style-type: none"> An unclear or incomplete audit trail would create significant uncertainty in implementation (for beneficiaries), control (for responsible authorities) and, eventually, a significant risk of errors. The audit trail <u>should not be excessive</u> (it should not include unnecessary information not required by EU rules). Gold-plating practices should be avoided when establishing procedures for management verification (administrative and on-the-spot).

⁽²¹⁾ European Commission, *Guidance on Simplified Cost Options (SCOs), Flat rate financing, Standard scale of unit costs, Lump sums* (revised edition following the entry into force of Regulation (EU, Euratom) 2018/1046), 2021; CoP RBM, *Guidance on Simplified Cost Options (SCOs)* and *Simplified Cost Options – a practitioners' manual*, 2021, available at: <https://data.europa.eu/doi/10.2767/509770>

⁽²²⁾ Since the reimbursement scheme is designed to reward results rather than cover implementation costs, the use of actual cost data is intentionally excluded. This approach promotes efficiency and innovation by focusing on outcomes rather than inputs. Adjustments to reimbursement values should rely on publicly available indices or evidence-based methods, such as the Consumer Price Index (CPI), Labour Cost Index (LCI), or other relevant benchmarks. However, it should be noted that any adjustment is subject to the availability of budgetary resources within the scheme. Where budget limitations apply, adjustments may not be feasible, even if justified by index-based calculations.

Items in section B of Annex V, Appendix 2	Do's 	Don'ts 
<p>- describe what arrangements will be made to collect and store relevant data/documents</p>	<p>exhaustive.</p> <ul style="list-style-type: none"> Integrated IT systems/tools should be used where possible to enhance efficiency and reduce errors in management verifications. The systems used are to be described. <p>Examples of management verifications and arrangements for compliance with applicable law are presented in Annex III</p>	
<p>11. Use of grants in the form of financing not linked to costs. Does the grant provided by Member State to beneficiaries take the form of financing not linked to costs? [Y/N]</p>	<ul style="list-style-type: none"> FNLC can also be used for the grants provided by Member State to beneficiaries to take full advantage of this simplification measure. Based on the EC study on the use of FNLC, the entire budget expected to be covered by “upper level” FNLC in ESF+ 2021-2027 programmes is planned to be reimbursed with FNLC also at the “lower level”. It is highly recommended to use FNLC also at the “lower level” (i.e. to reimburse beneficiaries). Using the same (simplified) form of reimbursement brings significant advantages for both beneficiaries (reduced administrative burden) and authorities (enhanced simplification, fewer administrative costs and errors, as well as not having to manage two different forms of reimbursement for the two levels). 	<ul style="list-style-type: none"> Avoid using simplification measures only at the ‘upper level’, while maintaining high administrative burden for beneficiaries. Avoid different reimbursement for the “upper and lower levels” as this would require setting up and implementing separate sets of management and control procedures for the same operation and would generate inefficiencies and more risk of errors.
<p>12. Arrangements to ensure the audit trail Please list the body(ies) responsible for these arrangements</p>	<ul style="list-style-type: none"> Possible changes in the audit trail can be proposed by the Member State based on objective reasons. These should be assessed and agreed by the Commission on a case-by-case basis. Detail arrangements to ensure the audit trail is specific to the scheme, and not only to the general monitoring and control arrangements of the programme 	<ul style="list-style-type: none"> Avoid proposing amendments to the audit trail without providing objective reasons to justify them. Avoid proposing a ‘generic’ audit trail (simply referring to the types of documents which may be collected and verified), which doesn’t include specific information on the documents demonstrating that results are achieved or conditions fulfilled.

The experience of ESF+ authorities shows that the timeline for designing and adopting an FNLC scheme can vary significantly (from a few to several months). Experience also shows that the timeline is mostly affected by the MA having (or not having) a clear idea, from the outset of the process, of what to finance. Without a clear definition of the rationale and contents of the operation as well as the possible conditions and results to be fulfilled / achieved (items 1 and 3 of section B in Appendix 2) it is not possible to move forward with the scheme.

In the majority of cases, the step that requires most time is not designing the FNLC scheme but addressing policy issues on the scope and design of the operation.



FNLC schemes offer the significant advantage of compelling authorities to clearly define policy objectives and desired outcomes in advance. This proactive approach ensures that the focus remains on achieving specific results rather than merely on financing the implementation of operations. Once there is a clear understanding of what needs to be financed, including the rationale, content and conditions for success, the process moves forward smoothly and efficiently. Thus, even if the process seems lengthier, especially during the design phase, this clarity helps streamline implementation and ensures that all stakeholders are aligned on the goals and expectations from the beginning.



6. How to implement FNLC

This section presents recommendations on how to implement FNLC schemes identified by members of the ESF TN on Simplification. They are based on the experience of the first ESF+ authorities to adopt FNLC schemes.

Table 4 presents these recommendations, considering both good and not-so-good practices in implementation (do's and don'ts).

Table 4 – Preliminary recommendations on FNLC implementation

<p style="text-align: center;">Do's </p>	<p style="text-align: center;">Don'ts </p>
<ul style="list-style-type: none"> ▪ Set up and implement a continuous monitoring system from the outset, to track progress towards the achievement of intermediate deliverables and allow early identification of potential delays. Continuous monitoring also enables early identification of possible issues and risks (e.g. regarding the achievement of a condition / result, the audit trail, etc.) and timely implementation of corrective measures. ▪ Capitalise on the collaboration with relevant units of the European Commission established during the design phase. Keep regular contact with the Geo desk, providing information on the progress of the scheme and addressing possible issues that would require shared interpretation. ▪ Liaise with the AA on a regular basis and consider the possibility of an early preventive audit on the implementation of the FNLC scheme, within the first months of implementation. Experience shows that early preventive audits can be very useful to fine tune processes and tools for management and control, before the first payment claim is submitted. ▪ Provide early support to beneficiaries (also through targeted capacity building), allowing them to clearly understand how FNLC works and how they are expected to achieve and report on conditions and results set out in the scheme. ▪ Capitalise on experience around the implementation of performance-based schemes available at EU level (information provided by the European Commission and the ESF Transnational Network on Simplification) and National level (e.g. Recovery and Resilience Plans). 	<ul style="list-style-type: none"> ▪ Don't wait for achievement of the first intermediate deliverable to start monitoring implementation. ▪ Don't delay consultations with the Commission and beneficiaries: i.e. don't wait until the first payment request to liaise with the Commission (at the "upper level") or beneficiaries (at the "lower level"). ▪ Don't think that engaging with beneficiaries and supporting them throughout implementation would breach independence / respect of roles and responsibilities. ▪ Don't take for granted that the FNLC scheme (i.e. Annex V – Appendix 2) is clear also for authorities and beneficiaries who did not participate in designing the scheme. ▪ Don't ask beneficiaries to provide unnecessary information / evidence. Focus on what is included in the audit trail. ▪ Don't assume beneficiaries can automatically change mindset (i.e. shift from real costs to performance-based financing), in no time, without support. ▪ Don't forget that changes in the FNLC scheme require a programme amendment (as the scheme is adopted under Article 95 CPR and is part of the ESF+ programme). ▪ Don't forget that the ultimate purpose of implementation is to achieve the policy objectives identified when the scheme was designed.

<p>Do's </p>	<p>Don'ts </p>
<ul style="list-style-type: none"> ▪ Include informal contacts with beneficiaries in the activities of the continuous monitoring system. Encouraging beneficiaries to informally discuss potential implementation issues (before the payment requests are submitted) is key to preventing issues during management verifications. ▪ Ensure (and remind beneficiaries to ensure) full consistency with the FNLC scheme (i.e. what is specified in the approved Annex V – Appendix 2). Particular attention should be paid to provisions which regulate the eligibility of activities and participants (conditions and results must be achieved as described in the approved FNLC scheme). ▪ Ensure that all documents in the audit trail, relevant to demonstrate the achievement of conditions and results, are collected and stored in the system, in compliance with the description provided in the approved FNLC scheme (Annex V – Appendix 2). ▪ Ensure that the management and control system is suitable for tracking the achievement of conditions, results and relevant intermediate deliverables, providing timely, accurate, exhaustive and reliable information and that management verifications are appropriate for the relevant FNLC scheme. ▪ In case of staff turnover, ensure that all relevant information, including aspects discussed during the design phase, is transferred to officials who are responsible for the implementation of the scheme. 	

7. Conclusions and key recommendations

Recommendations on the design and use of FNLC were identified by members of the ESF TN on Simplification.

- I. The MA should look first at what results or conditions should be achieved through ESF+ programmes. Reflections on the most suitable form of reimbursement (e.g. FNLC) can be developed only when clear, relevant and measurable results or conditions are identified. Results and conditions should steer the choice of form of reimbursement, not the other way around.
- II. Willingness to change paradigms and mindset is a key precondition for the use of FNLC. Shifting from more traditional forms of financing projects based on (or linked to) costs towards approaches based on results or conditions requires a cultural leap by authorities and stakeholders.
- III. FNLC has certain advantages over SCOs in that it allows greater flexibility in determining the amounts linked to conditions and results and enhances the likelihood of achieving challenging results within ESF+ programmes.
- IV. FNLC is relatively new and the level of practical knowledge is inevitably lower. Early, informal consultation with the European Commission is strongly recommended to facilitate swift and smooth adoption of the FNLC scheme.
- V. Setting up an FNLC scheme should be seen as an investment. It requires time and resources, but has a positive impact on the effectiveness and efficiency of ESF+ programmes. To enhance the return on investment, FNLC proposals should cover a considerable percentage of programme contribution and include interventions with significant impact on the achievement of key policy objectives.
- VI. The MA is responsible for designing FNLC schemes. However, all relevant parties should be involved in their design and implementation. These include policymakers, IBs and line ministries, AAs, ESF+ stakeholders and beneficiaries, as well as the European Commission.
- VII. FNLC proposals under Article 95 CPR should balance accuracy, completeness and clarity of information with flexibility and sustainability of the scheme. Gold-plating practices that impose unnecessary rules or procedures not required by EU regulation should be avoided. This recommendation applies to all items in Annex V, Appendix 2 (see Table 3 above).
- VIII. Having a clear idea of what to finance (rationale and contents of the operation, conditions and results to be fulfilled / achieved) is key to efficiently designing FNLC proposals. It is not possible to develop an FNLC scheme if the key aspects, including scope and target groups of the underlying operation, are not clear.
- IX. It is strongly recommended to use FNLC both for reimbursements from the Commission to Member States (“upper level”) and from Member States to beneficiaries (“lower level”), to fully enhance simplification for all ESF+ stakeholders.
- X. FNLC indicators could be linked, as much as possible, to ESF+ common indicators or programme-specific indicators, to enhance certainty on how to define and measure indicators and to simplify programme implementation.

- XI. During FNLC implementation, it is essential to set up and implement continuous monitoring from the outset, to track progress towards the achievement of intermediate deliverables and to allow early identification of potential delays, issues and risks as well as timely adoption of countermeasures.
- XII. The use of an integrated IT system can significantly enhance efficiency in management verifications and audit while also reducing the risk of errors.
- XIII. Build on the experience of Member States which have already adopted FNLC schemes.

Annex I – Examples of operations, conditions, results and indicators

The boxes below present examples of operations, conditions, results and indicators covered by FNLC schemes under Article 95 CPR, including:

- A description of the type of operation covered by the FNLC scheme.
- Conditions to be fulfilled and results to be achieved.
- Indicators included in the FNLC scheme.
- Intermediate deliverables triggering reimbursement by the Commission.

Example 1 – FNLC scheme for vocational training

1. Operation type

The objective of the FNLC scheme is to provide training tailored to the skills needed by companies, enabling more skills for people furthest from employment so they can better integrate into the labour market.

Target group: jobseekers and inactive people.

Beneficiary: the regional department in charge of vocational training.

The operation includes:

- Training to obtain an official certification.
- Training to acquire or consolidate certain skills.
- Pathways to access qualifications and professional pathways.

Training is provided by accredited training organisations selected by public procurement.

2. Conditions and results

The FNLC scheme includes one condition and one result:

- *Condition 1*: 3 000 unemployed people participating in training.
- *Result 1*: 2 500 participants gaining a qualification upon leaving.

3. Indicators

The FNLC scheme includes two indicators, reflecting the aforementioned condition and result. As suggested in table 3 of the recommendation paper (see section 5 of the table), both the proposed indicators are common indicators, namely:

- (For *condition 1*) - Common output indicator EECO02 - *unemployed, including long-term unemployed (participating in training)*
- (For *result 1*) Common result indicator EECR03 - *participants gaining a qualification upon leaving*

4. Intermediate deliverables

Intermediate deliverables were set for the condition and the result.

The intermediate deliverables for *condition 1* are the cumulative⁽²³⁾ number of unemployed people participating in training, e.g.:

- *Intermediate deliverable 1*: 1 000 participants in training indicatively by 31/12/2025
- *Intermediate deliverable 2*: 2 000 participants in training indicatively by 30/06/2026
- *Intermediate deliverable 3*: 3 000 participants in training indicatively by 31/12/2026

The intermediate deliverables for *result 1* are expressed in terms of (cumulative) number of participants gaining a qualification upon leaving, E.g.:

- *Intermediate deliverable 1*: 700 participants with a qualification indicatively by 31/12/2026
- *Intermediate deliverable 2*: 1 500 participants with a qualification indicatively by 31/12/2027
- *Intermediate deliverable 3*: 2 500 participants with a qualification indicatively by 31/12/2028

As suggested in table 3 of the recommendation paper (see section 5 of the table), the deadlines for intermediate deliverables are defined as *indicative*, to allow some flexibility in implementation.

Example 2 - FNLC for Integrated community services for social inclusion

1. Operation type

This operation aims to develop integrated community services in marginalised rural communities.

The specific objectives are:

- To increase the quality of community services provided in 2 000 marginalised rural communities by adapting them to local needs and enhancing the capacity of local authorities to respond effectively to vulnerabilities.
- To increase the number of people benefiting from integrated community services in the 2 000 rural communities to at least 450 000 beneficiaries and improve the quality of life for those receiving these services by creating integrated community teams and applying standardized procedures, methodologies, and specific tools.
- To improve the skills of specialists in integrated community teams in the 2 000 communities or other relevant authorities, thus strengthening the network of public service providers through integrated community services adapted to the needs of the population.

Target group: vulnerable people living in marginalised rural communities.

Beneficiary: Ministry of Labour and Social Solidarity

2. Conditions and results

The FNLC scheme includes five conditions:

- *Condition 1*: Establish the strategic framework for the intervention
- *Condition 2*: 2 000 established and functional integrated community teams with diagnoses and action plans developed by the relevant local authorities and approved by the three competent ministries
- *Condition 3*: 2 000 premises equipped to provide integrated community services for at least 24 months

⁽²³⁾ The intermediate deliverables in the above example are expressed as cumulative numbers, e.g. the 2 000 participants in training to be indicatively reached by 30/06/2026 include the 1 000 participants reached by 31/12/2025. Intermediate deliverables could be also expressed in other forms (e.g. as % of the total target to be reached at the end of the operation or as target number to be reached in a given period). The FNLC proposal should clearly indicate the form in which targets are presented / how they should be interpreted.

- *Condition 4*: 6 373 members of the integrated community teams with a qualification
- *Condition 5*: 450 000 vulnerable people benefit from services provided by integrated community teams.

3. Indicators

The FNLC scheme includes five programme-specific indicators, reflecting the aforementioned conditions. The FNLC scheme includes only programme-specific indicators (no common indicators are used).

4. Intermediate deliverables

Intermediate deliverables were set for all (five) conditions in the FNLC scheme.

It is interesting to note that this FNLC scheme includes **interdependent conditions**:

- *Condition 2* is conditional on fulfilling *Condition 1* (approval by the European Commission of the Strategy and Implementation Plan) which includes the list of rural communities where the integrated community teams will be established and the procedure for recruiting and maintaining members of the community teams developed by the relevant Ministries.
- *Condition 3* is conditional on fulfilling *Condition 1*, which includes the list of the rural communities, including the reserve list, and the minimum conditions for equipping the rural community spaces/centres that will be (re)designed/rehabilitated/ modernised to increase access for vulnerable people to integrated community services.
- *Condition 4* (trained/qualified integrated community team members) is conditional on fulfilling *Condition 1* to meet the minimum (qualitative and quantitative) requirements for trainings. Additionally, it is linked to *Condition 2*, as only the integrated community team specialists identified and appointed based on *Condition 2* are considered for fulfilment of *Condition 4*.
- *Condition 5* (450 000 vulnerable persons) is conditional on fulfilling *Condition 1* as well as adhering to the complete list of activities and services to be funded under the diagnoses and action plans. Additionally, it is linked to *Condition 2*, as integrated services are provided only after the integrated community teams have been established.

Example 3 - FNLC for Social Impact Contracts

1. Operation type

Social Impact Contracts - Promoting the social integration of people at risk of poverty or social exclusion, including the most deprived and children.

The operation aims to contract specific and measurable social impacts resulting from experimental projects, with innovative approaches in priority public policy areas for social inclusion, with defined indicators and payment based on public expenditure savings. The objective is to contribute to improving public policies, through social innovation and impact.

Target groups:

- Children at risk of institutionalisation
- Former detainees.

Beneficiaries: private or social economy entities.

2. Conditions and results

The FNLC scheme includes two results, related to overcoming vulnerability conditions.

- *Result 1* (Social protection): 12 months after leaving the vulnerability condition (start of intervention) and during this period, the child was not removed and remains within the family.
- *Result 2* (Justice) 6 months after release, it is verified whether the ex-prisoner spent 6 months without reoffending and with a full-time or part-time employment contract.

3. Indicators

The FNLC scheme includes two indicators, reflecting the aforementioned results. These are not common indicators.

- (For *result 1*) – Result indicator - *Children remaining within the family 12 months after the start of the intervention*
- (For *result 2*) Result indicator - *Ex-prisoners in employment within 6 months after release.*

4. Intermediate deliverables

The FNLC scheme does not include intermediate deliverables.

- As mentioned in table 3 of the recommendation paper (see section 5 of the table), setting up an FNLC scheme with no intermediate deliverables and including only (final) results (as in this example) involves a high financial risk and is not recommended.

Annex II – Examples of methods to establish amounts

The amounts to be reimbursed by the Commission for each intermediate deliverable should be realistic and compliant with sound financial management. Member States submit calculations of the amounts to the Commission for assessment of the scheme. It is recommended that the amounts are assessed by the AA prior to submission to the Commission.

ESF+ authorities have followed three approaches for establishing amounts based on:

1. **Data from historical data sets, administrative data, market surveys or other reliable and verifiable sources.**
2. **Data already in the ESF+ programme:** while ensuring compliance with sound financial management, amounts to finance actions needed to achieve the pre-agreed conditions or/and results are set, for example, by dividing the amount for a specific objective by the target for the indicator relevant for the concerned specific objective / intervention.
3. **Savings in public expenditure** from the FNLC scheme results (e.g. reduced public expenditure for subsidies to long-term unemployed people who gained employment upon leaving).

This annex presents examples of the three approaches.

1. Historical data sets, administrative data, market surveys or other reliable and verifiable source

This method is based on historical or any other data relevant to support a 'costing' exercise. The rationale is to rely on past records or other objective information to estimate costs that can inform the quantification of payments.

Examples of how this approach was implemented are in the box below.

Establishing FNLC amounts

Historical data sets, administrative data, market surveys or any other reliable and verifiable source

This example refers to an FNLC scheme, aimed to improve the efficiency of the national education system. The intervention includes promoting self-directed and collaborative learning and skills.

The approach to establish amounts used by the MA was based on different data sources and methods and involved:

- Mapping activities related to the reform with defined outputs, results and duration.
- Identifying resources needed (human resources, financial resources for procurements or delegated assignments) bearing in mind the duration of the activity and requirements, to ensure results with the required quality.
- Estimating resource quantities and related costs using various data resources and calculation

methods (internal data, external data, expert judgement, bottom-up estimate for detailed cost breakdown, EU unit costs) to enhance the accuracy and reliability of resource estimates.

- The individual cost estimates determined the total cost estimate for the operation.

2. Data already in the ESF+ programme

This approach links programme policy targets - as defined in ESF+ programme output and result indicators - to the FNLC payment structure. It involves using those pre-agreed indicators and targets not just for monitoring purposes but also as direct triggers for disbursements. The estimated amounts included in the programme for a specific operation are used as reference to determine the amounts for the conditions and results achieved by implementing the concerned operation.

An example of this approach can be found in an FNLC scheme covering measures targeting marginalised communities. The subsidy per month / community to be reimbursed and the targets were based on ESF+ programme figures and programme specific indicators set out in the adopted ESF+ programme, verified that the amounts are compliant with the principle of sound financial management.

In particular, to determine the amounts to be included in the FNLC scheme the MA calculated an amount per supported marginalised community, dividing the total amount established in the ESF+ programme for the concerned measure by the target number of communities to be supported according to the programme. The amount per community was then used to establish the amounts to be reimbursed for achieving the various intermediate deliverables in the FNLC schemes (expressed in terms of number of communities supported in a given period). The target number of communities for each intermediate deliverable took into account the targets in the ESF+ programme.

The FNLC scheme was developed in parallel with the ESF+ programme. The calculation based on data already in the programme can also be used for FNLC schemes developed at a later stage. However, it is essential to ensure that the operation and the conditions and results triggering reimbursement under the FNLC scheme are fully consistent with the description of the measure and the targets in the ESF+ programme.

3. Savings in public expenditure

This method involves calculating the value of payments based on the anticipated public savings or benefits generated by the results. Rather than looking backwards at cost structures, it projects economic or financial gains.

This approach requires:

- A clear and credible link between results and quantifiable financial savings
- Robust evidence or models to support these links
- Data and information to quantify the savings in public expenditure from the results.

An example of how this approach was implemented in practice is presented in the box below.

FNLC amounts based on public expenditure savings

This example refers to the FNLC scheme presented in Appendix I - example 3, covering Social Impact Contracts to promote the social integration of people at risk of poverty or social exclusion, including the most deprived and children.

The amounts to be reimbursed were entirely determined by the savings in public expenditure from the scheme results (overcoming or mitigating the vulnerability of recipients).

For children at risk of institutionalisation:

- The support aims to prevent institutionalisation by helping children stay safely with their families. It provides childcare assistance and better access to social and health services, reducing long-term risks such as school failure and dropout. The measures also promote family stability and inclusion, increasing opportunities for parents—especially mothers—to return to the labour market.
- Twelve months after the intervention began, if the child has remained with the family and avoided institutionalisation, the risk is considered overcome and the beneficiary is entitled to a payment equivalent to the public saving of 12 months in a foster home.

For ex-prisoners

- The intervention supports this target group during the critical first months after regaining freedom, addressing key aspects for social reintegration and preventing recidivism, where employment is decisive in active inclusion.
- If there is no recidivism for six consecutive months after release and, during this period, the individual signs a full-time or part-time employment contract (fixed-term or indefinite, without participation in any active employment measure), both conditions are considered met. The beneficiary is then entitled to a payment equivalent to the public saving of six months of institutionalisation per ex-prisoner.

The amounts to be reimbursed (public expenditure savings per person who overcomes the vulnerability condition) are pre-established and published on an open-access platform. This gathers and organises information on public investment at national level in priority social policies for social protection, education, health, employment and justice.

A key advantage of FNLC amounts based on public expenditure savings, using data from a publicly accessible platform, is its high degree of replicability.

This approach enables the methodology to be extended to other indicators, promoting consistency and scalability in analysis and application.

In this context, the model could be expanded to new indicators in priority areas such as education (reducing school dropout and failure among children and young people), employment (mitigating unemployment among adults with disabilities or impairments), and health (mitigating mental health problems in children and adolescents).

Annex III – Management verifications and compliance with applicable law

The box below describes how management verifications are carried out and possible arrangements to ensure compliance with applicable law.

The box also describes a possible audit trail for the FNLC scheme, including the documents used to verify the achievement of conditions and results.

Management verifications

This example refers to a FNLC scheme covering active employment policy measures (AEPM) provided by the national Public Employment Services (PES) to unemployed persons.

Management verifications are based on:

- Data justifying the achievement of the conditions and result verified by the PES, that collects and stores participants' personal data, individual AEPM contract data and National Pension Insurance Institute data related to employment.
- All the data and documentation related to implementation of AEPM which are proving compliance with the conditions or achievement of conditions at each stage of FNLC scheme are collected and stored by the Beneficiary (PES) in its IT system.
- The MA and the IB are responsible for storing the following documents:
 - document proving the Commission's ex ante agreement to the FNLC and the corresponding amounts (Programme approval or amendments, if applicable)
 - documentation on the selection and approval of the operations covered by the reimbursement of the Union contribution by the Commission on the basis of the FNLC
 - the documents setting out the conditions for support agreed between the Beneficiary and the Managing Authority indicating the form of support granted
 - payment claims
 - documentation evidencing management verifications and audits carried out

Additionally, the MA will perform risk-based verifications / compliance checks once per year in a timely manner before submission of annual declarations.

All aspects of AEPM management by PES can be controlled by the MA, depending on individual risks.

The activities financed through the FNLC scheme are not reimbursed from other EU funds. This is ensured at the level of the beneficiary, with the help of the IT system used to record all activities. Double funding is an obligatory subject of yearly verifications/compliance checks as well as measures to avoid conflicts of interest.

Moreover, PES local and regional offices verify orderly execution of contractual obligations by:

- Performing 100% desk-based verification of data justifying the expenditure (supporting documentation is submitted either online by applicants or control data is accessed from other public sources (namely tax authority and pension insurance data))
- On the spot checks of a random sample of contracts.

Audit trail (documents to verify the achievement of conditions / results)

The MA stores:

- The EC decision approving the FNLC scheme including conditions, milestones and corresponding amounts
- The MA decision to finance the operation(s) related to the FNLC scheme
- Applications for payment to the Commission drawn up by the managing authority proving that the individual intermediate deliverables have been achieved.
- The results of system checks, including ad-hoc checks.

The IB stores:

- The Call for proposal documentation and project application(s) related to the FNLC scheme.
- The financing agreement(s) between the MA, the IB and beneficiary (PES) related to FNLC scheme, setting out the conditions for support, the obligations of the beneficiary and the rules pertaining to a financial support granted using financing not linked to costs.
- Payment claims (applications for reimbursement) by the beneficiary certifying that the results have been achieved.
- The results of checks performed by the intermediate body as evidence the individual milestones have been achieved.
- Payment made to the beneficiary.

The beneficiary stores:

- The project application(s)
- Payment claims submitted to the IB certifying the achievement of milestones.
- The data underlying payment claims for the achievement of FNLC results, provided that:
 - Data on participants, AEPM contracts and employment duration will not be stored on paper.
 - PES IT system enables reports to be generated at a specified date at any time.
 - PES IT system ensures storage of historical data and in respect to audit trail guarantees that any historical data is not corrected or edited (in case data modifications occur, such will be adequately documented and justified).

The MA obtains indirect assurance on compliance with public procurement through:

- The internal control department of the beneficiary. This department oversees all public procurement. As mentioned in the grant agreement, the beneficiary must inform the MA if the internal control department detects irregularities,
- The institutional agreement signed with the national authority on public procurement. This authority checks every year a sample of public procurement procedures to ensure correct application of public procurement rules. If they check a public procurement procedure carried out by the beneficiary, they inform the MA of the conclusions.

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