



Simplified reimbursement models

Financing not linked to costs (FNLC)

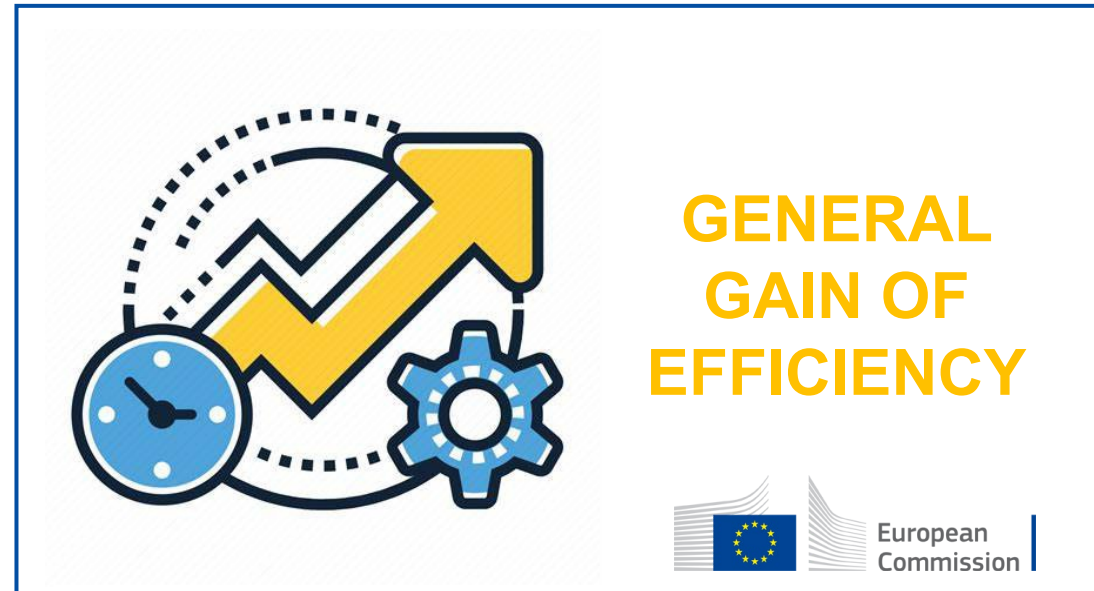
Karen Van de putte, DG EMPL.G1

What is Financing Not Linked to Cost (FNLC)

- Reimbursement based on results & conditions

Advantages for using FNLC

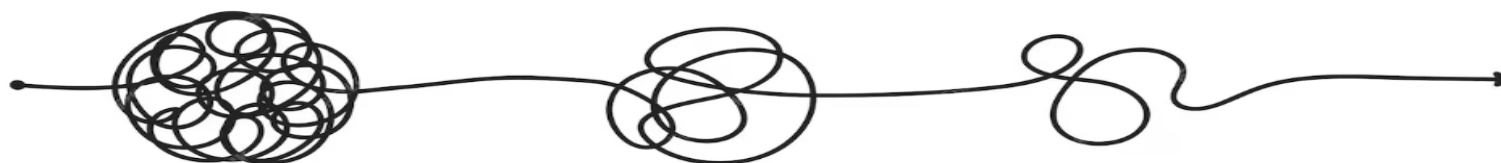
- Reduce the administrative burden for programme authorities and beneficiaries
- Reduce the error rate
- Allow administrations to shift focus from compliance to **concrete policy objectives**



Setting up a FNLC – aims



Cover a considerable part of the ESF+ via FNLC for a substantial policy impact



Set up **simple schemes for financing complex policy schemes** with few indicators, complemented by milestones to mitigate financial risks

Why use Simplified reimbursement models?

- ✓ Reduction of administrative burden
- ✓ Lower error rate
- ✓ Easier access to funding for smaller beneficiaries thanks to simplification of the management process
- ✓ Shift from focus on justifying expenditure to achieving outputs, results and policy objectives
- ✓ Limitation of scope of administrative verifications and audit

Setting up FNLC - Article 95 CPR: the process

Member State decides to use Article 95

Member State establishes FNLC scheme based on elements of Article 95(1)

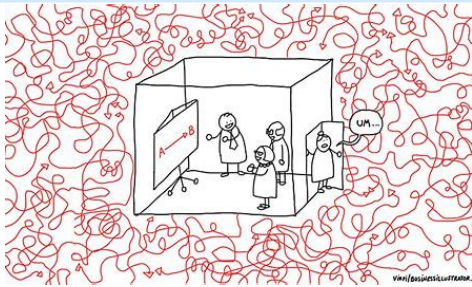
NO mandatory assessment by Audit authority BUT recommended

Member State submits Appendix 2 to COM

COM decision approving programme – sets out all elements of Article 95(1)

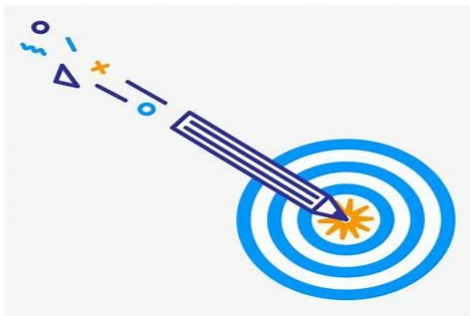
Setting up FNLC – main elements (1)

What will be financed?



- Identification of the **priority** and the **overall amount covered**
- Description of the part of the **programme** and the **objective and type of operations**

What results to be achieved?



- Description of the **conditions to be fulfilled** or the **results to be achieved** and their **timeline**
- **Intermediate deliverables** triggering reimbursement
- **Amounts** proposed

Setting up FNLC – main elements (2)

How to measure?



- Definition of the **indicator** and
- **Unit of measurement** for conditions to be fulfilled / results to be achieved triggering reimbursement by the COM

How to verify?



- Complete and adequate **audit trail**
 - What documents/systems to be used?
 - Who will check what, when?
 - Who will collect & store where, when?

Design elements that can help to reduce risk

01

Employing clear and precise milestones and targets

- Avoid misinterpretations
- Combine result-based and output-based indicators
- Combine process and results-based milestones

02

Allowing for some flexibility

- Ultimate goals
- Timing
- Reallocation of funds

03

Setting out clear monetary consequences for failing to achieve the results & associating more of the payment with indicators that entail lower risk at least in the short term

04

Establishing clear audit trails in advance

- Involvement of audit authorities in the design process

Audit of FNLC - Big picture

**Ex-ante
assessment**

Audit

Arrangements
put in place
by MS for
conditions
/results

Arrangements
put in place
by MS for
compliance
with
applicable law

Audit trail

Double
funding risk

Conditions to
be fulfilled

Results
declared

Audit trail

Financing not linked to costs

Art 95 – State of Play

FNLC Schemes under Art 95 already adopted in an ESF+ programme + under discussion

DG EMPL - FNLC - state of play Article 95 CPR

Member State	FNLC schemes*		
	Formal submission	Informal submission – under discussion	Adopted
PT	1 (social inclusion)		1
PL	1 (childcare)		1
HU	2 (education; social inclusion)		2
LV	1 (TA Article 37 CPR)		1
CY		1 (free breakfast – social inclusion)	
EE		1 (education)	
FR	1 (vocational training)		1
RO		2 (social inclusion; PES modernisation)	
LT		1 (social inclusion)	
TOTAL	11		6

Currently **EUR 3,6 bn** (EU + national) planned in adopted programmes

* FNLC schemes submitted to EC – cut-off date end of March 2024

DG REGIO - FNLC - state of play Article 95 CPR

Member State	FNLC schemes*		
	Formal submission	Informal submission	Adopted
AT	1 (energy efficiency) 1 (R&D)		2
BG	1 (TA Article 37 CPR)		1
DE		1 (peatland restoration)	
CY		1 (R&D)	
IT	1 (TA Article 37 CPR)		1
LV	1 (TA Article 37 CPR)		1
RO		1 (TA Article 37 CPR)	
TOTAL		6	5

Currently **EUR 1,3 bn** (EU + national) planned in adopted programmes

* FNLC schemes submitted to EC – cut-off April 2024



Off-the-shelf SCOs and FNLC Examples

Delegated Acts and Models for FNLC schemes

Delegated Regulation Off-the shelf SCO/FNLC – What?

**Delegated Act
(EU)2023/1676**

Formal Education, Training, Employment
Counselling services, Social Inclusion

**Delegated Act
(EU) 2022/2175**

ALMA – Youth Mobility

Off the shelf SCOs & FNLC

Example 1

Delegated Act (EU)2023/1676 – SCOs and FNLC in the field of Education, Training, Counselling services and Social services

Delegated Act EU-level SCOs & FNLC – roll-over from 2014-2020

- **Roll-over of EU-level Unit Costs**

- formal education,
- training for unemployed persons,
- training for employed persons
- employment-related counselling services



- **Incentive to address extra efforts required for Third Country Nationals and refugees**
- **Simplified automatic adjustment method**

Delegated Act EU-level SCOs/FNLC - new



New EU-level unit costs and FNLC in the field of:

- **Community social services**
 - In-home care services
 - Day-care services
- **Crises and emergencies services for victims of domestic violence and persons experiencing homelessness**
 - Residential services, and
 - Non-residential services



Example FNLC – Emergency services (new 21-27) – 1/3

Type of operation: provision of services to victims of **domestic violence** and persons experiencing **homelessness**

Package of:

- **Residential services**, such as emergency accommodation for the participant; and
- **Non-residential services**, such as counselling and intervention through social work with the participant.



Example FNLC – Emergency services (new 21-27) – 2/3

A first release of funds linked to the fulfilment of output-oriented conditions

- Provision of residential and/or non-residential services for a pre-defined fixed-size cohort of participants, to be clearly set by each Member State in the call for operations.

Example FNLC – Emergency services (new 21-27) – 3/3

A further release of funds linked to the achievement of successful outcomes (cumulative milestones)

- Positive change in housing status by a participant receiving eligible services

AND

- Sustained outcome in housing by a participant receiving eligible services.

Off the shelf SCOs & FNLC

Example 2

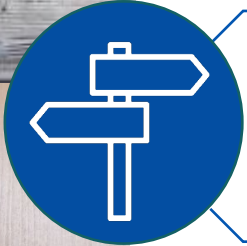
Delegated Act (EU) 2022/2175 - ALMA – youth mobility



ALMA is an active inclusion initiative...



For **disadvantaged young people (17-29)**



Via a **supervised stay abroad** for a period of 2 to 6 months in another EU Member State



Included in a **comprehensive project cycle** with coaching and counselling at every step

ESF+ support to ALMA under shared management

ALMA in
national and
regional
ESF+
programmes



ESF+ to cover



- Travel
- Accommodation
- Subsistence costs
- Insurance
- Coaching and counselling before, during and after the stay abroad

Basic SCO + Top-up amounts FNLC

- **Basic Unit Cost per participant day for all three phases of the operation**
- **Daily Top-up for additional expenses in countries with higher costs**
- **Daily Top-up for participants in need**
- **Top-up for successful participants**

Financing not linked to costs Models

Individual Learning Accounts

FNLC models in ESF+ policy fields – based on RRF measures

Individual Learning Accounts (ILA) – FNLC model

Analytical scenario

- ✓ Involves a comprehensive 'toolbox' for FNLC based on key components of the ILA Council Recommendation
- ✓ Provides extensive overview of possible indicators and intermediate deliverables/milestones
- ✓ Useful reference for initial discussions on how to set up the FNLC scheme
- ✓ **Not recommended for FNLC reimbursement scheme due to its complexity**

Practical scenario

- ✓ Offers a simpler FNLC scheme, focusing on two conditions
- ✓ Provides better trade-off between simplification and sustainability of conditions and results
- ✓ Includes milestones / intermediate deliverables to mitigate financial risk
- ✓ **Suitable for implementation without significant modifications**

Financing not linked to costs model – practical scenario

CONDITIONS / RESULTS TO BE INCLUDED IN THE FNLC SCHEME	INTERMEDIATE DELIBERABLES / MILESTONES TRIGGERING REIMBURSEMENT BY THE EC
<p>1. Setting up of the legal, institutional and technical framework for the ILA scheme</p>	<ul style="list-style-type: none"> ▪ Formal adoption of a national plan setting out the main actions and the key responsibilities involved in the development of the ILA scheme. ▪ Signature of contracts / agreements to develop the digital infrastructure (national registry and digital portal) supporting the ILA scheme. ▪ Release of the digital infrastructure supporting the ILA scheme (with a limited number of milestones tailored to the technical process of setting up the digital infrastructure).
<p>2. Number of individuals (or % of the target population) receiving eligible quality training, career guidance and validation opportunities under the ILA scheme</p>	<ul style="list-style-type: none"> ▪ Number of individuals receiving trainings, career guidance and validation services: <ul style="list-style-type: none"> • xxxxx individuals by Year 1 • yyyyy individuals by Year 2 • • zzzzz individuals by Year N. ▪ Approval of the final assessment report, presenting the results of the pilot ILA scheme as well as proposals for the development of a full-fledged ILA scheme at national level.

FNLC models based on RRF measures

- **Study Mapping of performance-based schemes in the national Recovery and Resilience Plans (RRPs) and identification of conditions for a successful use of this method in ESF+ Programmes**
 - Sample FNLC model for education and skills
 - Sample FNLC model for employment
 - Sample FNLC model for social inclusion



THANK YOU

➤ **EUROPA webpage**
[Simplified cost options | European Social Fund Plus \(europa.eu\)](#)





Session 1.2

#SocialRights

Recommendations on the use of FNLC & key problems and solutions

Workshop on Financing Not Linked to Costs

14 May 2024, The Hague

Luca Santin – ESF Transnational Network on Simplification



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1. What is FNLC
2. SCOs vs. FNLC
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7. Setup of FNLC under Article 95 CPR: requirements and useful tips
8. Key recommendations
9. Key issues and solutions

1. What is 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 the conditions or the achievement of results.**

2. SCOs vs. FNLC

Key aspects	SCOs	FNLC
Definition	Amounts or percentages that represent the best possible approximation of actual (real) eligible costs	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
Timing	Both should be defined ex ante	
Approach	Based on ' processes ', ' outputs ' or ' results '	Based on ' conditions ' or ' results '
Methods	Methods to calculate in the CPR	No specific method envisaged. Sound financial management must be respected.
Ex ante assessment	Ex ante assessment by the Audit Authority mandatory prior to Commission approval	Ex ante assessment by the Audit Authority not mandatory but highly recommended
Verifications/audit	<ul style="list-style-type: none"> • As of approval by COM, methods establishing FNLC and SCOs not subject to audits • Verifications and audits are limited to checking that the conditions (or results) triggering the reimbursement are fulfilled • The underlying costs of the operations covered by SCOs or FNLC not subject to verifications or audits 	
Mode of reimbursement	SCOs and FNLC are used for reimbursements from the Commission to Member States and from the Member States to the beneficiaries	

3. Why FNLC should be used

- **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 would significantly alleviate administrative costs (for the authorities) and burden (for final 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.** Final beneficiaries can fully focus on fulfilling the conditions and achieving the results relevant to realising policy objectives.
- **Lower error rate**, compared to real costs. Similar to what has been reported for SCOs by the European Court of Auditors, projects whose costs are declared using simplified rules are less error-prone, suggesting that more extensive use of FNLC will have a positive impact on error rates.

4. 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 only requirement is to justify the amounts in compliance with the principle of sound financial management.
- **FNLC allows greater flexibility** in determining the amounts linked to conditions and results. Being “not linked to costs”, FNLC could be also considered for financing innovative policy schemes, for which no historical data are available to calculate SCOs.
- **Enhanced possibilities to achieve challenging results.** The achievement of more challenging results could be incentivised by establishing higher amounts, unlike SCOs, where amounts cannot exceed the actual costs incurred by beneficiaries.
- **Paradigm shift in approach to ERDF/ESF+.** FNLC is not solely an instrument to finance projects, but also further enhances possibilities for approaching ERDF/ESF+ as a ‘policy instrument’.

5. When and where to use FNLC

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

- **‘Size’ (percentage of budget covered) of the operation.** It is recommended that FNLC proposals submitted for approval by the Commission cover a considerable percentage of programme contribution
- **Policy-based approach.** The scope of FNLC (types of operations covered) should include interventions that could have a considerable impact on the achievement of key policy objectives.
- **Possibility to identify clear and measurable conditions or results.** Selecting recurrent and stable operations (i.e. financed in the past under conditions that would not change significantly over time) could facilitate the standard-setting process and the identification of relevant conditions or results. FNLC could also be viewed as an effective solution to finance innovative policy schemes.

6. Who should be involved in FNLC design?

- **Relevant policymakers, IBs and line ministries** should be involved in the decision-making process.
- **AA** early consultation is strongly recommended to facilitate better proposal design and prevents misunderstandings or potential errors in the implementation phase.
- **Stakeholders, social partner and final beneficiaries** should be informed and involved to ensure better and more sustainable implementation of FNLC schemes.
- **European Commission** early informal consultation is strongly recommended to facilitate smooth and swift adoption of the scheme.

7. Setup of FNLC under Article 95 CPR: requirements and useful tips

Key aspects	FNLC
Type of operations & specific objective	<ul style="list-style-type: none"> • Recital 34 CPR: when FNLC is used - actions, deliverables, conditions should be linked to concrete investments in a programme • Clear description of the types of operation and specific objectives covered (what will be financed)
Conditions to be fulfilled / results to be achieved & deadline	<ul style="list-style-type: none"> • Relevant, clear and measurable / quantifiable • Realistic deadlines
Indicator	<ul style="list-style-type: none"> • Relevant, clear and measurable / quantifiable • Output vs results
Unit of measurement	<p>Linked to the conditions to be fulfilled / results to be achieved</p>
Intermediate deliverables & related amounts for reimbursement by COM	<ul style="list-style-type: none"> • Realistic deliverables & deadlines • Provide adequate justification for the amount proposed for each milestone • Strive for balance between EU payments and milestones achieved
Amount	<ul style="list-style-type: none"> • Respect of sound financial management • Appropriateness of amounts linked to fulfilment of conditions/results to be achieved
Adjustment method	<ul style="list-style-type: none"> • Clear description on how the amount will be adjusted based on the price change of the cost drivers i.e. the cost components of the FNLC amount • Specific information regarding the data sources and the timing/cut-off date of adjustment
Arrangements for verification of intermediate deliverables& fulfilment of conditions/results achieved	<p>Avoid gold-plating</p>

8. Key recommendations

- **The MA should look first at what (results or conditions) should be achieved through programmes.** Results and conditions should steer the choice of form of financing, not the other way around
- **Willingness to change paradigms and mindset**
- FNLC allows **greater flexibility** over SCOs in determining the amounts linked to conditions and results. Therefore, FNLC should be more feasible in the **absence of sufficient data to support calculations**, for example, in innovative projects.
- **Informal consultation with the European Commission** is strongly recommended as a means of facilitating swift and smooth adoption of the FNLC scheme
- Setting up an FNLC scheme should be seen as an **investment** of time and resources. 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.**
- The MA is responsible for designing FNLC schemes. However, **all relevant parties should be involved** in their design and implementation: policymakers, IBs and line ministries, AAs, stakeholders, social partners, final beneficiaries, and the European Commission.
- 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.**

9. Key issues and solutions

ISSUES	SOLUTIONS
1. Still some lack of understanding of what FNLC actually is / lack of willingness at political level.	1. (a) Clear explanation of FNLC provided by the EC to top policy and decision makers in the Member States; (b) Update the recommendation paper (with reference to available practices)
2. Long time for the preparation and approval of the FNLC scheme	2. (a) Set time-constraints for MS and the EC (b) Find ways to reduce the time for establishing the scheme (like joint meetings between involved parties) and shortening the process
3. Risk of double financing between RRF and Cohesion policy	3. Clear description of the scope of application of FNLC scheme from the outset (excluding overlaps with RRF)
4. It is not clear what information is needed in each point of Appendix 2	4. Sharing examples of approved proposals Appendix 2.
5. How detailed should the MA be in justifying the established amounts	5. Ex-ante consultations with the AA and informal consultations with the EC
6. How to deal with schemes which are used in several programmes in one MS (e.g., regional programmes using the same FNLC scheme)	6. Strengthen coordination at national level (national network, working group) and ensure no overlaps
7. Lack of flexibility at the stage of FNLC implementation (amending the scheme requires amending the programme)	7. (a) The possibility of introduce a minimum of flexibility and (b) of a 'fast track' procedure to amend Annex 2.
8. Ambiguity as regards the need to comply with applicable law	8. (a) Clear communication from the EC that MS can rely on national control system and how (b) EC checklist for auditing implementation.
9. The need to collect data on beneficial owners.	9. Possibility to limit the requirement to collect such data for FNLC
10. Risk of not achieving the result due to external factors (not in control of the Managing Authority)	10. Possibility to reserve national budget to contribute to the scheme.

Source: The ESF Transnational Network on Simplification – workshop on FNLC, April 2024

Thank you very much for your attention!

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Ministerie van Sociale Zaken en
Werkgelegenheid

SCO ESF+
2021-2027



Vereenvoudiging

Gerard Slotema
mei 2024



Stand van zaken vereenvoudiging NL

- Gebruik SCO's
 - DJI, Pro/VSO, SCO casemanagement
 - SCO's EFRO, JTF
 - SCO Migratie
 - Flate rate technische bijstand



Ontwikkeling FNLC in NL

FNLC werk voor arbeidsbelemmerden

- Onderzoek van CPB & SCP geeft aan dat het de maatschappij € 5000,- aan maatschappelijke kosten scheelt wanneer arbeidsbelemmerden werk hebben.
- Minder beroep op geestelijke gezondheidszorg en WMO en risico op crimineel gedrag neemt af.

- Belang voor beleid
- Bepalen welke doelgroep
- Bepalen welke voorwaarden.
- Bepalen hoe toon je de resultaten aan. (audit trail)



Ontwikkeling FNLC in NL

- Onderzoek naar ILA (Individual Learning Accounts) / Scholingsvouchers
- Geen EU level oplossing maar een model voor oplossingsrichting in betreffende lidstaat, gebaseerd op council recommendations.
- Flexibiliteit voor oplossingen in NL



Financing not linked to costs

Welke modellen ontwikkelen

Nu

- Sample FNLC model for education and skills
- Sample FNLC model for employment
- Sample FNLC model for social inclusion

- Welke nog meer?



Take away's

- Niets zo complex als vereenvoudiging
- No more real costs
- Ontwerpbegroting last resort
- Koppeling resultaat indicatoren en FNLC's
- Vereenvoudiging begin bij programma document/ regeling zelf.
- Moet precies 50% gesubsidieerd worden?
- Vereenvoudig ook de audit trail. Sluit indien mogelijk aan bij bestaande info (CBS /UWV)



Belemmeringen

- Maatschappelijk kosten baten analyses
- Betrekken partners
- Begin vroeg
- Goed gejat dan slecht bedacht



Wat is er nodig?

No More Real Costs volgende programma periode!



Discussion points for the groups

Please indicate in the table below the main problems and the proposed solutions for a wider and easier use of FNLC in The Netherlands.

Problems	Solutions
Please indicate below the main problems which could hinder a wider and easier use of FNLC in The Netherlands.	Please indicate below possible solutions that could be implemented to overcome the problems identified by the group.
1. Definieer goed wat je wil bereiken	1. Mindshift is nodig
2. Beleidsmakers overtuigen van diverse opties	2. Beleidsmakers goed meenemen in de ontwikkeling van FNLC's
3. Focus op wat je wil.	3. Niet meer alles moet kunnen, maar toespitsen op wat je wil bereiken.
4. M&O beleid meenemen in de ontwikkeling van FNLC's	4.
5. Ingewikkelde projecten	5. Gebruik draft budget / lumpsums wanneer FNLC niet mogelijk blijken.

Discussion points for the groups

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Problems	Solutions
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1. Rapporteren op indicatoren, want met FNLC is dit niet altijd meer te achterhalen	1. Geen versimpeling zonder reductie in rapportage. (niet meer rapporteren op alle interventiecodes
2. Hoe te controleren dat er geen misbruik van gemaakt is?	2. Van te voren heel duidelijk beschrijven, wat je resultaat is en hoe te controleren
3. Wat is Sound Financial Management	3. KIS keep it simple
4. Resultaatmeting lastig en duurt lang.	4. Creer mijlpalen wanneer het meten van het eindresultaat langer duurt.
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