

# Understanding the Lump Sum Funding Model

ESF+ SI+ Initiative Projects

**A**

## What is a lump sum? – and why use it?

A lump sum is a fixed amount of EU funding awarded to a project.

Instead of tracking every euro spent, you receive payments when **project activities are completed and deliverables achieved**. It simplifies the funding process by focusing on **results** achieved rather than paperwork.



### Simpler project management

Less paperwork, more focus on results



### Results-driven

Funding is tied to completed work, not actual costs



### Lower admin burden

Ideal for small teams and first-time applicants

**B**

## How is the lump sum decided?

You will need to propose a detailed budget for each work package (WP) and beneficiary. This **budget must match your activities**, and vice versa.

If approved, **the lump sum is fixed in the Grant Agreement** and broken down by WP and beneficiary.

**C**

## How is the lump sum paid?

Lump sum payments are made upon completion and proper documentation of WPs.

### At the start:

pre-financing is paid once the Grant Agreement has been signed.

### During implementation:

second pre-financing is provided for projects lasting more than 12 months after the approval of the first periodic report.

### At the end:

the final payment is made after the final periodic report. Partially completed WPs may receive proportional funding based on validated results.

# A

## What is lump sum funding?

Lump sum funding is a financing model in which a project receives a fixed amount based on the budget proposal. Payments are made upon completing predefined activities and deliverables, rewarding results rather than expenses.

### Key principles:



#### Fixed budget:

total funding is set before the project starts.



#### Simplified reporting:

only evidence of completed activities and achieved deliverables needs to be provided.



#### Results-based payment:

funding is released after achieving specific activities and deliverables.



#### Less administrative burden

Traditional funding models require extensive financial tracking, but with lump sums, organisations can avoid lengthy cost justifications.



#### Focus on results, not costs

Instead of worrying about detailed expenditure reports, project coordinators can concentrate on delivering high-quality outcomes.



#### Minimising financial risks

Since the funding amount is agreed upon beforehand, the risk of financial errors, audits, and funding cuts due to eligibility issues is significantly reduced.



#### Encouraging efficiency

With no need to justify every expense, organisations have more freedom to allocate resources efficiently and innovate in project execution.

### Advantages

**Administrative simplicity:** the focus of financial reporting remains on the technical side.

**Lower audit risk:** the focus is on activities and deliverables rather than detailed financial checks.

**Encourages clear project design:** requires consortia to define activities and deliverables precisely, which can strengthen proposals and improve project coordination.

### Challenges

**Heavy front-loaded planning:** requires detailed cost estimates and justification at the proposal stage.

**Careful budget allocation for partners:** incomplete activities by any partner can jeopardise payment for the other partners involved in that WP.

**Payment risks:** funding depends on WP completion, and delays or underperformance may result in reduced or postponed payments.

# B

## How is the lump sum decided?

The applicant is responsible for proposing the project budget. The Granting Authority then reviews the proposal and its quality. Based on this assessment, the Granting Authority determines the final lump sum, which is confirmed in the Grant Agreement. This is determined through a two-step process: budget estimation and proposal, followed by budget assessment.

### STEP 1

#### Budget estimation and proposal

Applicants must provide cost estimates for each cost category, broken down by WP and by beneficiary.

These estimates must reflect the approximate actual costs and be reasonable, proportionate and essential for the proposed activities.

The Granting Authority uses these estimates to determine the lump sum for each WP and beneficiary.

Individual tasks, percentages of progress, or simple time periods do not qualify as WPs. So, while long-duration WPs may be divided to ensure a fair share for beneficiaries, this must not be done artificially and must be consistent with the project work plan.

### STEP 2

#### Budget assessment

Experts assess proposals on the basis of relevance, quality and impact criteria.

The quality assessment includes verifying whether the resources and lump sum allocations are sufficient for the proposed activities. Experts may also suggest adjustments if costs appear to be overestimated.

The adjusted and confirmed lump sums are then fixed in the Grant Agreement.

# C

## How is the lump sum paid?

The payment of the lump sum is made in two or three phases and is tied to the project's reporting.

### Phase 1:

#### First pre-financing (advance payment)

- ✓ A portion of the lump sum is transferred once the Grant Agreement has been signed.
- ✓ This advance payment allows project teams to start their activities immediately.

### Phase 2:

#### Second pre-financing

- ✓ For projects lasting more than 12 months, beneficiaries must declare the completed WPs and the activities and deliverables achieved to date in the first periodic report.
- ✓ The second pre-financing is paid after this report is validated by the Granting Authority.

### Phase 3:

#### Final payment (balance)

- ✓ The remaining portion of the lump sum is paid after the project has been fully completed.
- ✓ All deliverables must be accepted and validated by the Granting Authority in the final periodic report before this payment is made.

### Key principles:

Lump sum payments are only released upon completion of activities and **are strictly tied to the successful achievement of deliverables.**



Lump sums **focus on results** rather than actual costs.

## Lump sum proposal

Submit the application together with the budget. A detailed breakdown of costs is required to justify the lump sum.

## Lump sum evaluation

The proposal will be evaluated, and any overestimated costs may be removed. The final lump sum is fixed in the Grant Agreement.

## Lump sum management

There is significant flexibility in how the lump sum can be used. Do not report actual costs and resources.

## Acceptance of work packages

At the end of a reporting period, declare completed WPs. If a WP is incomplete, the lump sum share will be paid at the end of the project, and the funding will be reduced.

## Checks, reviews and audits

There is no financial reporting, financial checks or audits. Controls focus on the proper implementation of the work plan and on any non-financial obligations.

## Tips and tricks for success

### Prepare your work plan carefully

As payments are tied to the completion of WPs, you can break down broad WPs to secure the second pre-financing payment. However, this should be done by taking into account the nature of the activities included in the relevant WP (as some might be difficult to split).

### Provide detailed information about activities and deliverables

The description of activities and deliverables should include both qualitative and quantitative data, and be sufficiently detailed. This level of precision ensures that both costs and the project implementation plan are well-defined and justified.

### Present the budget information correctly and in detail

Read the budget instructions and cost eligibility information carefully. Keep in mind that all budget expenditures must be connected to specific activities, substantiated and explained.

### Collect the documents proving the proper implementation of activities

Although there is no financial reporting, the proper implementation of activities will still be checked. The beneficiary must keep all the records required by national law or internal procedures.

### Use the budget flexibly

Lump sum grants offer high budget flexibility, as the consortium can utilise the budget as they see fit, provided that the project is implemented as agreed. The actual use of the lump sum is invisible to the Granting Authority. However, budget transfers between beneficiaries and/or between WPs require an amendment if the consortium wishes to incorporate these changes into the Grant Agreement.