

**DECISION 13/2021
OF THE GOVERNING BOARD OF
THE EUROPEAN INSTITUTE OF INNOVATION AND TECHNOLOGY (EIT)**

**ON THE PRINCIPLES ON THE FINANCIAL SUSTANABILITY
OF KNOWLEDGE AND INNOVATION COMMUNITIES (KICs)**

THE GOVERNING BOARD OF THE EUROPEAN INSTITUTE OF INNOVATION AND TECHNOLOGY,

Having regard to Regulation (EC) No 294/2008 of the European Parliament and of the Council of 11 March 2008 establishing the European Institute of Innovation and Technology (EIT)¹, as amended by Regulation (EU) No 1292/2013 of the European Parliament and of the Council of 11 December 2013² (hereafter referred to as the ‘EIT Regulation’), and, in particular, to the Statutes annexed thereto (‘the Statutes’), Section 1(2);

Having regard to the proposal for a Regulation of the European Parliament and of the Council on the European Institute of Innovation and Technology (hereafter referred to as the ‘EIT Regulation (recast)’)³;

Having regard to the proposal for a Decision of the European Parliament and of the Council on the Strategic Innovation Agenda of the European Institute of Innovation and Technology (EIT) 2021-2027: Boosting the Innovation Talent and Capacity of Europe (hereafter referred to as the ‘EIT Strategic Innovation Agenda 2021-2027’)⁴;

Having regard to Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (hereinafter referred to as the ‘EU Financial Regulation’)⁵;

¹ OJ L 97, 9.4.2008, p. 1.

² OJ L 347, 20.12.2013, p. 174.

³ Version of 12 February 2021, as endorsed by the COREPER on 17 February 2021 (6062/21). Publication in the Official Journal is foreseen in April/May 2021.

⁴ Version of 12 February 2021, as endorsed by the COREPER on 17 February 2021 (6065/21). Publication in the Official Journal is foreseen in April/May 2021.

⁵ OJ L 193, 30.7.2018, p. 1–222

Having regard to Decision 4/2015 of the Governing Board of the EIT of 5 March 2015 on adopting the principles on Knowledge and Innovation Communities' financial sustainability⁶,

Having regard to Decision 21/2019 of the Governing Board of the EIT of 25 September 2019 on the Financial Regulation of the European Institute of Innovation and Technology (hereinafter referred to as the "EIT Financial Regulation")⁷;

Having regard to Decision 07/2021 of the Governing Board of the EIT on the principles for the determination of the 2021 EIT financial allocation and repealing 4/2015 and 35/2015 of the EIT Governing Board⁸;

Having regard to the EIT KIC Partnership Agreement model, in particular its Article 9.2;

WHEREAS

- (1) The EIT Regulation, the EIT Strategic Innovation Agenda 2014-2020 and Governing Board Decision 4/2015 laid down the rules and principles on the financial sustainability of KICs in the period of 2014-2020.
- (2) As of 2021, the EIT is part of the Horizon Europe Framework Programme for Research and Innovation and the new financial framework (i.e. EU Multiannual Financial Framework 2021-2027). Additionally, the new specific legal framework (i.e. EIT Regulation (recast), Strategic Innovation Agenda 2021-2027) has reached a political agreement in the respective legislative procedures, therefore this Decision reflects the already available provisions of these acts.
- (3) The new framework requires the significant revision of the financial sustainability rules of the EIT applied until now. For this reason, Governing Board Decision 4/2015 on the principles on KICs' financial sustainability has been repealed with retroactive effect of 1 January 2021 by Governing Board Decision 7/2021.
- (4) In accordance with the definition laid down in Article 2 of the EIT Regulation (recast), 'financial sustainability' means a capacity of a KIC to finance its knowledge triangle activities independently of contributions from the EIT.

⁶ 00105.EIT.2015.I.GB34

⁷ Ares(2019)6810859

⁸ Ares(2021)1561957



- (5) In line with Recital (12) of the EIT Regulation (recast), the KICs should aim to become financially sustainable by mobilising funds from other public and private sources and to attract and engage the widest possible range of relevant new partners. Recital (22) states that it is expected that industry, the financial and service sectors will contribute significantly to the budget of the KICs. The KICs should in particular aim to maximise the share of contributions from the private sources and from income generated by their activities and to pursue and achieve financial sustainability the latest before the expiry of the 15 years of EIT financial support.
- (6) The KICs should establish and implement strategies for achieving financial sustainability as part of their 7-year Strategic Agenda and as part of their Business Plans, in line with Article 7(e) of the EIT Regulation (recast).
- (7) Further to Articles 6(i), 10 and Section 2(1)(c) of the Statutes of the EIT Regulation (recast), the EIT should
 - a. adopt sound criteria and clear and transparent procedures for performance-based financing, monitoring and evaluating the activities of the KICs, including their progress in achieving financial sustainability;
 - b. support the KICs in the development of an effective financial sustainability strategy for the mobilisation of funds from other public and private sources, and
 - c. organise continuous monitoring and periodic external evaluations of the output, results and impact of each KIC, including the progress of the KICs towards financial sustainability.
- (8) In accordance with the EIT Strategic Agenda 2021-2027, the EIT shall gradually reduce its funding rate for KIC added value activities in order to increase the levels of private and public investments other than revenues from their partners. The adaptation of the funding model is expected to facilitate the KICs in the gradual transition towards financial sustainability within the duration of the partnership agreements. The Strategic Innovation Agenda 2021-2027 lays down the applicable decreasing EIT funding rates for the KIC added value activities across phases of the entire KICs' lifecycle (start-up, ramp-up, maturity, exit from the EIT grant).
- (9) Nevertheless, the EIT Governing Board acknowledges that not all activities of the EIT Knowledge and Innovation Communities can be expected to become fully self-sustainable, due to inherent market failures, and stresses the importance of public funding in those areas. This is also recognised in the EIT Strategic Innovation Agenda 2021-2027, which foresees that certain KIC activities, due to their specific nature, might need extra incentives to be performed. To this aim, the EIT Governing Board might decide to apply more favourable funding conditions for cross-KIC activities, RIS activities and new action supporting the entrepreneurial and innovation capacity of the higher education sector.

- (10) The EIT Strategic Agenda 2021-2027 also stresses the EIT's role in guiding the KICs towards financial sustainability in order to achieve financial independence from the EIT. In addition, the EIT should effectively implement a number of novelties in the management of its beneficiaries, including setting financial sustainability targets for KICs.
- (11) Finally, Article 9.2 of the new EIT Partnership Agreement model (to be signed with KICs in the first half of 2021) also stresses the provisions of the EIT Regulation (recast) and the Strategic Innovation Agenda 2021-2027 regarding financial sustainability. It complements them with an additional obligation that when the KICs accept contributions coming from other public and private sectors, the KICs must respect their Code of Conduct.
- (12) The purpose of the present decision on financial sustainability principles is to provide a strategic direction to KICs, based on the experience of the EIT and the KICs, and in line with the requirements of the new regulatory framework, the EIT Regulation (recast) and the Strategic Innovation Agenda 2021-2027 and with the new contractual framework, namely the Partnership Agreement (PA) and the Horizon Europe Model Grant Agreement (HE MGA).
- (13) This decision offers predictability to KICs to timely align their strategies, governance and operations, whilst setting a clear direction without being too prescriptive.

HAS DECIDED AS FOLLOWS:

Article 1
Adoption

The 'Principles on KICs' financial sustainability are hereby adopted as set out in Annex I.

Article 2
Entry into force

This decision shall enter into force with retroactive effect on 1 January 2021.

Done in Budapest on 17 March 2021

Gioia Ghezzi
Chairperson of the EIT Governing Board

Annex - Principles on the financial sustainability of Knowledge and Innovation Communities (KICs)

I. Introduction

As of 2021, the EIT is part of the Horizon Europe Framework Programme for Research and Innovation. The new framework programme and the new specific legal framework (i.e. EIT Regulation (recast), Strategic Innovation Agenda 2021-2027, Partnership Agreement) requires a revision of the EIT funding model, including the guidance for KICs towards financial sustainability of their activities.

The **obligation for the KICs to become financially sustainable** is a unique feature of the KIC model that aims at being a business and result oriented innovation instrument. In this context, KICs have to develop and implement revenue-creating strategies **in order to maintain their innovation ecosystem and the knowledge triangle activities beyond the period covered in which the EIT provides financial support through grant agreements.**

In this context, it is also expected that industry, the finance and service sectors contribute significantly to the budget of the KICs. The KICs should in particular aim to maximise the share of contributions from the private sources and from income generated by their activities and to pursue and achieve financial sustainability at the latest before the expiry of the Partnership Agreement with the EIT.

In pursuing financial sustainability of their activities, the **KICs should look for a diversification of their revenue and investment sources**, by mobilising funds from other public and private sources and to attract and engage the widest possible range of relevant new partners, while ensuring that the **conditions of access to their partnership remains attractive to a wide range of potential partners.** In particular, they need to ensure that successful innovation activities create a return to the KIC and that all **activities are designed to become sustainable over time** and within the duration of the EIT support for the KIC, apart from the activities that will receive specific financial sustainability requirements from the EIT GB, in line with the EIT recast regulation and Strategic Innovation Agenda, such as for example EIT RIS, EIT HEI and Cross-KIC activities.

Finally, in line with Article 7.1 of the Partnership Agreement each KICs will sign with the EIT, KICs should apply **sound financial management: principles of economy, efficiency and effectiveness**, including lean and cost-efficient structure that keeps administrative and management costs to a minimum.

II. Definition of financial sustainability in view of the KICs' lifecycle

1. 'Financial sustainability' means **a capacity of a KIC to finance its knowledge triangle activities independently of contributions from the EIT**, in accordance with Article 2(16) of the EIT Regulation (recast).
2. **Following a start-up grant period**, the EIT establishes a Partnership Agreement for **an initial period of seven years and, subject to a positive performance and positive outcomes of the interim review and of the comprehensive assessment of the KIC, the EIT may extend the Partnership Agreement for another period of up to seven years**, as indicated in Recital (18) of the EIT Regulation (recast).
3. The EIT funding to a KIC over this maximum fifteen-year period of EIT support follows a pattern: start-up, ramp-up, maturity and exit, as outlined under Point IV below.
4. Further to Recital (18) and Article 2(15) of the EIT Regulation (recast), following an assessment by the EIT, a 'Memorandum of Cooperation' may be signed between the EIT and an KIC, aimed at keeping the KIC as an active member of the EIT Community after the end date of the Partnership Agreement, including the conditions for access to EIT competitive calls for some specific activities and transnational activities with a high EU added value.

III. Revenues and financing sources to achieve financial sustainability

5. In order to achieve financial sustainability, **the following financing sources (revenues) of the KIC Legal Entity and its Co-location Centres should be considered by KICs, in particular:**
 - a) **Contributions from partner organisations**, forming a substantial source of funding;
 - b) Voluntary **contributions from Member States, associated countries or third countries or public authorities** within them;
 - c) Contributions from **international bodies or institutions**;
 - d) **Revenue generated by the KICs' own assets and activities and royalties from intellectual property rights**;
 - e) **Capital endowments**;
 - f) **Bequests, donations and contributions from individuals, institutions, foundations or any other bodies established under national law**;
 - g) **The financial contribution from the EIT**;
 - h) Financial instruments, including those funded **from the general budget of the Union**.
6. **KICs will seek to establish other means to sustain their activities, including revenue generating activities** in cooperation with European, National and International institutions and organisations, for example the European Innovation Council (EIC), the European Investment Fund (EIF), and the



European Investment Bank (EIB), and with other EU Programmes, for example the European Structural and Investment Fund (ESIF), for example through the set-up of KICs dedicated investment funds, or through co-developed investment funds and platforms.

- In accordance with Article 9.2 of the Partnership Agreement, when the KICs accept contributions coming from other public and private sectors, the KICs must respect their Code of Conduct.

IV. Co-funding rates of eligible costs

- The EIT Strategic Innovation Agenda 2021-2027 introduces **gradually decreasing EIT co-funding rates of eligible costs of KIC activities set out in their Business Plans** in order to increase the levels of private and public funding in order to facilitate the KICs in the transition towards financial sustainability.
- The funding model incentivises KICs to gradually **decrease the share of EIT co-funding of eligible costs in their Business Plan while increasing the level of co-funding from non-EIT sources**. These are funding into knowledge triangle activities, not the financial backflows directly to the KIC Legal Entities and Co-location Centres measured by revenues and financing sources listed above in Point III. Possible sources for activities co-funding purposes from the list of possible revenues and financing sources in Point III.5 are all of them except for the financial contribution from the EIT.
- Therefore, **fixed decreasing co-funding rates will be applicable across phases of the entire KIC life cycle** (start-up, ramp-up, maturity, exit from the EIT grant) as laid down in the EIT Strategic Innovation Agenda 2021-2027:

	Start-up	Ramp-up	Maturity	Exit from EIT grant
Years	1*-4	5-7	8-11	12-15
EIT Co-funding rate	Up to 100%	Up to 80%	Up to 70%	50% at year 12, decreasing by 10 percentage points per annum

**Year 1 is for the start-up grant*

- In the context of the portfolio management and cascading model and of multi-annuality of KIC Business Plans, **the co-funding rates will be translated into single reimbursement rates (SRR) of eligible costs** to be included in the grant agreements. The co-funding provided by third parties receiving financial support will contribute to meeting the co-funding requirements stipulated above in line with the eligibility rules of Horizon Europe grants.

12. As indicated in the EIT Strategic Agenda 2021-2027, some KICs' activities, due to their specific nature, might need extra incentives to be performed. To this aim, the EIT Governing Board might decide to apply more favourable funding conditions for **Cross-KIC activities, EIT Regional Innovation Scheme activities** and the new initiative supporting the **entrepreneurial and innovation capacity of the higher education sector**, therefore, **these specific activities will not be covered by the same co-funding requirements presented above, if the Governing Board decides so.**

V. Measuring progress towards financial sustainability

13. In order to capture the ability of the KIC Legal Entities and Co-location Centres to attract revenues and other financing sources, the **EIT financial sustainability coefficient** ('FS coefficient') shall be used which is equal to the sum of revenues and financial sources excluding the financial contribution from the EIT (defined above under Point III above) divided by the EIT funding provided.
14. KICs will also be requested to report to the EIT on their **revenues** as well as the **value of their assets**, including shares and equity in supported innovations and start-ups, using a methodology provided by the EIT.

VI. Requirements regarding KICs' financial sustainability strategies

15. In accordance with the EIT Strategic Agenda 2021-2027, EIT shall have a role guiding the KICs towards financial sustainability and the EIT Governing Board sets **financial sustainability targets** for the KICs in order to achieve financial independence from EIT funding. Progress towards these targets and above metrics will be taken into account when measuring the performance of KICs and in the allocation of EIT funding to KICs by the EIT Governing Board.
16. To lay out their approach, a KIC must **develop and implement a financial sustainability strategy**. The long-term elements of the financial sustainable strategy shall be included in the KIC's seven-year Strategic Agenda, while the short term (annual, bi- or triannual) tasks shall be included in the KIC Business Plan with relevant targets, indicators and sources of verification that allow to track progress.
17. The following **requirements** should be taken into account by KICs when setting out their strategies:
 - a) The strategy should set clear out **clear plans and targets to make all KTI activities of the KIC sustainable** and ensure that the ecosystem is gradually sustained without EIT financing.



- b) In pursuing financial sustainability, a **KIC should ensure the diversification of its revenue and investment sources**, as also required by Article 9.2 of the Partnership Agreement.
- c) KICs should develop for their specific case and organization **clear financial sustainability targets** (revenues, financial assets, costs, etc.) aligned with those set by the EIT Governing Board, and monitor those closely and frequently in all areas of activity, in a sustained effort to achieve them, while remaining proactive and reactive to adjust them as market conditions require.
- d) **Financial sustainability shall be a criterion (e.g. selection criterion) in the calls launched by a KIC** when selecting new partners and activities, including in multi-year activities.
- e) In line with Article 7.4 of the Partnership Agreement, **each innovation activity should have a clear commercialisation strategy** for the outputs, indicating close cooperation with the clients/citizens/users, financial returns from the innovation activity and **its contribution towards achieving KIC financial sustainability**.

VII. Monitoring, reporting and EIT periodic reviews

- 18. The KIC shall ensure that its obligations indicated in Articles 10-12 of the Partnership Agreement are complied with. In addition, the provisions of the Governing Board Decision on the principles for financing, monitoring and evaluating of KICs should also be complied with.
- 19. Specifically regarding financial sustainability, the **EIT requires from KICs regular reporting** on their financial sustainability – including on revenues generated and income of KIC Legal Entities and Co-location Centres from other financing sources and their financial assets, as well as co-funding of Business Plans – on continuous basis as defined by the EIT for example in quarterly reports.
- 20. In addition to the **revenue generated, co-funding and financial sustainability coefficient**, financial sustainability performance will also be measured through **qualitative assessment** of the progress towards financial sustainability, including the **portfolio of financial assets** each KIC is developing to reach financial sustainability.
- 21. After **the third year** of Partnership Agreements with KICs, the **EIT will undertake a review** that will focus on progress achieved including results and development of financial sustainability strategies, including revenues and financial assets development.
- 22. **Before the expiry of the initial period of seven years**, subject to the outcome of a comprehensive mid-term review by the EIT which shall include a particular focus on the implementation of its KIC Strategic Agenda and financial sustainability strategy (revenues, financial assets), the EIT Governing Board may decide **to extend the Partnership Agreement beyond the initial period set for another period of a maximum of seven years or to discontinue the EIT's financial contribution and**



not to extend the Partnership Agreement. The EIT Governing Board shall take into account in particular the achieved level of financial sustainability of a KIC, and other issues indicated in the legal framework.

23. Before the **end of the maximum fifteen-year period, the EIT will undertake an in-depth review of the KIC**, with a particular focus on the impact achieved and level of financial sustainability achieved. The result of this assessment should be considered when a 'Memorandum of Cooperation' is established between EIT and a particular KIC.

VIII. Additional measures regarding KICs' financial sustainability

24. Should the EIT conclude that there is an **inadequate progress of the KIC in implementing its financial sustainability strategy and the financial sustainability targets, the EIT may decide to apply additional measures**, such as reinforced monitoring under Article 11.3 of the Partnership Agreement, additional reviews and evaluations, reducing the funding in the funding allocation process, reduction of costs deemed eligible in the grant reporting process, and/or phasing out of the funding due to inadequate progress under Article 12.3 of the Partnership Agreement.
25. The **EIT may introduce additional financial sustainability requirements** and minimum standards or mechanisms for KICs to follow, that will be related to the KICs' geographies or targeted at the level of the KICs' portfolios rather than at individual activity level.
26. The **EIT may introduce specific requirements for the KICs' commercial arms**, developed for financial sustainability purposes of the KICs, in order to prevent potential conflict of interest of these separate legal entities with the KIC Legal Entities and Co-location Centres.