

DECISION 35/2015
OF THE GOVERNING BOARD OF
THE EUROPEAN INSTITUTE OF INNOVATION AND TECHNOLOGY (EIT)

ON PRINCIPLES FOR FINANCING, MONITORING AND EVALUATING KIC ACTIVITIES

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 Technology¹ (hereinafter the "EIT"), as amended by Regulation (EU) No 1292/2013 of the European Parliament and of the Council of 11 December 2013² (hereinafter "EIT Regulation"), in particular, Article 4 (1) (a), Article 5 (1) (c), Article 7 (5) and Section 2 (b) of the Statutes annexed to the EIT Regulation;

Having regard to the Decision of the Governing Board of the EIT of 27 December 2013³ adopting the Financial Regulation for the European Institute of Innovation and Technology (hereinafter "EIT Financial Regulation") as amended by Decision 6/2015 of the Governing Board of the EIT of 5 March 2015⁴;

Having regard to Decision No 04/2015 of the Governing Board of the EIT on Principles on KIC's Financial Sustainability⁵;

Having regard to Decision No 34/2015 of the Governing Board of the EIT on the adoption of the EIT Monitoring Strategy;⁶

Having regard to Decision No 33/2015 of the Governing Board of the EIT on the European Institute of Innovation and Technology (EIT) 2016 Call for Knowledge and Innovation Communities' (KICs') proposals;⁷

WHEREAS

- (1) Article 7 (5) of the EIT Regulation provides that *"the EIT shall adopt and publish criteria and procedures for financing, monitoring and evaluating the activities of the KICs prior to the launching of the selection procedure for new KICs. The special configuration of Member States' representatives within the Stakeholder Forum shall be promptly informed of them"*.

¹ OJ L97 of 09.04.2008, p. 1.

² OJ L347 of 20.12.2013, p. 174.

³ 28/GB/2013. 01364.EIT.2014

⁴ 00101.EIT.2015.I.GB34

⁵ 00105.EIT.2015.I.GB34

⁶ 02729.EIT.2015.I.GB38

⁷ 02728.EIT.2015.I.GB38

- (2) According to the Statutes annexed to the EIT Regulation, the EIT Governing Board shall adopt criteria and procedures for financing, monitoring and evaluating the activities of the KICs on the basis of the proposal from the EIT Director.

HAS DECIDED AS FOLLOWS:

Article 1

The annexed Principles for financing, monitoring and Evaluating KIC activities are hereby adopted.

Article 2

This decision shall enter into force on the day of its signature.

Done at Budapest on 3 December 2015

Signed

Peter Olesen

Chairman of the EIT Governing Board

Annex: Principles for financing, monitoring and evaluating KIC activities

Principles for financing, monitoring and evaluating KIC activities

The EIT – a results-oriented and impact-driven institute

The European Institute of Innovation and Technology (EIT), as part of Horizon 2020: the EU Framework Programme for Research and Innovation for 2014-2020, promotes sustainable growth and competitiveness by enhancing Europe's ability to innovate through the integration, for the first time at EU level, of education and entrepreneurship with research and innovation.

The EIT operates in a comprehensive legal framework, composed of the Horizon 2020 Framework Regulation, the Horizon 2020 Rules for Participation and EIT specific provisions established in the EIT Strategic Innovation Agenda, the EIT Regulation and its Financial Regulation. Based on this overarching framework, the EIT develops principles for financing, monitoring and evaluating its KICs with a view to:

- Contributing to EIT objectives
- Fostering KICs results
- Ensuring accountability and compliance
- Identifying opportunities for simplification

These principles reflect the EIT's 'investor approach', which stands for selecting a portfolio of world-class partnerships, the KICs, and incentivising each KIC to turn investment into tangible economic and social impact, such as the creation of new businesses and business opportunities, promoting a risk-taking and entrepreneurial culture and the creation of new and high quality jobs.

These principles provide a stable framework, while allowing for the necessary flexibility to reflect the progress and reality of the KICs, their thematic area and the EIT's quest for simplification.

Financing for Impact

The EIT funding model promotes impact in the short, medium and long term. It does so by smartly combining EIT funding while leveraging and aligning KIC partners and resources towards innovation.

In particular, by integrating the existing excellence and investment in higher education, research and innovation, the EIT funding model supports its KICs in the commercialisation of research results, the development of innovative educational courses with an emphasis on entrepreneurship and the creation of new start-ups.

The EIT financing principles and procedures reflect the multiannual nature of a KIC.

SMART FUNDING

The EIT principles for financing are common to all KICs. However, due to their unique nature, their different thematic areas and their different degree of maturity and development, the implementation of these principles may vary between each KIC. The bottom-up approach in the design, and implementation, of a KIC's activities requires a high degree of flexibility in many respects.

- **Leveraging and pooling resources**

As set in the EIT Regulation, the EIT funding on average may not exceed 25% of a KIC's overall funding, which means that the remaining minimum 75% must come from non-EIT sources.

The non-EIT funding may include KIC partners' own resources, public funding at national, regional and EU level, such as, in particular, the – current and future – Structural Funds and the Framework Programme for Research and Innovation. The EIT requires and verifies that the KIC's internal provisions prevent double funding of activities.

Setting an annual maximum EIT contribution, as part of a multiannual cycle, allows the EIT to ensure and incentivise the long-term involvement of KIC partners as well as their financial commitment to the KIC and provides for flexibility. The EIT funding therefore becomes a de facto catalyst for investment in innovation achieving a critical mass of resources.

- **Sustainability**

The integration of higher education, research and innovation must go beyond the availability of EIT funding. Reflecting the EIT's objective of producing long-lasting impact, a KIC is expected to gradually become sustainable in the long term. While a KIC is not expected to become financially independent from the EIT during its first years of operation, it should gradually reduce its dependency on EIT funding while mobilising other sources, such as by raising funds from Intellectual Property, revenues from activities, venture capital, return on investments, etc. The sustainability principle should be an integral objective for the KIC's business model. In March 2015, the EIT's Governing Board adopted principles of financial sustainability¹, which provide the framework for KICs to achieve the objective of reaching financial sustainability.

- **Providing support and incentivising performance**

The EIT financial contribution is allocated so that it balances the requirement to support the KICs' long-term strategy while rewarding each KIC for its performance and ambition in the short term.

The level of the EIT financial contribution to each KIC is thus decided by the EIT on an annual basis as the sum of two differently established levels of EIT funding:

a) **Support funding**, which is equally distributed among the KICs of the same wave (2009, 2014, 2016, etc.); and

¹ <http://eit.europa.eu/interact/bookshelf/governing-board-decision-principles-kics%E2%80%99-financial-sustainability>

b) **Competitive funding**, which is the result of the assessment of a KIC's past performance and future KIC Business Plan as regards its activities but also its multiannual progress in achieving its mission and its strategic outlook. The assessment, carried out by the EIT with the assistance of external, independent experts, is based on each KIC's individual performance and a competitive review between KICs with a similar level of maturity.

In order to ensure comparability between KICs, and allow for flexibility and adaptability, the exact proportions between the two types of funding, the specific criteria for the assessment of competitive funding, the weightings and other precise modalities are defined by the EIT. The principles of financial sustainability, adopted by the EIT Governing Board², assumes a gradual increase in competitive funding.

HOW TO GET FUNDING?

- **Contractual relations between the EIT and its KICs**

The relations between the EIT and KICs are laid down in contractual agreements which set out their respective rights and obligations, ensure an adequate level of coordination and outline the mechanism for monitoring and evaluating a KIC's activities and outcomes. Given the long-term partnership between the EIT and its KICs, the contractual agreements are defined in a long-term cooperation agreement between the EIT and each KIC, formalised within a seven-year Framework Partnership Agreement (FPA). The specific grant agreement (SGA) is the contractual instrument through which the EIT awards a grant to a KIC for the implementation of the KIC Business Plan.

Both agreements reflect the integrated structure of a KIC. The KIC Legal Entity (KIC LE) must be empowered by the appropriate KIC governance body (e.g. Supervisory Board, Assembly, etc.) to conclude agreements with the EIT. These are signed between the EIT and the KIC LE. The KIC partners accede to the terms of the agreements by signing Accession Forms. By signing these forms, a KIC partner agrees to the rights and obligations stipulated in the FPA/SGA, which is a condition for benefitting from the EIT grant. Internal arrangements between the KIC LE and each KIC Partner are governed by internal agreements signed between the KIC LE and each KIC Partner. Internal arrangements should comply with the principles of good governance.

- **KIC activities: KIC added value activities (KAVA) and complementary activities (KCA)**

A KIC is expected to implement a portfolio of integrated knowledge triangle activities to achieve its strategic objectives. The KIC is responsible for its portfolio of activities, which contributes to achieving its overall objectives. A KIC implements two categories of KIC activities:

- **KIC added value activities (KAVA).** These are KIC activities contributing to the integration of the knowledge triangle of research, innovation and higher education, including establishment, administrative and coordination activities of the KICs, and contributing to the overall objectives of the EIT.

KIC added value activities may:

² <http://eit.europa.eu/interact/bookshelf/governing-board-decision-principles-kics%E2%80%99-financial-sustainability>

- be financed up to 100% by the EIT financial contribution.

The cost of KIC added value activities must:

- meet the criteria defined in the EIT Financial Regulation and the relevant provisions of the EU Financial Regulation and the Horizon 2020 Rules for Participation.

The distribution of EIT funding among different activities, as well as the single co-financing rate, is the KIC's responsibility. The EIT sets the amount of its financial contribution for the proposed KIC Business Plan.

- **KIC complementary activities (KCA).** These are KIC activities having a link with at least one KAVA at the level of outputs and results and they are not financed from the EIT contribution.

KIC complementary activities must:

- have a clear and described link with at least one KAVA at the level of outcomes / results; and
- be funded from sources other than the EIT.

The cost of KIC complementary activities must:

- be incurred by a KIC LE/partner, their linked third parties and/or third parties receiving financial support (simplified methods of reporting may be established);
- be proportionate to the cost of the KAVA and/or to the expected impact in furthering the mission of a KIC (i.e. the relative weight of the KCA within KIC Activities must be suitable and reasonable to achieve the objectives of the activity);
- be incurred after the designation date of a KIC; and
- shall be identifiable and verifiable.

- **KIC Business Plan (KIC BP) and EIT assessment**

A KIC Business Plan is a comprehensive document describing the implementation of a KIC's seven-year strategy, known as the KIC Strategic Agenda. The KIC Business Plan also contains the planned portfolio of KIC activities for a particular period (typically a calendar year).

A KIC Business Plan includes the operationalisation of the KIC's strategy through, for instance, its governance, management and organisational structures, as well as the selection, description, and management of the KIC's portfolio of planned activities. It includes clear targets, deliverables and key performance indicators for each KIC added value activity.

A KIC Business Plan is the basis for awarding the EIT grant and is annexed to the specific grant agreement. The KIC Business Plan is the reference for the KIC Performance Report.

In order to ensure predictability and comparability, the EIT issues guidelines describing the expected structure, scope and level of information of a KIC Business Plan and KIC Report; the guidelines may be adapted to incorporate lessons learnt and with the aim of simplification.

- KIC Report

Following the implementation of a KIC Business Plan, a KIC submits to the EIT a final report describing its operational and financial implementation and the objectives and results achieved. Based on the KIC Report, the EIT assesses the progress and results of the implementation of the KIC Business Plan and issues recommendations.

The KIC Report is accompanied by Certificates on the Financial Statements (CFS), which are issued by independent auditors regarding factual findings on costs declared by the KIC. The CFS play an important role in building assurance regarding KIC grants as regards cost compliance, and the EIT relies on them significantly during its ex-ante verification of the KIC Report. The EIT has put a methodology in place to assess the CFS received and to carry out supplementary checks of the KIC report, with the ultimate goal of preventing the reimbursement of ineligible expenditure.

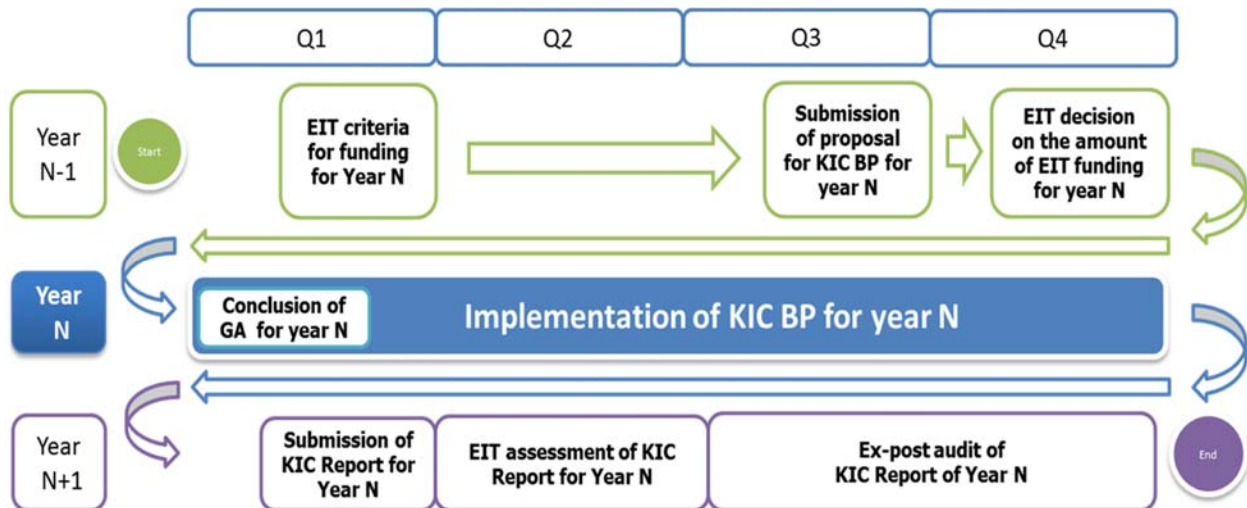
- EIT ex-post audits

To provide assurance for the regularity and legality of transactions in the framework of overall control activities, the EIT periodically (typically within three months after the approval of the KIC Report) undertakes ex-post on-the-spot verifications on the KIC Legal Entity and KIC Partners.

For the purposes of on-the-spot verifications, the EIT carries out a risk assessment to identify and compare the level of risks presented by the individual KICs and individual partners. This risk assessment procedure is the main input considered when identifying yearly audit plans and selecting KIC partners for on-the-spot visits.

How does it work?

The following graph depicts the grant cycle related to the implementation of the KIC Business Plan in a specific year (year N), which forms an integral part of the multiannual framework covered by the seven-year FPA:



Monitoring for impact

As an institute focused on achieving market and societal impact, the EIT has a results-oriented and impact-driven approach to monitoring and assessments. KICs operate according to business logic and on the basis of annual KIC Business Plans which implement the KIC's multiannual strategies, portfolio of activities from education to business creation. KICs operate with clear targets and deliverables while use key performance indicators. The EIT monitors the KIC's multiannual strategy and the KIC's portfolio of activities in order to assess its impact and to incentivise its performance with a view to:

- ensuring alignment of KIC strategies with the EIT mission and objectives and ascertaining that the strategies (have the potential to) produce the desired results and impacts;
- ensuring that the EIT and KICs implement their activities, deliver outputs and spend budgets according to planning or adjust plans in a timely manner where justified;
- verifying that the EIT and KICs respect the basic principles of all applicable EU legislation, including good governance principles and sound financial management;
- enabling continuous quality improvement and adequate risk management;
- assessing and improving the KIC model with a focus on Knowledge Triangle Integration;
- obtaining information on the impact and EU added value of the EIT and KICs and good practices for communication with external stakeholders.

SMART MONITORING

The EIT is responsible for the assessment of an individual KIC's performance and those cross-KIC elements that contribute to accomplishing the EIT's mission. The EIT and KICs contribution to Horizon 2020 is monitored by the European Commission. Closely monitoring the KICs allows the EIT to promote cross-fertilisation between its KICs.

The EIT's monitoring system is designed according to the following principles:

- **Continuous**

The EIT assesses the KICs based on a continuous monitoring system. By ensuring accountability and identifying opportunities to improve operations, the EIT's monitoring system incentivises high quality results, innovation excellence and an efficient use of resources.

- **Adaptive**

The EIT monitoring system evolves with the maturity and growth of the KICs' operations. This adaptive monitoring approach means that the EIT reviews its monitoring practices on a regular basis and adapts them to the evolving context in which both EIT and KICs operate. The adaptive nature of the EIT's monitoring system is essential as the number of KICs grows over time and they develop at different speeds.

- **Bespoke**

While there is a common underlying philosophy to the EIT's monitoring framework, its implementation is suited to the different KICs. This includes a tailor-made approach per KIC that takes into account the thematic area that it operates in; as each KIC aims at overcoming a particular societal challenge, no two KICs are the same.

HOW DOES IT WORK?

The EIT's innovation review system consists of three components: strategy, implementation, and results and impacts.

- **Strategy**

The EIT Governing Board assesses the development and implementation of a KIC's multiannual strategy as well as its contribution to the EIT's overall mission. The strategic assessment examines the integrated portfolio development and management and Knowledge Triangle integration. Conclusions from the assessment at strategy level provide insight into good practices and provide guidance for improving the KIC model. Monitoring the EIT strategy is coupled with the systematic collection of information on result, impact and context indicators.

- **Implementation**

EIT has devised a comprehensive set of well-defined indicators to monitor the implementation of KIC Business Plans. These indicators enable the EIT to measure and communicate its contribution to Horizon 2020 objectives, to control EIT internal processes and to track the performance and progress of the KICs in a standardised manner. The collection of indicators is complemented by on-site visits by EIT staff to the KICs to verify actions and compliance and to obtain contextual information enabling a proper interpretation and assessment of the information. Surveys are organised to measure the degree of satisfaction of KIC stakeholders and effectiveness of the KIC model (for instance, following the careers of graduates from EIT-labelled educational programmes).

- **Results and impacts**

Returns on EIT investment in the KICs are to be measured in terms of tangible benefits for the European economy and society at large, such as the creation of new businesses, products and services in existing and future markets, contributions to tackling societal challenges, better skilled entrepreneurial people, new and more attractive job opportunities and the attraction and retention of talent from across the Union and abroad. This requires the setting-up of a robust results-oriented evaluation system for the EIT and its KICs, focusing on achievements, results and the generation of both economic and societal impact to be benchmarked against best international practices.

In order to have a comprehensive view of the impact brought about by the EIT and the KICs, the EIT evaluation system combines evaluations carried out by the European Commission with assessments of topics of strategic relevance for the EIT performed by the EIT or the European Commission.

EIT EXTERNAL EVALUATION

Every three years after the entry into force of a new Multiannual Financial Framework (MFF), and as established in the EIT Regulation, an independent external evaluation of the EIT and the KICs is carried out by the European Commission with support from external independent experts. The evaluation of all activities of the EIT and the KICs looks at the added value of the EIT – the impact, effectiveness, sustainability, efficiency and relevance of the activities pursued – and at complementarity with existing national and Union policies to support higher education, research and innovation.

- **Horizon 2020 interim evaluation**

By the end of 2017, the Horizon 2020 interim evaluation, including the EIT activities, will look into:

- the achievements of the objectives of Horizon 2020 and continued relevance of all related measures
 - the efficiency and use of resources, with particular attention paid to cross-cutting issues in the context of Horizon 2020
 - Union added value
-
- **EIT review**

The EIT's results-oriented and impact-driven approach is not limited to the KICs. The EIT is to be assessed on the basis of its impact, its ability to use EU funding and its contribution to Horizon 2020 while achieving its objectives. By the end of 2017, and as a pre-condition for the launching of the 2018 Call for KIC proposals, the EIT will be specifically reviewed on the basis of:

- the level of consumption and efficiency in the use of the funds allocated, differentiating between the amount used for the development of the first wave of KICs and the effect of the seed money for the subsequent waves, and the ability of the EIT to attract funds from the KIC partners and especially from the private sector
- the contribution of the EIT and the KICs to the 'Societal challenges' priority and the specific 'Leadership in enabling and industrial technologies' objective
- organisations from universities, business and research integrated in the Knowledge and Innovation Communities (KICs)
- collaboration inside the Knowledge Triangle leading to the development of innovative products, services and processes
- the contribution of the EIT and the KICs to the integration of higher education, research and innovation
- the ability of the KICs to integrate relevant new partners where they can provide added value

Evaluation timeline

