

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 the EU level, of education and entrepreneurship with research and innovation.

The EIT operates in a comprehensive legal framework, composed of the Horizon 2020 Framework Regulation¹, the Horizon 2020 Rules for Participation² and EIT specific provisions established in the EIT Strategic Innovation Agenda³, the EIT Regulation⁴ and its Financial Regulation⁵. 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.

¹ [Regulation \(EU\) No 1291/2013](#)

² [Regulation \(EU\) No 1290/2013](#)

³ [Decision No 1312/2013/EU](#)

⁴ [Regulation \(EC\) No 294/2008 amended by Regulation \(EU\) No 1292/2013](#)

⁵ [Decision of the EIT Governing Board of 27 December 2013](#)

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 implemented through annual funding decisions.

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, a KIC should

gradually reduce its dependency from EIT funding, mobilising other sources, e.g. 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.

- 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, etc.); and
- 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 a KIC's 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.

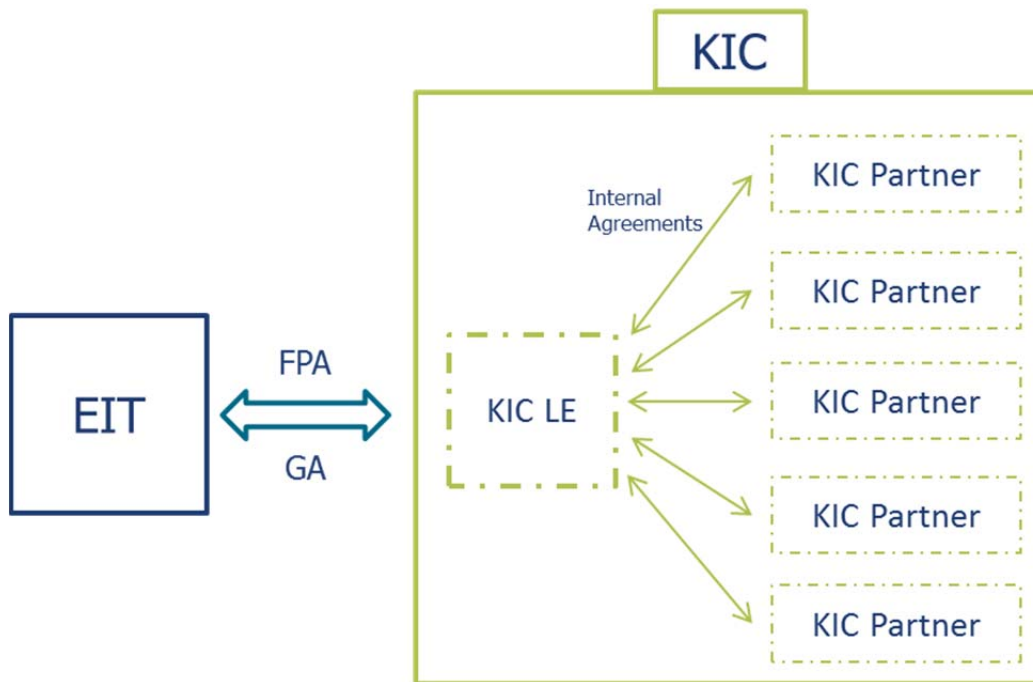
In order to ensure comparability between KICs, and allow for flexibility and adaptability, the exact proportions between the two types of funding, the specific criteria for the assessment of competitive funding, the weightings and other precise modalities are defined by the EIT on an annual basis.

HOW TO GET FUNDING?

- Contractual relations between the EIT and its KIC

The relations between the EIT and KICs are laid down on contractual agreements which set out their respective rights and obligations, ensure an adequate level of coordination and outline the mechanism for monitoring and evaluating KIC 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 (GA) is the contractual instrument through which the EIT awards, on an annual basis, 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 the agreements with the EIT. These are signed between the EIT and the KIC LE. The KIC partners accede through the signature of Internal Agreements between the KIC LE and each KIC Partner. Through this signature, a KIC partner agrees to the rights and obligations stipulated in the FPA/GA, which is a condition for benefitting from the EIT grant.



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

A KIC is expected to implement a portfolio of integrated activities ranging from education, research and innovation to business creation. 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.

The KIC added value activities may:

- 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 Rules for Participation of Horizon 2020.

The distribution of EIT funding between different activities, as well as co-financing rates, 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 and not financed from the EIT contribution.

KIC complementary activities must:

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

The cost of KIC complementary activities must:

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



- KIC Business Plan (KIC BP) and EIT assessment

A KIC Business Plan is a comprehensive document describing the implementation of the seven-year KIC's strategy and the planned portfolio of KIC activities for a particular period (typically a calendar year).

A KIC Business Plan includes the operationalization of the KIC's strategy through for instance, its governance, management and organizational structures; 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 the award of the EIT grant and is annexed to the specific grant agreement. The KIC Business Plan is the reference for the KIC 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 on an annual basis to incorporate lessons learnt.

- KIC Report

Following the implementation of a KIC Business Plan, a KIC submits to the EIT a report describing its 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.

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 over KIC grants as regards cost compliance, and the EIT places a significant reliance on them during its ex-ante verification of the KIC Report. The EIT has put in place a methodology to assess the received CFS and to carry out supplementary checks of the KIC report, with the ultimate goal of preventing the reimbursement of ineligible expenditure.

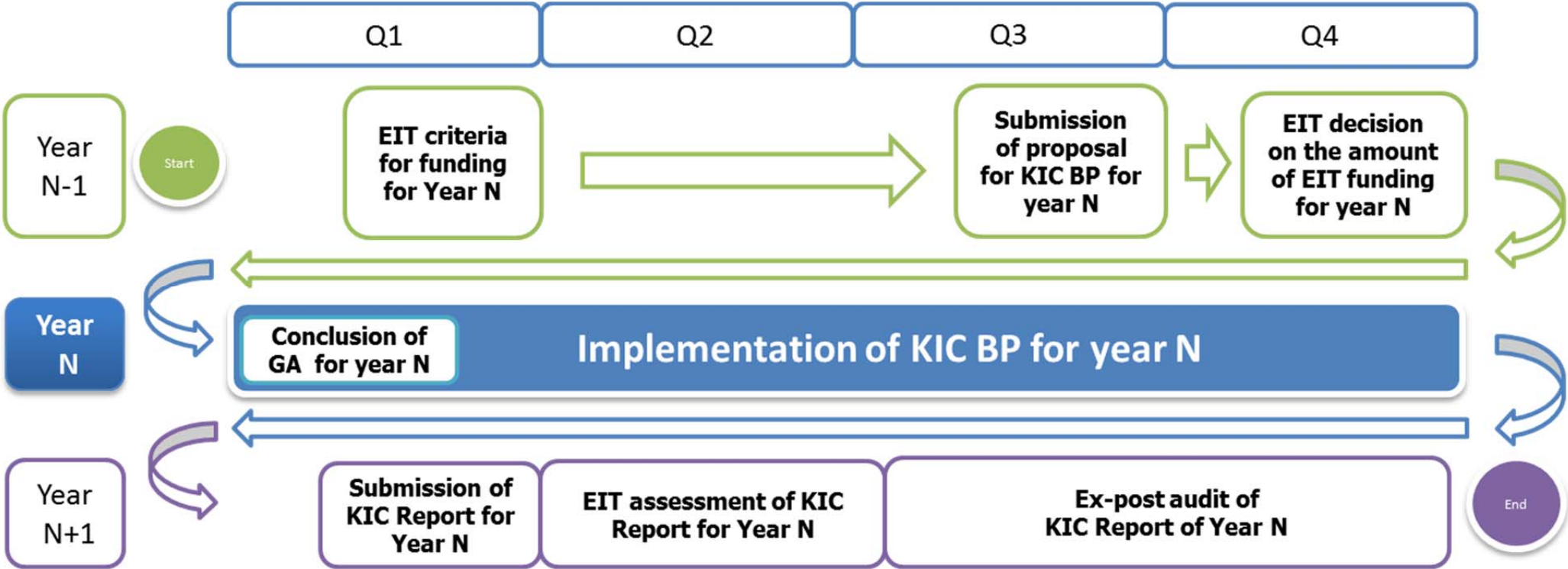
- EIT ex-post audits

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-spot verifications on the KIC Legal Entity and KIC Partners.

For the purposes of on-the-spot verifications, the EIT applies 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 the on-the-spot visits.

How does it work?

The following graph depicts the grant cycle related to the implementation of the KIC Business Plan (BP) 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 follows a results-oriented and impact driven approach in its monitoring. KICs operate according to business logic, on the basis of annual KIC Business Plans implementing the KIC's multiannual strategy and including a portfolio of activities from education to business creation. KICs operate with clear targets, deliverables and using key performance indicators. The EIT deploys an innovation review system that monitors the KIC's multiannual strategy and the KIC's portfolio of activities in order to assess its impact and to incentivise its performance.

The EIT's monitoring system:

- develops the EIT's capacity for analysing the KICs;
- measures the performance of the KICs against their objectives;
- incentivises KICs towards better performance; and
- identifies good practices to be shared both across and beyond the KICs.

A multi-layered (Horizon 2020, EIT, cross-KIC, and KIC) Performance Measurement System ensures that the EIT and the KICs added value is assessed at all levels.

SMART MONITORING

The EIT is responsible for the assessment of the 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: strategy-based review, activity-based review and the EIT Performance Measurement System.

- Strategy-based

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 twice per year. This strategic review tracks progress in key areas of KIC's development as identified by the EIT Governing Board during the annual hearings for the allocation of the EIT financial contribution to each KIC. The hearings take place during Q4. After the hearings, the EIT Governing Board may issue recommendations to a KIC on strategic elements to improve key areas and to further develop those elements that make each KIC unique. During Q2, the EIT Governing Board holds a Spring Review to assess the progress made on the recommendations and discuss jointly the strategic direction of both the EIT and the KICs. This meeting forms part of the structured strategic dialogue between the EIT and the KICs.

The strategic review examines the integrated portfolio development and management as part of its multiannual strategy and the integration of higher education, research and innovation. In other words, to what extent the KIC partnership successfully develops and deploys its portfolio of activities ensuring coherence with its multiannual strategy and the integration of the Knowledge Triangle.

- Activity-based

The activity review assesses, on an annual basis and in close cooperation with the KICs, specific KIC activities from the wider KIC portfolio of activities. The activity review is thus carried out, with the support from external independent experts, at the level of an activity with view of promoting its innovation potential, high quality results, innovation excellence and an efficient use of resources. The activity review includes both delivered and planned performance (output) measures and measures of how that performance has or will be achieved (inflow). This review includes both quantitative and qualitative assessments.

The EIT uses broad criteria for the selection of the activities to be part of the activity review, for example, activities must: be linked to the recommendations of the EIT Governing Board; span across the Knowledge Triangle; contribute significantly to the KIC multiannual strategy; and show strong potential for added-value and dissemination and/or untapped potential.

- EIT Performance Measurement System (PMS)

The EIT Performance Measurement System consists of several Key Performance Indicators (KPIs) applicable to four levels: Horizon 2020, EIT, Cross-KIC and individual KIC.

The Key Performance Indicators have been selected to measure the fulfilment of selected EIT strategic objectives over a specific period of time. In this way, performance indicators contribute to, and are a, driving force for the continuous adaptation of a KIC's strategy and operations. In order to manage and monitor progress towards all objectives, performance indicators related to each objective are devised and selected.

At the **Horizon 2020 level**, and as established in the Horizon 2020 Framework Programme, the indicators cover the integration of the knowledge triangle and the EIT contribution to Horizon 2020 objectives.

The **EIT level** focuses on monitoring the institute's own activities. Indicators range from EIT brand recognition to due dates for Grant Agreement completion, reporting acceptance and payment execution.

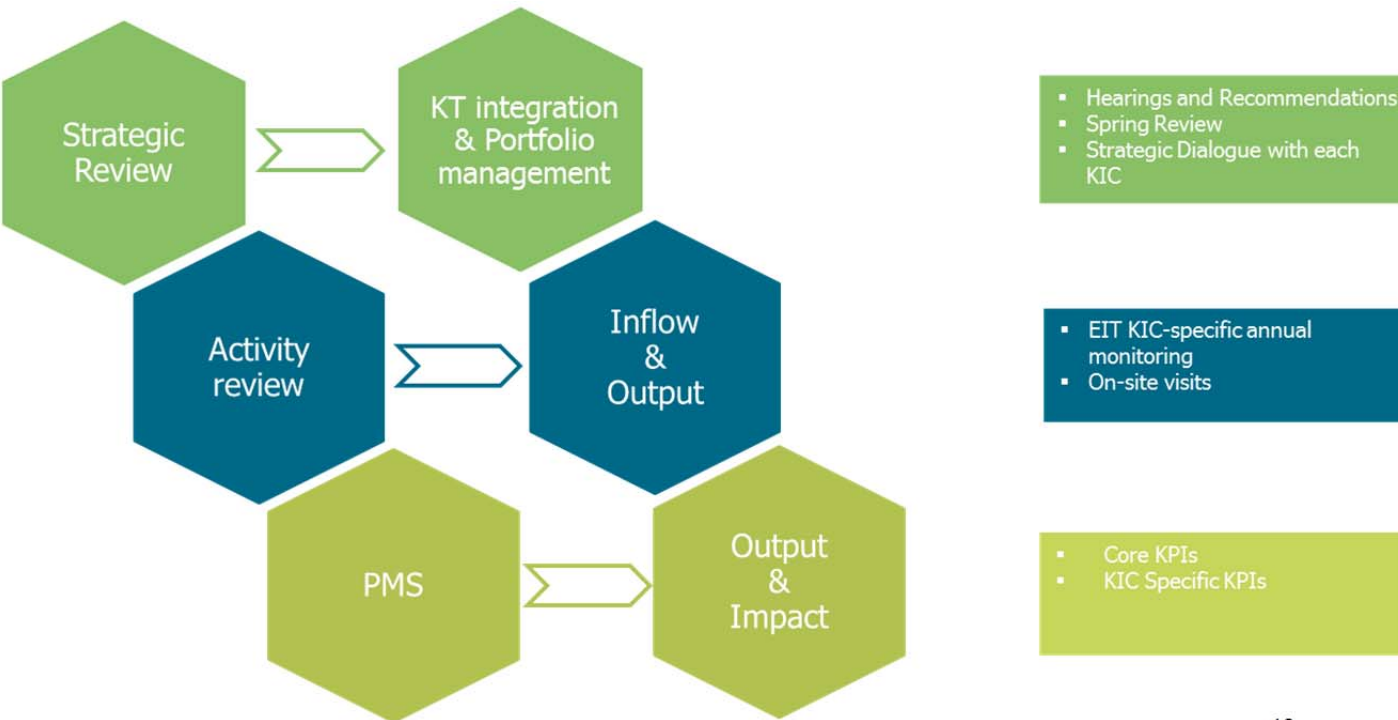
The monitoring of **each KIC** is made on the basis of its individual targets and KIC specific Key Performance Indicators defined by each KIC based on its portfolio of activities and expected impact.

The monitoring of **all cross-KICs elements**, which focuses on key elements capturing the integration of the knowledge triangle and contributing to the EIT mission, is done through a set of core KPIs:

- a. Attractiveness of Education Programmes
- b. Number of new graduates
- c. Number of business ideas incubated
- d. Number of start-ups created
- e. Knowledge Transfer and Adoption
- f. New or improved products, services and process launched

Currently, the core KPIs for cross-KIC monitoring measure primarily outputs and results. In the future, and as KICs develop, the system will be enriched to better assess KICs' impact.

The EIT Innovation Review



Evaluating Impact

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 business, products and services in existing and future markets, 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, outputs 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 evaluations

- **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 the 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 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 based on 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 the 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 partners in the KICs and especially from the private sector

- the contribution of the EIT and the KICs to the priority "Societal challenges" and the specific objective "Leadership in enabling and industrial technologies" and the performance assessed on the basis of
 - 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
- KIC impact snapshots

Further evaluations of issues or topics of strategic relevance, such as the KIC's approach towards Intellectual Property Rights, the implementation of the co-location centres concept or the impact of the knowledge triangle integration in higher education, are carried out to examine the progress made by the EIT towards the objectives set.

These one-off evaluations, which can be launched by the European Commission or by the EIT, help identifying the factors contributing to the implementation of the activities and identify good practices. All evaluations are carried out taking into account the administrative impact on the EIT and the KICs.

Evaluation timeline

