

**DECISION 06/2022
OF THE GOVERNING BOARD OF
THE EUROPEAN INSTITUTE OF INNOVATION AND TECHNOLOGY (EIT)**

**ON THE AMENDMENT OF THE PRINCIPLES ON THE FINANCIAL SUSTAINABILITY
OF KNOWLEDGE AND INNOVATION COMMUNITIES (KICs)
AND REPEALING DECISION 13/2021 OF THE GOVERNING BOARD OF THE EIT**

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

HAVING REGARD to Regulation 2021/819 of the European Parliament and of the Council of 20 May 2021 on the European Institute of Innovation and Technology (hereafter referred to as the “EIT Regulation (recast)”) ¹ in particular to Section 2(1)(c) of the Statutes annexed thereto;

HAVING REGARD to Decision 2021/820 of the European Parliament and of the Council of 20 May 2021 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”) ², in particular to Section 3.6.2 thereof;

HAVING REGARD to Regulation 2021/695 of the European Parliament and of the Council of 28 April 2021 establishing Horizon Europe – the Framework Programme for Research and Innovation, laying down its rules for participation and dissemination, and repealing Regulations (EU) No 1290/2013 and (EU) No 1291/2013 ³;

HAVING REGARD to Regulation (EU, Euratom) No 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 101/2013, (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 (hereafter referred to as the “EU Financial Regulation”) ⁴;

HAVING REGARD to Commission Delegated Regulation (EU) 2019/715 of 18 December 2018 on the framework financial regulation for the bodies set up under the TFEU and Euratom Treaty and referred to in Article 70 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council (hereafter referred to as the “Framework Financial Regulation”) ⁵;

¹ OJ L 189, 28.5.2021, p. 61-90.

² OJ L 189, 28.5.2021, p. 91-118.

³ OJ L 170, 12.5.2021, p. 1-68.

⁴ OJ-L 193, 30.07.2018, p. 1-222.

⁵ OJ L 122, 10.5.2019, p. 1-38.

HAVING REGARD to the Decision 21/2019 of the Governing Board of the EIT of 25 September 2019 on adopting the Financial Regulation for the European Institute of Innovation and Technology⁶;

HAVING REGARD to Decision 13/2021 of the Governing Board of the EIT of 17 March 2021 on the principles on the financial sustainability of Knowledge and Innovation Communities (KICs)⁷;

HAVING REGARD to Decision 14/2021 of the Governing Board of the EIT of 7 May 2021 on the principles for financing, monitoring and evaluating Knowledge and Innovation Community (KIC) activities⁸;

HAVING REGARD to Decision 42/2021 of the Governing Board of the EIT of 23 November 2021 on the supervision framework of Knowledge and Innovation Communities (KICs)⁹;

HAVING REGARD to the EIT KIC Partnership Agreement model, in particular its Article 9.2;

HAVING REGARD the Horizon Europe Model Grant Agreement, in particular to its Annex 5, EIT-specific provisions;

WHEREAS

- (1) As of 2021, the EIT is part of the Horizon Europe Framework Programme for Research and Innovation and the new specific legal framework (i.e. EIT Regulation (recast), EIT Strategic Innovation Agenda 2021-2027) was published in the Official Journal on 28 May 2021.
- (2) The new framework required the significant revision of the Principles on KICs' Financial Sustainability that had been applied by the EIT until 2020. For this reason, on 17 May 2021 the Governing Board of the EIT adopted its Decision 13/2021 on the principles on the financial sustainability of KICs.
- (3) The purpose of the present amendment of Decision 13/2021 on the principles on the financial sustainability of KICs is twofold: to introduce the concept of EIT Funded activities (EFA) and non-EIT Funded activities (NEFA) in the EIT KIC funding Model, as endorsed by the European Commission¹⁰, and to ensure that the decision is fully aligned with the final published regulatory framework (EIT Regulation (recast) and the EIT Strategic Innovation Agenda 2021-2027) and contractual framework (Partnership Agreement (PA), the Horizon Europe Model Grant Agreement (HE MGA)).

⁶ Ares(2019)6810859

⁷ Ref. Ares(2021)2134807

⁸ Ref. Ares(2021)3111256

⁹ Ref. Ares(2021)7384565

¹⁰ Ref. Ares(2022)896030

HAS DECIDED AS FOLLOWS:

Article 1
Adoption and repeal

- (1) The amended 'Principles on the financial sustainability of Knowledge and Innovation Communities (KICs)' are hereby adopted as set out in Annex I (in a consolidated form).
- (2) Decision 13/2021 of the Governing Board of the EIT on the principles on financial sustainability of KICs shall be repealed.

Article 2
Entry into force

This decision shall enter into force on the date of signature.

Done in Budapest on 16 March 2022

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) resulted in the 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 Higher Education Activities Initiative (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, aiming to keep the KIC as an active member of the EIT Community after the expiry of the Partnership Agreement, and which includes the conditions for access to EIT competitive calls for some specific activities and transnational activities with a high Union added value.

III. Revenues and financing sources to achieve financial sustainability

5. Further to Article 18 of the EIT Regulation (recast), in order to achieve financial sustainability, **the following financing sources of the KIC Legal Entity and its Co-location Centres shall 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 those Member States or countries;
 - 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, for which principles established by the EIT Governing Board apply, or through co-developed investment funds and platforms.

- 7. 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. Funding rates of eligible costs

- 8. 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.
- 9. The funding model incentivises KICs to gradually **decrease the share of EIT funding of eligible costs in their Business Plan while increasing the level of 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.
- 10. Therefore, **fixed decreasing 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*

- 11. In the context of the new funding and implementation models and the multi-annuality of KIC Business Plans, **the SIA funding rates shall be introduced as a requirement in the Invitations to Submit KIC Business Plans. The corresponding grant agreements will include the single reimbursement rates (SRR) of eligible costs**. 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 that end, 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.**
13. The EIT Funding model may include **EIT Funded activities (EFA)** and **non-EIT Funded activities (NEFA)**. For the purposes of calculating the SIA funding rates, and to determine whether the co-funding requirements of the EIT Strategic Innovation Agenda 2021-2027 are met, contributions to both sets of activities will be considered. NEFAs need to comply with the conditions laid down in Annex 5 of the Horizon Europe Model Grant Agreement (HE MGA).

V. Measuring progress towards financial sustainability

14. 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.

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.

15. The progress of KICs towards financial sustainability will be **measured both quantitatively and qualitatively**, based on achievement of the KICs' financial sustainability targets, total revenues and amounts of financing from non-EIT sources generated, diversification of revenues and financing sources, the value of the portfolio of financial assets held by KICs, and the merit of the KICs' commercial agreements as signed with partners.

VI. Requirements regarding KICs' financial sustainability strategies

16. 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.

17. 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.
18. 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

19. 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.
20. 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.
21. 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.



22. 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.
23. **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.
24. 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

25. 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, in accordance with the provisions of the Partnership Agreement and Decision 42/2021 of the EIT Governing Board on the Supervision Framework of KICs.
26. 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.
27. 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.