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Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**amending Regulation (EC) No 294/2008
establishing the European Institute of Innovation and Technology**

(Text with EEA relevance)

{SEC(2011) 1433 final}
{SEC(2011) 1434 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

The European Institute of Innovation and Technology (EIT) has been set up by Regulation (EC) 294/2008 with the objective to contribute to sustainable economic growth and competitiveness by reinforcing the innovation capacity of the EU and its Member States. During the period 2014-2020 the EIT will contribute to the general objective of "Horizon2020 - The Framework Programme for Research and Innovation" (hereinafter referred to as 'Horizon 2020')¹, by integrating the knowledge triangle of higher education, research and innovation. This integration takes place primarily via the Knowledge and Innovation Communities (KICs), which bring together organisations on a long-term basis around societal challenges.

The financial contribution from Horizon 2020 to the EIT will be implemented in accordance with the Regulation of the European Parliament and of the Council laying down the rules for the participation and dissemination in "Horizon 2020"². The EIT funding to the KICs will cover "*KIC added value activities*", however the KICs or their partner organisations may apply to other schemes under Horizon 2020 or European Union programmes in accordance with their respective rules and on equal footing with other applications.

The proposed amendments are based on several sources: lessons learnt during the initial period, the proposal for the EIT Strategic Innovation Agenda, which builds on the proposal of the EIT Governing Board, the recommendations of the external evaluation report and Commission opinion on the evaluation, as well as the results of broad consultations with EIT stakeholders.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

The preparation of the proposal took account of the responses to the open consultations on the EIT³. Views were expressed by the Member States and a wide range of stakeholders from industry, academia and civil society. It showed a strong support to the mission of the EIT to drive more and better cooperation between the worlds of academia, entrepreneurship, research and innovation. According to respondents, the EIT should play a distinctive role in 'Horizon 2020', the future EU Programme for Research and Innovation, and forge closer links with other European and national efforts. A majority of respondents praised the way in which the EIT ensures the participation of businesses in its work and urged the Institute to step up its outreach activities. Moreover, respondents considered business involvement as highly relevant for the future success of the EIT. Flexibility, clarity on rules and clear returns on investment is therefore fundamental in order to attract private sector participation.

The proposal also relies on the external evaluation report in which the concept of integrating the knowledge triangle is regarded as highly relevant and the themes around which the EIT is structured are well-received. There is much support for the model which has been developed by the EIT, based around integrated networks of co-location centres. Respondents were also positive, and consistent, in their perspective that the value of the KICs was in acting as a catalyst to secure additional value from the activities which individual members already undertook.

¹ OJ C. p.

² OJ C. p.

³ http://ec.europa.eu/education/eit/eit-consultation_en.htm

3. LEGAL ELEMENTS OF THE PROPOSAL

The proposal is based on the Article 173 TFEU and will be implemented as centralised indirect management

4. BUDGETARY IMPLICATION

During the period 2014-2020 a financial contribution of 3.182.230 million Euro (current prices) for the EIT will be provided from Horizon 2020, the Framework Programme for Research and Innovation (2014-2020). The legislative financial statement attached to this proposal sets out the budgetary, human and administrative resource implications.

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**amending Regulation (EC) No 294/2008
establishing the European Institute of Innovation and Technology**

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 173(3) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee⁴,

Having regard to the opinion of the Committee of the Regions⁵,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The Europe 2020 strategy for smart, sustainable and inclusive growth assigns a prominent role to the European Institute of Innovation and Technology (hereinafter referred to as the EIT) which contributes to a number of flagship initiatives.
- (2) During the period 2014-2020 the EIT should contribute to "Horizon2020 - The Framework Programme for Research and Innovation" established by Regulation No XX/XXXX of the European Parliament and of the Council (hereinafter referred to as 'Horizon 2020')⁶ objectives by integrating the knowledge triangle of research, innovation and education.
- (3) In order to ensure a coherent framework for participants in Horizon 2020, the Regulation No XX/XXXX of the European Parliament and of the Council laying down the rules for the participation and dissemination in 'Horizon 2020' – the Framework Programme for Research and Innovation (2014-2020) (hereinafter referred to as 'Rules for Participation') should apply to the EIT.

⁴ OJ C , , p. .

⁵ OJ C , , p. .

⁶ OJ C. p.

- (4) The rules concerning the management of intellectual property rights are defined in the Rules for Participation.
- (5) The rules concerning participating states and third countries are defined in Horizon 2020 Regulation.
- (6) The EIT should directly engage with national and regional representatives and other stakeholders from across the innovation chain, generating beneficial effects on both sides. In order to render such dialogue and exchange more systematic, an EIT Stakeholder Forum should be organised, bringing together the wider community of stakeholders around cross-cutting issues.
- (7) The scope of the EIT contribution to the Knowledge and Innovation Communities (hereinafter referred to as KICs) should be defined and the origins of KICs' financial resources clarified.
- (8) The composition of the EIT bodies should be simplified. The functioning of the EIT Governing Board should be streamlined and the respective roles and tasks of the Governing Board and the Director should be further clarified.
- (9) New KICs, including their priority fields and the organisation and timing of the selection process, should be launched on the basis of modalities defined in the Strategic Innovation Agenda.
- (10) The KICs should broaden their educational activities, by providing professional training courses.
- (11) Cooperation on the organisation the monitoring and evaluations of the KICs between the Commission and the EIT is required to ensure coherence with overall EU level monitoring and evaluation system.
- (12) The KICs should seek synergies with relevant European Union initiatives.
- (13) In order to assure broader participation of organizations from different Members States in the KICs, the partner organizations should be established in at least three different Member States.
- (14) The criteria and procedures for the financing, monitoring and evaluation of the activities of the KICs should be adopted by the EIT prior to launching the KIC selection process.
- (15) The EIT Triennial Work Programme should take into account the Commission's opinion concerning the EIT's specific objectives, as defined in Horizon 2020, and its complementarities with European Union policies and instruments.
- (16) The EIT, being under Horizon 2020, will be part of the mainstreaming of climate change expenditures as defined in Horizon 2020.
- (17) The evaluation of the EIT should provide timely input to the evaluation of Horizon 2020 in 2017 and 2023.
- (18) The Commission should strengthen its role in monitoring the implementation of specific aspects of EIT activities.

- (19) This Regulation lays down, for the period 2014 to 2020, a financial envelope constituting the prime reference, within the meaning of point [17] of the Inter-institutional Agreement of XX/YY/201Z between the European Parliament, the Council and the Commission on cooperation in budgetary matters and on sound financial management, for the budgetary authority during the annual budgetary procedure. The financial contribution for the EIT should be provided from Horizon 2020.
- (20) Although initially foreseen, the EIT Foundation will not receive a direct contribution from the EU budget, the EU discharge procedure should not apply to it.
- (21) For reasons of clarity the Annex to Regulation (EC) No 294/2008 should be replaced by a new Annex.
- (22) Regulation (EC) No 294/2008 should therefore be amended accordingly.

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 294/2008 is amended as follows:

- (1) Article 2 is amended as follows:

- (a) Paragraphs 3 and 4 are deleted.

- (b) Paragraph 7 is replaced by the following:

- "higher education institution" means an institution within the meaning of Article 2 of Decision (EC) No XXX/20XX of the European Parliament and of the Council establishing "Erasmus for all".

- (c) the following paragraph 10 is added:

- "10. 'Stakeholder Forum' means a meeting open to representatives of national and regional authorities, organized interests and individual entities from business, higher education, and research, cluster organisations, as well as other interested parties from across the knowledge triangle".

- (d) the following paragraph 11 is added:

- 11. "KIC added value activities" means activities carried out by partner organisations contributing to the integration of the knowledge triangle of research, innovation and higher education, including establishment, administrative and coordination activities of the KICs.

- (2) Article 3 is replaced by the following:

"Article 3

Mission and Objectives

The EIT's mission is to contribute to sustainable European economic growth and competitiveness by reinforcing the innovation capacity of the Member States and the Union. It shall do this by promoting and integrating higher education, research and innovation of the highest standards

The EIT' General Objectives, Specific Objectives and result indicators for the period 2014-2020 are defined in Horizon 2020".

(3) In Article 4(1) point (b) is deleted:

(4) In Article 5(1) is amended as follows:

(a) point (a) is deleted.

(b) The following point (j) is inserted

"(j) convene, at least once a year, the Stakeholders Forum to inform about the activities of the EIT, its experiences, good practices and contribution to Union innovation, research and education policies and objectives. Stakeholders shall be invited to express their views."

(5) In Article 6(1), point (c) is replaced by the following:

"(c) education and training activities at masters and doctoral level, as well as professional training courses, in disciplines with the potential to meet future European socio-economic needs and which promote the development of innovation-related skills, the improvement of managerial and entrepreneurial skills and the mobility of researchers and students;"

(6) Article 7 is amended as follows:

(a) paragraph 1a is inserted:

"1a. The EIT shall launch the selection and designation of KICs according to the priority fields and time schedule defined in the SIA."

(b) in paragraph 2, the following point (h) is added:

"(h) readiness to establish synergies with other European Union initiatives,"

(c) paragraph 3, is replaced by the following:

"3. The minimum condition to form a KIC is the participation of at least three partner organisations, established in at least three different Member States. All these partner organisations must be independent of each other, within the meaning of Article 7 of Rules for Participation".

(d) paragraph 4 is replaced by the following:

"4. The majority of the partner organisations forming a KIC shall be established in the Member States. At least one higher education institution and one private company shall be part of each KIC. "

(e) the following paragraph 5 is added:

"5. The EIT shall adopt criteria and procedures for the financing, monitoring and evaluating of the activities of the KICs prior to the launching of the selection procedure for new KICs."

(7) The following Article 7a is inserted:

Principles for the evaluation and monitoring of KICs

The EIT, shall on the basis of key performance indicators and in cooperation with the Commission, organise continuous monitoring and periodic external evaluations of the outputs, results and impact of each KIC."

- (8) The following Article 7b is inserted:

Duration, continuation and termination of a KIC

1. Subject to the outcomes of periodic evaluations and to the specificities of particular fields, a KIC shall normally have a time-frame of seven to fifteen years.
2. The Governing Board may decide to extend the operation of a KIC beyond the period initially set if this is the most appropriate way to achieve the objectives of the EIT.
3. In the event that evaluations of a KIC show inadequate results, the Governing Board shall take appropriate measures including reduction, modification or withdrawal of its financial support or termination of the agreement."

- (9) Article 10 is deleted.

- (10) Article 14 paragraph 2 is replaced by the following:

"2. The KICs shall be financed, in particular, from the following sources:

- (a) contributions from partner organizations, forming a substantial source of funding;
- (b) statutory or voluntary contributions from Member States, third countries or public authorities within them;
- (c) contributions from international bodies or institutions;
- (d) revenue generated by the KICs' own activities and royalties from intellectual property rights;
- (e) capital endowments, including those managed by the EIT Foundation;
- (f) bequests, donations and contributions from individuals, institutions, foundations or any other national bodies;
- (g) contribution from the EIT;
- (h) financial instruments, including those funded from the general budget of the European Union".

Contributions may include contributions in kind."

- (11) Article 14 (4) is replaced by the following:

"4. The EIT contribution may cover, up to 100% of total eligible costs of KIC added value activities".

- (12) Article 15 is replaced by the following:

"Article 15

Programming and reporting

The EIT shall adopt:

- (a) a rolling triennial work programme, based on the SIA, once it is adopted, containing a statement of the major priorities and planned initiatives of the EIT and the KICs, including an estimate of financing needs and sources. It shall also contain appropriate indicators for monitoring the KICs and EIT activities. The preliminary rolling triennial work programme shall be submitted by the EIT to the Commission by 31 December each N-2. The Commission shall deliver an opinion within three months with regard to EIT specific objectives as defined in Horizon 2020 and its complementarities with Union policies and instruments. The EIT shall take a due account of the Commission opinion, and in case of disagreement justify its position. The final work programme shall be transmitted by the EIT to the European Parliament, the Council, the Commission, the European Economic and Social Committee and the Committee of the Regions for information;
- (b) an annual report by 30 June each year. The report shall outline the activities conducted by the EIT and the KICs during the preceding calendar year and assess the results with respect to the objectives, indicators and timetable set, the risks associated with the activities carried out, the use of resources and the general operation of the EIT."

- (13) Article 16 is amended as follows:

- (a) in paragraph 2, the word "five" is replaced by the word "three";
- (b) the following paragraph 2a is inserted:

"2a. The Commission may carry out further evaluations on themes or topics of strategic relevance, with the assistance of independent experts, to examine the progress made by the EIT towards the objectives set, identify the factors contributing to the implementation of the activities and identify good practices."

- (14) In Article 17, the following paragraph 2a is inserted:

"2a. The SIA shall include an analysis of potential synergies and complementarities between EIT activities and other Union initiatives, instruments and programmes."

- (15) Article 19 is replaced by the following:

"Article 19

Budgetary commitments

The financial envelope from Horizon 2020 for the implementation of this Regulation during the period from 1 January 2014 to 31 December 2020 is set at EUR 3.182,230 million. The annual appropriations shall be authorised by the budgetary authority within the limits of the financial framework. The EIT financial contribution to the KICs shall be provided under this financial envelope."

- (16) In Article 20, paragraph 5 is replaced by the following:

"5. The Governing Board shall adopt the draft estimate, accompanied by a draft establishment plan and the preliminary rolling triennial work programme and forward them by 31 December N-2 to the Commission."

(17) In Article 20, paragraph 6 is replaced by the following:

"6. On the basis of the estimate, the Commission shall enter in the draft general budget of the European Union the estimates it deems necessary for the amount of the subsidy to be charged to the general budget."

(18) Article 21 is amended as follows

(a) the following paragraph 1a is inserted:

"1a. The financial contribution to the EIT, shall be implemented in accordance with the Regulation of the European Parliament and of the Council establishing Horizon 2020 and with the Regulation of the European Parliament and of the Council laying down the rules for the participation and dissemination in Horizon 2020".

(b) paragraph 4 is replaced by the following:

"4. Upon a recommendation from the Council, the European Parliament shall, before 30 April of the year $n + 2$, give a discharge for the year n to the Director in respect of the implementation of the EIT budget."

(19) Article 22(4) is deleted

(20) The following Article 22a is inserted:

"Article 22a

Winding up of the EIT

In the event of winding up of the EIT, its liquidation shall intervene under the supervision of the Commission in conformity with the laws applicable. The agreements with the KICs and the act establishing the EIT Foundation shall lay down the appropriate provisions in such situation."

Article 2

The Annex to Regulation (EC) No 294/2008 shall be replaced by the Annex to this Regulation.

Article 3

This Regulation shall enter into force on 1 January 2014.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

ANNEX

Statutes of the European Institute of Innovation and Technology

Section 1

Composition of the Governing Board

1. The Governing Board shall consist both of appointed and representative members.
2. There shall be 12 appointed members, appointed by the Commission, providing a balance between those with experience in business, higher education and research. They shall have a four-year non-renewable term of office.

Whenever necessary, the Governing Board shall submit to the Commission a proposal for appointment of a new member(s). The candidate(s) shall be chosen based on the outcome of a transparent and open procedure, involving consultation with stakeholders.

The Commission shall have regard to the balance between higher education, research, innovation and business experience as well as to gender balance and an appreciation of the higher education, research and innovation environments across the Union.

The Commission shall appoint the member(s) and inform the European Parliament and the Council about the selection process and the final appointment of those members of the Governing Board.

In the event that an appointed member is unable to complete his/her term of office, a substitute member shall be appointed by the same procedure as the incapacitated member in order to complete the latter's term of office. A substitute member, who has served for a period of less than two years, may be re-appointed by the Commission for a period of additional four years upon request of the Governing Board.

During a transitional period, the Board members initially appointed for a six year period shall complete their mandate. Until that time there shall be 18 appointed members. Within six months after entry into force of this regulation, one third of twelve members appointed in 2012 shall be chosen by the Governing Board with the Commission approval to serve for a two year period, one third for a four year period and one third for a six year period.

3. There shall be three representative members elected by the KICs from among their partner organizations. They shall have a two-year term of office, renewable once. Their term of office shall cease if they leave the KIC.

The conditions and modalities for election and replacement of the representative members shall be adopted by the Governing Board on the basis of a proposal from the Director. This mechanism shall ensure an appropriate representation of the diversity and shall take into account the evolution of the KICs.

During a transitional period, the representative members initially elected for a three year period shall complete their mandate. Until that time there shall be four representative members.

4. The Governing Board members shall act in the interests of the EIT, safeguarding its goals and mission, identity and coherence, in an independent way.

Section 2

Responsibilities of the Governing Board

1. The Governing Board shall take necessary strategic decisions, in particular:
 - (a) adopt the EIT draft Strategic Innovation Agenda (SIA), the triennial rolling work programme, its budget, its annual accounts and balance sheet and its annual activity report, on the basis of a proposal from the Director;
 - (b) adopt criteria and procedures for the financing, monitoring and evaluating of the activities of the KICs, on the basis of a proposal from the Director;
 - (c) adopt the selection procedure of the KICs;
 - (d) select and designate a partnership as a KIC or withdraw the designation if necessary;
 - (e) ensure continuing evaluation of the activities of KICs;
 - (f) adopt its rules of procedure, those for the Executive Committee, as well as the specific financial rules of the EIT;
 - (g) define, with the Commission's agreement, appropriate honoraria for members of the Governing Board and of the Executive Committee; these honoraria shall be benchmarked against similar provision in the Member States;
 - (h) adopt a procedure for selecting the Executive Committee and the Director;
 - (i) appoint and if necessary dismiss the Director, and exercise disciplinary authority over him/her;
 - (j) appoint the Accounting Officer and the members of the Executive Committee;
 - (k) adopt a code of good conduct regarding conflicts of interest;
 - (l) establish where appropriate advisory groups which may have a defined duration;
 - (m) set up an Internal Auditing Function in accordance with Commission Regulation (EC, Euratom) No 2343/2002;
 - (n) be empowered to establish a Foundation (hereinafter referred to as the EIT Foundation) with the specific objective of promoting and supporting the activities of the EIT;
 - (o) decide on EIT's language regime, taking into account the existing principles on multilingualism and the practical requirements of its operations;
 - (p) promote the EIT globally, so as to raise its attractiveness and make it a world-class body for excellence in higher education, research and innovation.

Section 3

Functioning of the Governing Board

1. The Governing Board shall elect its Chairperson from among the appointed members. The term of office of the Chairperson shall be two years, renewable once.

2. Without prejudice to paragraph 3, the Governing Board shall adopt decisions by simple majority of members having a right to vote.

However, decisions under Section 2(2) (a), (b), (c), (i) and (o), and Section 3(1) shall require a majority of two thirds of all its members.
3. The representative members may not vote on decisions under Section 2(2)(b), (c), (d), (e), (f), (g), (i), (j), (k), (o) and (p)
4. The Governing Board shall meet in ordinary session at least three times a year and in extraordinary session when convened by its Chairperson or on request of at least one third of its members.
5. The Governing Board shall be assisted by the Executive Committee. The Executive Committee shall consist of three persons including the Chairperson of the Governing Board who will also chair the Executive Committee. The two members other than the Chairperson shall be chosen by the Governing Board from among the Governing Board's appointed members. The Governing Board may delegate specific tasks to the Executive Committee.

Section 4

The Director

1. The Director shall be a person with expertise and high reputation in the areas where the EIT operates. The Director shall be appointed by the Governing Board for a term of office of four years. The Governing Board may extend that term of office once by four years when it considers that the interests of the EIT are best served by so doing.
2. The Director shall be responsible for operations and for the day-to-day management of the EIT and be its legal representative. The Director shall be accountable to the Governing Board and report to it on an ongoing basis on the development of the EIT activities.
3. The Director shall in particular:
 - (a) organize and manage the activities of the EIT;
 - (b) support the Governing Board and the Executive Committee in their work, provide the secretariat for their meetings and with all information necessary for the performance of their functions;
 - (c) prepare a draft SIA, a preliminary rolling triennial work programme, the draft annual report and the draft annual budget for submission to the Governing Board;
 - (d) prepare and administer the selection process for KICs and ensure that the various stages of that process are carried out in a transparent and objective manner;
 - (e) organise and manage the activities of the EIT;
 - (f) prepare, negotiate and conclude contractual agreements with the KICs;
 - (g) organize the Stakeholders Forum;
 - (h) ensure the implementation of effective monitoring and evaluation procedures relating to the performance of the EIT in accordance with Article 16 of the Regulation;

- (i) be responsible for administrative and financial matters, including the implementation of the EIT budget. In this the Director shall take due account of advice received from the Internal Auditing Function;
- (j) be responsible for all staff matters;
- (k) submit the draft annual accounts and balance sheet to the Internal Auditing Function, and subsequently to the Governing Board, through the Executive Committee;
- (l) ensure that the obligations of the EIT with regard to the contracts and agreements it concludes are met;

Section 5

Staff of the EIT

1. The staff of the EIT shall consist of personnel employed directly by the EIT under fixed term contracts. The conditions of employment of other servants of the European Union shall apply to the Director and the Staff of the EIT.
2. Experts may be seconded to the EIT for a limited duration by participating States or other employers.

The Governing Board shall adopt provisions enabling seconded experts from participating States or other employers to work at the EIT and defining their rights and responsibilities.
3. The EIT shall exercise, with regard to its staff, the powers which are devolved to the authority authorized to conclude the contracts with the staff members.
4. A member of staff may be required to make good, in whole or in part, any damage suffered by the EIT as a result of serious misconduct on his/her part in the course of or in connection with the performance of his/her duties.

LEGISLATIVE FINANCIAL STATEMENT FOR PROPOSALS

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

- 1.1. Title of the proposal/initiative
- 1.2. Policy area(s) concerned in the ABM/ABB structure
- 1.3. Nature of the proposal/initiative
- 1.4. Objective(s)
- 1.5. Grounds for the proposal/initiative
- 1.6. Duration and financial impact
- 1.7. Management method(s) envisaged

2. MANAGEMENT MEASURES

- 2.1. Monitoring and reporting rules
- 2.2. Management and control system
- 2.3. Measures to prevent fraud and irregularities

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

- 3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected
- 3.2. Estimated impact on expenditure
 - 3.2.1. *Summary of estimated impact on expenditure*
 - 3.2.2. *Estimated impact on EIT's appropriations*
 - 3.2.3. *Estimated impact on EIT's human resources of an administrative nature*
 - 3.2.4. *Compatibility with the current multiannual financial framework*
 - 3.2.5. *Third-party participation in financing*
- 3.3. Estimated impact on revenue

LEGISLATIVE FINANCIAL STATEMENT FOR PROPOSALS

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Amendment of the Regulation of the European Parliament and the Council establishing the European Institute of Innovation and Technology (EIT)

1.2. Policy area(s) concerned in the ABM/ABB structure⁷

Horizon 2020 – The Framework Programme for Research and Innovation (2014-2020)

15. Education and Culture

1.3. Nature of the proposal/initiative

☐ The proposal/initiative relates to **a new action**

☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action**⁸

☒ The proposal/initiative relates to **the extension of an existing action**

☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objectives

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

The main general mission for the EIT for the period 2014-2020 is to contribute to sustainable European economic growth and competitiveness by reinforcing the innovation capacity of the Member States and the Union. It shall do this by promoting and integrating higher education, research and innovation of the highest standards. After an initial period, the long-term strategy of the EIT is to be set up in the Strategic Innovation Agenda (SIA), to be adopted by the European Parliament and the Council, on the basis of a Commission proposal. The SIA builds on the version submitted to the Commission by the EIT Governing Board in June 2011. The SIA is a policy document outlining the priority fields of the EIT for future, including an overview of the planned activities for a period of seven years, in particular, the priority fields for the EIT Knowledge and Innovation Communities (KICs) and their selection and designation.

For the period 2014-2020 the EIT will become a key player of Horizon 2020, the Framework Programme for Research and Innovation, from which it will receive a financial contribution of 3,182.230 billion Euros (current prices) as established under Art.6.3 of Regulation No XX/XXXX of the European Parliament and of the Council establishing Horizon 2020, the Framework Programme for Research and Innovation. Horizon 2020 is built around the following three complementary and interlinked pillars: *Excellence in science*; *Tackling societal challenges*; *Creating industrial leadership and Competitive frameworks*. The EIT will contribute primarily to the pillar "*Tackling societal challenge*"

⁷ ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

⁸ As referred to in Article 49(6)(a) or (b) of the Financial Regulation.

through its innovation activities and knowledge triangle integration. However, given its integrated, cross-cutting nature, synergies will also be sought with other pillars, in particular the "competitiveness" pillar.

A first allocation of EUR 1.493 million shall be provided to the European Institute of Innovation and Technology for activities under Title XVII of the Treaty on the Functioning of the European Union. A second allocation of up to EUR 1.689 million shall be provided, subject to the review set out in Article 26 (1) of the Regulation of the European Parliament and of the Council establishing Horizon 2020. This additional amount shall be provided on a pro-rata basis, as indicated in Annex II, from the amount for the specific objective "Leadership in enabling and industrial technologies" within the priority on industrial leadership set out in paragraph 2(b) and from the amount for the priority on societal challenges set out in 2(c).

This funding in two multiannual allocations will cover:

- in the first allocation, the ongoing developments of the current Knowledge and Innovation Communities (hereinafter KICs) and seed money for the launch of the second wave of three new KICs
- in the second allocation, the ongoing developments of the KICs already launched and the seed money for the launch of the third wave of three new KICs

The EIT financial contribution is based on a necessary expenditure for consolidation of the existing three KICs (around 1.691 million € – 53.15% of the total EIT budget), gradual development towards new KICs in 2014 (1.012 million € – 31.81% of the total EIT budget) and 2018 (259,75 millions € – 8.16% of the total EIT budget), dissemination and outreach activities (141,762 millions € – 4.45% of the total EIT budget) and administrative expenditure (77 millions € – 2.42% of the total EIT budget),

The projected EIT budget for the KICs during the period 2014-2020, corresponding to 25% of the KICs budget (KIC added value activities), is equal to 2.963,506 million euro (93.13% of the EIT total budget for the period 2014/2020). The KICs are expected to thereby mobilise a further 8,890 billion euro of other public and private sources (leverage effect).

The contribution from KIC partners is not a classic grant "co-financing" requirement but as a pre-requisite for a minimum level of involvement of existing organisations and their financial commitment to the KIC. This bottom-up approach: (a) guarantees strong commitment from KIC partners (b) incentivizes investment and (c) stimulates structural and organizational change among KIC partners and beyond.

1.4.2. *Specific objective(s) and ABM/ABB activity(ies) concerned*

Specific objectives

As defined under Regulation XXX of the European Parliament and of the Council establishing Horizon 2020, the Framework Programme for Research and Innovation, the EIT objective is to overcome fragmentation in the European innovation landscape and to enhance Europe's attractiveness as a location of choice for top level talent and entrepreneurs.

This objective will be implemented through the following specific objectives and outputs:

- Consolidate the three existing KICs fostering their growth, impact and sustainability;
- Gradually develop towards new KICs;

- Enhance EIT's impact via knowledge sharing, dissemination, outreach and international exposure.

In this context, the EIT will contribute to their achievement through the following operational objectives:

- To integrate the knowledge triangle (of research, innovation and education) to create economic and social value and to enhance the returns from greater levels of collaboration and co-operation.
- To enhance the attractiveness and commercial relevance of post-graduate education opportunities to attract, develop and retain appropriate skills across the EU.
- To exploit the underutilised potential of the EU's research strengths to deliver greater returns in the product and labour markets.
- To develop effective collaborative linkages between centres of excellence to create a critical mass for advanced innovation and education.
- To promote the development of innovative products and processes where market failures lead to a sub-optimal provision.
- To strengthen the capacity for entrepreneurship across the EU to create new business activity and increased realisation of the potential value of research and educational outputs.
- To strengthen existing and potential centres of research, innovation and educational excellence in the EU to produce globally competitive centres of activity with global reputations for excellence.
- To address disparities in innovation capacity across the EU by developing and sharing the knowledge of the returns to the new models of innovation practices and governance.

ABM/ABB activity(ies) concerned

15 - Education and Culture - European Institute of Innovation and Technology

1.4.3. *Expected result(s) and impact*

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

The proposal is conducive to increase level of innovation and research. It will improve the overall efficiency of the innovation efforts, by addressing fragmentation and achieving critical mass. In addition, it will generate value by capitalizing on existing research and boosting its market relevance as well as by providing supply-side improvements in the innovation process. A strong element of the activity of the EIT is to encourage changes to higher education provision in the EU, in particular through an EIT quality label for post-graduate courses. This will positively affect cross-border educational provisions and improve access to relevant courses.

Owing to the multi- and cross-disciplinary approach adopted in the KICs, the sectors of EIT priority fields will potentially engage with the EIT. The territorial impacts of the EIT are likely to be significant. Regions which are the site for co-location centres will have opportunities to gain positive benefits through economies of agglomeration and the reaping of positive externalities. These opportunities will be fostered if a close cooperation is established between the KIC partners in the regions and the authorities and organisations involved in designing and delivering the Regional Innovation Strategies.

The Commission Staff Working Paper on the impact assessment of EIT (IA) accompanying this legislative proposal contains more detailed information.

1.4.4. Indicators of results and impact

Specify the indicators for monitoring implementation of the proposal/initiative.

To measure achievement of the EIT's specific objectives, a set of indicators are set out in the Regulation XXX of the European Parliament and of the Council establishing Horizon 2020. To complement this set of indicators, the achievement of the operational objectives of the EIT will be measure by the following set of indicators:

To integrate the knowledge triangle (of research, innovation and education) to create economic and social value and to enhance the returns from greater levels of collaboration and co-operation. To strengthen existing and potential centres of research, innovation and educational excellence in the EU to produce globally competitive centres of activity with global reputations for excellence To exploit the underutilised potential of the EU's research strengths to deliver greater returns in the product and labour markets.	– 540 organisations from universities, business and research closely cooperating within integrated KICs; – 80 additional organisations joining already designated KICs; – 9 agreements concerning management and use of intellectual property within the KICs. – 8.890 billion billion Euros from other than EIT financial sources mobilised, corresponding to 75% funding of the total KICs budget (leverage effect of public and private sources);
To enhance the attractiveness and commercial relevance of post-graduate education opportunities to attract, develop and retain appropriate skills across the EU.	– 25 entrepreneurial curricula developed; – 85 education and training modules organised, including EIT labelled degrees
To develop effective collaborative linkages between centres of excellence to create a critical mass for advanced innovation and education.	– 3 KICs in the "cruising speed", 3 in the "development" and 3 in the "start up/development" phase. – 45 KIC's co-location centres established providing for face-to-face cooperation;
To promote the development of innovative products and processes where market failures lead to a sub-optimal provision.	– 600 start-ups and spin-offs created by KICs students/researchers/professors; – 6000 innovations in existing businesses developed by KIC students/researchers/professors; – 3000 licences and consultancy services.
To strengthen the capacity for entrepreneurship across the EU to create new business activity and increased realisation of the potential value of research and educational outputs.	– 10.000 students in EIT Master degrees courses; – 10.000 students in EIT PhDs degrees courses; – 20.000 students and teachers trained on non-degree entrepreneurial courses; – 100% of degree students have performed geographical

	mobility and mobility between academia and business; – 25% of the teachers have completed international mobility or mobility between academia and business; – at least 25% students and teachers should be recruited internationally.
To address disparities in innovation capacity across the EU by developing and sharing the knowledge of the returns to the new models of innovation practices and governance	– 600 organisations, not participating in the KICs, benefiting from EIT dissemination and outreach activities; – 40 best practices events organised by the EIT/KICs; – 2.500 individuals benefiting from KICs best practices through the fellowship schemes.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

–	<u>Consolidate the three existing KICs⁹</u> fostering their growth, impact and sustainability,
–	<u>Gradually develop towards new KICs</u> securing their selection and delivery. It is foreseen to expand the number of KICs by three new KICs in 2014 and another three in 2018.
–	<u>Enhance EIT's impact via knowledge sharing, dissemination, outreach and international exposure.</u> Built on the experience of excellent KICs, the EIT - through targeted dissemination and knowledge sharing measures will ensure that these experiences are being shared beyond the KICs and thereby promote a fruitful process of mutual learning and faster uptake of new innovation models across the whole Union and all its Member States.

1.5.2. Added value of EU involvement

The EIT explicitly links the full innovation cycle from education and knowledge creation to innovative approaches in new and existing companies. Its approach represents a number of elements by which it brings true added value at EU level:

- **Overcoming fragmentation** via long-term integrated partnerships and achieving critical mass through its European dimension. Building on existing cooperation initiatives, the EIT brings the selected partnerships in the KICs to a more permanent and strategic level. KICs allow world-class partners to unite in new configurations, optimize existing resources, access new business opportunities via new value chains addressing higher risk, larger scale challenges. Moreover, while there are a significant number of centres of excellence across EU Member States, they often do not attain the critical mass for global competition individually. The KICs' co-location centres offer strong local actors the opportunity to closely connect to other excellent partners within the overall strategic framework offered by the KIC as a whole, thereby allowing them to act and be recognized globally.

⁹ In 2009 the EIT designated three KICs in following areas: climate change adaptation and mitigation (Climate KIC), the future information and communication society (EIT ICTLabs) and sustainable energy (KIC InnoEnergy).

- **Enhancing the impact of investments on education, research and innovation and testing new ways for innovation governance:** The EIT acts as a catalyst, adding value to the existing research base, by accelerating the take-up and exploitation of technologies and research outcomes. Innovation activities contribute in turn to align and leverage research investments and to make education and training activities responsive more to business needs. On this basis, a virtuous, highly interactive process can be generated. To this end, the EIT has been equipped with a substantial degree of flexibility to test out new innovation models, allowing for true differentiation in the KICs' governance and funding KICs' models and quick adaptation to better cope with emerging opportunities in the respective fields.
- **Nurturing talent across borders and fostering entrepreneurship through knowledge triangle integration:** The EIT nurtures people-driven innovation and puts students, researchers, and entrepreneurs at the heart of its efforts. The EIT provides new career paths between academia and the private sector and innovative schemes for professional development. The EIT label attached to innovative KICs' Masters and PhD programmes will contribute to creating an internationally recognized brand of excellence helping to attract talent from Europe and abroad. Entrepreneurship is fostered through a new generation of world-class students, equipped with the knowledge and attitudes to turn ideas into new business opportunities, thereby contributing to an effective exploitation of knowledge and appropriation of the returns on investments by firms.

1.5.3. *Lessons learned from similar experiences in the past*

The EIT has successfully completed its initial phase, which was dedicated to setting up the EIT decision making and executive functions – Governing Board and Headquarters – as well as the operational arm, the Knowledge and Innovation Communities (KICs).

For more information, please read the "Proposal for a Decision of the European Parliament and of the Council on the Strategic Innovation Agenda for the EIT".

From a financial view point, the main learnt aspects from the initial set up of KICs are the following:

- The EIT funding mode which builds on joint strengths and resources of existing excellent organizations with the EIT funding acting as a catalyst to leverage and pool together supplementary financial resources from a wide range of public and private partners seems appropriate. Consequently, the EIT funding is foreseen only for "KIC added value activities", in particular education, entrepreneurship and business creation projects of the KICs, which top up investment in well-established activities (eg. existing research projects).
- The KICs go through various development phases with different characteristics as to the value of their total budgets. Their need for funding and the absorption capacity is relatively limited at the very beginning, during the set-up phase, but develops substantially over the following years. The fifteen-year life timeframe of the KIC covers the following phases:
 - "setting-up" phase of 2 years: it is a time for a KIC to get organised, set up necessary financial and legal structures as well as recruit crucial staff. During this period the EIT contribution will assure on average 35% of individual KIC's budget corresponding to 28 million euro.

- "development" phase of 3 years: it is assumed that the KIC has been already established and begun implementing its core activities, however still dynamically expanding in terms of the scope of activities and the number of partners. During this period the EIT contribution will assure around 26% of individual KIC's budget corresponding to 154,7 million euro.
- "cruising speed" phase of 6 years: a KIC has a stable structure with clearly defined scope of activities. During this period the EIT contribution will assure on average 25% of individual KIC's budget corresponding to 475,5 million euro.
- "achieving sustainability" phase of 4 years: the activities of KIC are similar to cruising speed phase while the EIT contribution will gradually decrease requiring a KIC to assure other sources of revenues. During this period the EIT contribution will assure on average 22% of individual KIC's budget corresponding to 258 million euro.

1.5.4. *Coherence and possible synergy with other relevant instruments*

The inter-relationships between research, innovation and education are increasingly being recognised within EU initiatives and programmes. There is great potential for mutually reinforcing actions, and the strategic framework provided by **Horizon 2020** will further ensure these synergies are better exploited.

The EIT will strongly contribute to the objectives set out in Horizon 2020, in particular by addressing societal challenges in a complementary way to other initiatives in these areas. The EIT will thereby significantly contribute to promoting the framework conditions that are needed to realise the innovative potential of EU research and to promote the completion of the **European Research Area (ERA)**.

Moreover, the EIT brings a fully fledged education dimension to the EU's research and innovation policy. Via innovative, entrepreneurial education it plays an important bridging role between the research and Innovation Framework and education policies and programmes and provides the continuity and longer term institutional commitment needed to deliver sustainable changes in **higher education**.

Moreover, there are opportunities for mutually reinforcing interaction with the Union's **Cohesion Policy** by addressing the linkages between the local and global aspects of innovation. Co-location centres provide for cross-border collaboration within and outside of the KIC networks and are well positioned to capitalise and benefit from various funding schemes from their respective regions.

While opportunities for synergies differ depending on the thematic area of a KIC, a number of initiatives and programmes at EU level seem particularly prone to offering benefits from cooperation and coordination.

Joint Programming Initiatives, a key instrument for addressing fragmentation in research, should provide the nucleus of the pan-European KIC research base. In turn, KICs can speed up and foster the exploitation of excellent public research pooled together by the JPIs, thereby addressing fragmentation in innovation. The Joint Technology Initiatives (JTIs) and the newly established **Public and Private Partnerships** provide platforms for promotion of large-scale industry-driven research and enhance the development of major technologies. KICs can help catalysing these major research investments to boost technology transfer and commercialisation and to develop new ventures within existing business via entrepreneurial top talent. Through its knowledge triangle approach, the EIT will complement ERC investment on world-class frontier research by addressing the whole innovation chain from ideas to application and exploitation and provide additional opportunities in innovation and exposure to entrepreneurship to **Marie Curie** researchers and **Erasmus for all** students.

The upcoming **European Innovation Partnerships** will provide overarching frameworks to facilitate alignment and synergies among existing supply and demand-driven research and innovation instruments and policies. For interactions with the **EIPs**, the distributed nature of the KICs provides a structured network of practitioners well placed to identify framework conditions

and best practise on policy, regulatory or standardisation issues having an impact in a given sector or challenge.

1.6. Duration and financial impact

Proposal/initiative of **limited duration**

- ☒ Proposal/initiative in effect from 01/01/2014 to 31/12/2020
- Financial impact from 01/01/2014 to 31/12/2022
- ☐ Proposal/initiative of **unlimited duration**
- ☐ Financial impact from [DD/MM]YYYY to [DD/MM]YYYY

1.7. Management mode(s) envisaged¹⁰

Centralised direct management by the Commission

☒ **Centralised indirect management** with the delegation of implementation tasks to:

- ☐ executive agencies
 - ☒ bodies set up by the European Union¹¹
 - ☐ national public-sector bodies/bodies with public-service mission
 - ☐ persons entrusted with the implementation of specific actions pursuant to Title V of the Treaty on European Union and identified in the relevant basic act within the meaning of Article 49 of the Financial Regulation
- ☐ **Shared management** with the Member States
- ☐ **Decentralised management** with third countries
- ☐ **Joint management** with international organisations (*to be specified*)

¹⁰ Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

¹¹ As referred to in Article 185 of the Financial Regulation.

2. MANAGEMENT MEASURES

Simplification and flexibility are deemed critical for the success of the EIT and involvement of the business community. After the initial period, there is still room for the EIT to exploit its flexibility to a full, in order to push simplification further.

Simplification, implemented in a responsible and accountable manner, is a must for the EIT to achieve effective results and promote innovation breakthroughs. The EIT considers simplification as dynamic process, embedded in the EIT operation and an integral part of its supporting function towards the KICs. To this end, the EIT will strive to adapt, improve and streamline its internal processes and constantly seek for simplified approaches that can help the KICs to cope with new, emerging needs and foster their impact.

Operational simplification:

Through KICs' experimentation and experience, the **EIT will deliver a simplification agenda** in key areas, including benchmarks to assess progress, and report to the Commission on its implementation progress through the Triennial Work Programme.

The Commission will monitor closely the EIT's ability to deliver the simplest possible agreements and principles for the funding and management of KICs activities, based on the EIT's own simplification agenda.

Financial simplification:

Since one of the objectives of the EIT is to facilitate private sector participation, the EIT Financial Rules¹², which are based on the Framework Financial Regulation with specific derogations granted by the Commission, need to reflect its objectives and the need for sufficient operational flexibility to be attractive to its business and research/academic partners.

On the another hand, as provided under Article 1 of the Regulation laying down the rules for participation and dissemination under Horizon 2020, rules which depart from those laid down in this Regulation, or under Regulation (EU No XX/2012 (the Financial Regulation) will be requested, if needed, taking into account the provisions of the EIT Regulation and the specific needs of the EIT. (i.e. call for designation and selection of the new waves of KICs instead of call for proposals).

In order to reach the objective of simplification, a number of measures will be implemented in the grant management process, in line with the simplification of funding rules proposed under Horizon 2020. This will be provided through:

- Simplified reimbursement of real direct costs, with a broader acceptance of KICs' usual accounting, including the eligibility of certain taxes and charges;
- The possibility of using unit personnel costs (average personnel costs) for KICs for which this is their usual accounting method, and for SME owners without a salary;

¹² Commission Decision C(2009) 2661 of 3 March 2009 granting consent to the derogations requested by the European Institute of Innovation and Technology from Regulation (EC, Euratom) No 2343/2002 on the Framework Financial Regulation for the bodies referred to in Article 185 of Council Regulation (EC, Euratom) No 1605/2002

- Simplification of time-recording by providing a clear and simple set of minimum conditions, in particular abolition of time-recording obligations for staff working full time/more than half time on the EU project;
- One single reimbursement rate for all KICs;
- One single flat rate covering indirect costs as a general rule;
- System of unit costs and flat rates for scholarships;
- A control strategy, as described in section 2.2.2, achieving a balance between trust and control will further reduce the administrative burden for KICs.
- In accordance with the Rules for Participation proposed under Horizon 2020, the value of contributions in kind provided to the KICs by third parties may be eligible, which constitutes a major change compared to the current cost eligibility rules.

2.1. Monitoring and reporting rules

Specify frequency and conditions.

Rules for monitoring and reporting will be established in view of efficiency and cost effectiveness, based on the experience gained. It will be based on a comprehensive, well-timed and harmonised strategy, with a strong focus on outputs, results and impacts (see section 1.4.4 of this document).

MONITORING

The Commission has reinforced its efforts in supporting the EIT in establishing a sound and solid results-oriented monitoring system. The monitoring system should acknowledge the independence of the EIT and the autonomy of the KIC and their contractual relations. At the same time, the monitoring system should ensure full accountability of the EIT and full flexibility of KIC in pursuing their business plans. The Commission will cooperate with the EIT in order to measure the progress achieved.

The EIT monitoring will be set up in line with the following four layers:

1. Monitoring of a KIC on the basis of its individual targets and Key Performance Indicators (KPIs) stipulated in the KIC business plans. A substantial degree of leeway to the KICs will be given (bottom-up approach) to define their internal strategies and organisation as well as to define their activities and mobilise the resources needed.
2. The EIT monitoring of all KICs, which will focus on a series of EIT's strategic objectives, as identified in the EIT Scoreboard, covering a common set of indicators across all KICs. The Scoreboard will focus on achievements, outputs and generation of both economic and societal impact of all KICs. The EIT Scoreboard will measure the KICs performance against particular objectives. Moreover, as proposed in the revision of the legal basis, prior to launching the new calls, the EIT will publish the criteria and procedures for the financing, monitoring and evaluating of the activities of the KICs.
3. The monitoring of the EIT's own activities, which will combine quantitative and qualitative indicators in a medium-term perspective. It will measure for instance the EIT's performance in providing support to the KICs, the intensity and coverage of outreach (the number of best practice events), dissemination and international activities and the impact of the EIT in the wider European policy innovation, research and education agendas (for example % adoption of EIT tested models by other initiatives).
4. Monitoring and Evaluation of the EIT as an EU innovation institute under Horizon 2020, which will be done by the Commission in accordance with the provisions of the EIT Regulation and as also described under Articles 25 and 26 of the Regulation XXX of the European Parliament and of

the Council on Horizon 2020 of XXX. The evaluations are foreseen for 2016 (only the EIT), 2017 (EIT interim Evaluation as part of Horizon 2020) and 2023 (EIT ex-post Evaluation as part of Horizon 2020). Moreover, it is proposed that the Commission, at any time, may carry out further evaluations on themes or topics of strategic relevance. The synergies of EIT planned activities with other EU programmes should be assured via the assessment by the Commission of the EIT Triennial Work Programme.

REPORTING

As the EIT is a Union body receiving a subsidy from the European Union budget, from the financial management and control perspective, the EIT will be treated as other bodies set up under the Treaty and generally referred to as Union agencies. This means that point [17] of the Inter-institutional Agreement of XX/YY/201Z between the European Parliament, the Council and the Commission on cooperation in budgetary matters and on sound financial management, for the budgetary authority during the annual budgetary procedure applies to the EIT. As regards the reporting on the **implementation of the monitoring system**:

- The Triennial Work Program (TWP) of the EIT will identify relevant priorities and targets within the strategic objectives of the EIT for the following year (n+1). KICs should be consulted on priorities and targets before the final adoption of the TWP in order to be able to fully integrate them in their relevant annual Business Plans.
- The Annual Activity Report for the previous year (n-1) will include the results of the monitoring process for n-1 and describe how and to what extent objectives have been achieved. The Annual Activity Report should take account of the Cost and Performance Reports of the KIC for the previous year (n-1) of their operations.

The **KICs reporting** conditions have been established in the framework of the Framework Partnerships Agreement and Annual Grant Agreements (performance and cost reporting). On the other hand, in order to increase the efficiency and cost-effectiveness and based on the experience gained by the EIT during the implementation of the annual grant agreements by the KICs, a number of simplifications measures will be implemented in the grant management process, which will have as major goals to reduce the administrative workload for KICs and to increase the quality of data gathered. On the other hand, as explained above, a common set of indicators across all KICs through the Scoreboard will be implemented, with focus on achievements, outputs and generation of both economic and societal impact of all KICs.

2.2. Management and control system

2.2.1. Risk(s) identified

Taking into account the clear need to manage the European budget in a efficient and effective manner, and to prevent fraud and waste, the EIT when implementing the budget, will establish an internal control system that will give reasonable assurance that the error over the course of the multiannual expenditure period, is within a range of 2-5%, and ideally around 3.5%, as proposed under the Regulation laying down the rules for participation and dissemination under Horizon 2020, under which basis the internal control system and the audit strategy will be built on.

The EIT internal control framework will also built on: the Commission Internal Control Standards, EIT own procedures, ex-ante checks of 100% of KICs' declared expenditures financed by the EIT, audit certificates, ex-ante certification of cost declaration methodologies, ex-post audits on a sample of claims, projects results and external evaluation.

According with Article 38(4) of the Financial Rules of the EIT, the authorising officer has put in place, in compliance with the standards adopted by the Governing Board on the basis of equivalent standards laid down by the Commission, and having due regard to the risks associated with the management environment and the nature of the action financed, the organisational structure and the

internal management and control systems and procedures suited to the performance of the EIT duties.

The Risk Management Exercise is done on a yearly basis in order to mitigate any risks linked with the implementation of the whole EIT activities. In this context, the EIT should take into account, when establishing the internal control framework, the risks of the activities implemented, the specific characteristics of the population and recurrence of beneficiaries (actually 3 KICs), the frequency of the grants awarded (annual) and the size of transactions (see point 1.5.3 on the fifteen life time frame of the KIC and the different phases of development) and avoiding any overlap of funding.

Taking into account that the first annual grants to KICs were awarded on 2010, the EIT has not yet results of error rates. However, during the implementation of the current grant agreements, the following categories of risks have been identified:

- errors derived from the complexity of rules;
- errors derived from the interpretation of rules;
- respect of eligibility rules;
- supporting documents available;
- wrong calculation of indirect costs.

The simplification measures described above will also contribute to the improvement and reduction of error rates.

2.2.2. *Control method(s) envisaged*

As described under Article 23 of the Regulation XXX of the European Parliament and of the Council on Horizon 2020 of XXX, the control system set up by the EIT shall provide reasonable assurance of achieving adequate management of the risks relating to the effectiveness and efficiency of the operations, assuring the legality and regularity of the underlying transactions and achieving a balance between trust and control. It will further reduce the administrative burden for KICs

As part of the control system that will be implemented by the EIT, the audit strategy shall be based on the financial audit of a representative sample of expenditure across the whole EIT budget, notably through the annual grants awarded to KICs in a yearly basis. This representative sample may be complemented by a selection based on an assessment of the risks related to expenditure during the ex-ante checks of 100% of claims and the experience obtained will be used in the assessment of the control framework of risk assessment for grants implementation. Audits of expenditure shall be carried out in a coherent manner in accordance with the principles of economy, efficiency and effectiveness.

As regards the internal control Framework of the EIT, The EIT has developed an overall strategy, including a supervisory structure, on the implementation of internal control processes that support the entire expenditure life cycle. Senior management ensures that this overall strategy as well as the Standardisation and Simplification Initiative (SSI) and its implementation are formally accepted by the Governing Board.

The Standardisation and Simplification Initiative (SSI) implemented by the EIT, follows a threefold approach:

- Standardised EIT planning exercise and work programme;
- Link with the Risk-Management exercise;
- Develop Standard Operating Procedures (SOP).

The Standard Operating Procedures (SOP) are detailed, written instructions to achieve uniformity of the performance of a specific process; the instructions usually cover more than one task or area within the EIT, Unit, Section or teams.

In the framework of the simplification with a focus on performance, and in order to increase the efficiency, regularity and reduce any possible error rate of the activities implemented by the EIT related with the KICs activities, the use of grants in the form of lump sums, flat rates and scales of unit costs will be proposed in line with the profile of the activities implemented by the KICs, as proposed in the Regulation XXX of the European Parliament and of the Council on Horizon 2020 of XXX . As regards audit certificates on the financial statements to be provided by the KICs and the different partners, by which independent auditors to certify the legality and conformity of the amounts declared in the financial reports, the threshold for such certificates will be established at the level defined under Article 28 of the Regulation laying down the rules for participation and dissemination under Horizon 2020. All other provisions defined on this regulation will be also applied as regards the certificates on the methodology and the certifying auditors.

2.3. Measures to prevent fraud and irregularities

2.3.1 Specify existing or envisaged prevention and protection measures.

As described under Article 24 of the Regulation XXX of the European Parliament and of the Council on Horizon 2020 of XXX, the EIT shall take appropriate measures ensuring that the financial interest of the union are protected. The proposals for Horizon 2020 have been subject to fraud proofing and an assessment of their impact. Overall the measures proposed should have a positive impact of the fight against fraud, especially the greater emphasis on risk based audit and reinforce evaluation and control.

The EIT is determined to fight against fraud at all stages of the grant management process and other activities implemented. All decisions adopted and contracts concluded by the EIT, provide explicitly that the European Antifraud Office (OLAF) and the Court of Auditors may carry out on-the-spot inspections of the documents of all contractors and sub-contractors which have received Union funds, including at the premises of the final beneficiaries, in accordance with the procedures laid down in Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on the spot check and inspections¹³.

OLAF is entitled to carry out internal investigation in the EIT, and the Governing Board has signed an agreement on acceding to the inter-institutional Agreement of 25 May 1999 between "the European Parliament, the Council and the Commission" concerning investigations by OLAF¹⁴.

The EIT also has taken a decision concerning the terms and conditions for internal investigations in relation to the prevention of fraud, corruption and any illegal activity detrimental to the Union's interests.

¹³ OJ L 292, 15.11.1996, p. 2

¹⁴ Decision of the Governing Board of the EIT of 20 February 2009.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing expenditure budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number 15.02.11 European Institute of Innovation and Technology (EIT)	DA/NDA ⁽¹⁵⁾	from EFTA ¹⁶ countries	from candidate countries ¹⁷	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
1	15 02 11 01 "Governing Structure" 2008/2013	DNA	YES	NO	NO	NO
1	15 02 11 02 "Knowledge and Innovation Communities (KICs) and other operational activities" 2008/2013	DA	YES	NO	NO	NO

- New budget lines requested

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
		DA/NDA ⁽¹⁸⁾	from EFTA ¹⁹ countries	from candidate countries ²⁰	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
	15 07 03 01 "Governing Structure" 2014/2020	DNA	YES	NO	NO	NO
	15 07 03 02 "Knowledge and Innovation Communities (KICs) and other operational activities" 2014/2020	DA	YES	NO	NO	NO

¹⁵ DA= Differentiated appropriations / DNA= Non-Differentiated Appropriations

¹⁶ EFTA: European Free Trade Association.

¹⁷ Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

¹⁸ DA= Differentiated appropriations / DNA= Non-Differentiated Appropriations

¹⁹ EFTA: European Free Trade Association.

²⁰ Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million (to 3 decimal places) in current prices

Heading of multiannual financial framework:	Number	1 – Administrative and Operational Expenditure EIT
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The EIT			Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	TOTAL 2014-2022
Title 1 - 15 07 03 01 “Governing Structure” 2014/2020	Commitments	(1a)	5,837	6,386	7,949	8,108	8,730	8,905	9,083			54,998
	Payments	(2a)	5,837	6,386	7,949	8,108	8,730	8,905	9,083			54,998
Title 2 - 15 07 03 01 “Governing Structure” 2014/2020	Commitments	(1b)	1,592	1,732	1,987	2,027	2,183	2,226	2,271			14,017
	Payments	(2b)	1,592	1,732	1,987	2,027	2,183	2,226	2,271			14,017
Title 3 - 15 07 03 02 “Knowledge and Innovation Communities (KICs) and other operational activities” 2014/2020	Commitments	(1c)	267,498	324,047	389,375	472,279	497,460	554,832	599,777			3105,268
	Payments	(2c)	232,723	281,921	338,756	410,883	432,790	482,704	521,806	299,888	103,796	3105,267
TOTAL appropriations for the EIT	Commitments	=1a+1 b+1c	274,926	332,165	399,312	482,414	508,373	565,963	611,130			3174,283
	Payments	=2a+2 b+2c	240,151	290,039	348,693	421,018	443,703	493,835	533,159	299,888	103,796	3174,283

Heading of multiannual financial framework:	1	" Administrative expenditure DG EAC"
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EUR million (to 3 decimal places) in current prices

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	TOTAL 2014-2020
DG: EAC								
• Human resources – Establishment Plan - 15.01.05.01	0,472	0,481	0,491	0,501	0,511	0,521	0,531	3,507
• Human resources – Establishment Plan - 15.01.05.02	0,145	0,148	0,151	0,154	0,157	0,161	0,164	1,081
• Other administrative expenditure - 15.01.05.03	0,371	0,378	0,551	0,563	0,401	0,497	0,597	3,359
TOTAL DG EAC	0,988	1,008	1,194	1,217	1,069	1,179	1,292	7,947
TOTAL appropriations under HEADING 1 EAC of the multiannual financial framework	(Total commitments = Total payments) 0,988	1,008	1,194	1,217	1,069	1,179	1,292	7,947

EUR million (to 3 decimal places) in current prices

		Year 2014	Year 2015	Year 2016	Year 2017	Year 2018*	Year 2019*	Year 2020*	Year 2021	Year 2022	TOTAL 2014-2022
TOTAL appropriations under HEADINGS 1 of the multiannual financial framework	Commitments	275,914	333,173	400,505	483,632	509,442	567,142	612,422			3182,230
	Payments	241,139	291,047	349,887	422,236	444,772	495,014	534,451	299,888	103,796	3182,230

* An additional amount of EUR 1689,006 million shall be made available for the years 2018-2020 pro-rata from the budgets of the Societal challenges and Leadership in enabling and industrial technologies, on an indicative basis and subject to the review set out in Article 26(1) of Regulation XX/XXX of Horizon 2020.

3.2.2. Estimated impact on operational appropriations

- ☐ The proposal/initiative does not require the use of operational appropriations
- ☒ The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to 3 decimal places) in current prices

Indicate objectives and outputs ↓			Year 2014		Year 2015		Year 2016		Year 2017		Year 2018		Year 2019		Year 2020		TOTAL 2014 - 2020	
	OUTPUTS																	
	Type of output ²¹	Average cost of the output	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Number of outputs	Cost	Total number of outputs	Total cost
SPECIFIC OBJECTIVE No 1 ²² Consolidation and fostering growth and impact of existing KICs																		
- Output	KICs		3	256.89	3	281.83	3	284.49	3	313.77	3	214.31	3	183.36	3	156.70	21	1 691,346
Sub-total for specific objective N°1			3	256.89	3	281.83	3	284.49	3	313.77	3	214.31	3	183.36	3	156.70	21	1 691,346
SPECIFIC OBJECTIVE No 2 – Gradual development towards new KICs																		
- Output	KICs				3	25.98	3	82.81	3	135.98	3	232.61	3	260.17	3	274.87	18	1 012,410
- Output	KICs										3	27.57	3	87.87	3	144.31	9	259,750
Sub-total for specific objective N°2					3	25.98	3	82.81	3	135.98	6	260.18	6	348.04	6	419.17	27	1 272,160
SPECIFIC OBJECTIVE No 3 - Enhancing EITs impact via knowledge sharing, dissemination, outreach and international exposure																		
- Output				10.61		16.24		22.08		22.52		22.97		23.43		23.90		141.762
Sub-total for specific objective N°3				10.61		16.24		22.08		22.52		22.97		23.43		23.90		141.762

²¹ Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

²² As described in Section 1.4.2. "Specific objective(s)..."

TOTAL COST		267,50		324,05		389,38		472,28		497,46 5		554,83		599,78		3 105,268
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3.2.3. Estimated impact on appropriations of on EIT human resources

3.2.3.1. Summary

- ☐ The proposal/initiative does not require the use of administrative appropriations
- ☒ The proposal/initiative requires the use of administrative appropriations, as explained below:

EUR million (to 3 decimal places) in current prices

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	TOTAL 2014-2020
Officials (AD Grades) EAC Budget Line: 15 01 05 01	0,472	0,481	0,491	0,501	0,511	0,521	0,531	3,507
Officials (AST grades) EAC Budget Line: 15 01 05 01	0	0	0	0	0	0	0	0
Contractual agent EAC Budget Line: 15 01 05 02	0,068	0,069	0,071	0,072	0,074	0,075	0,076	0,505
Contractual agent EIT Budget Line: 15 07 03 01	1,358	1,386	1,413	1,441	1,470	1,500	1,530	10,098
Temporary agents EAC Budget Line: 15 01 05 01	5,121	5,224	5,469	5,864	6,419	6,547	6,678	41,322
Seconded National Experts EAC Budget Line: 15 01 05 02	0,077	0,079	0,081	0,082	0,084	0,086	0,087	0,576
Seconded National Experts EIT Budget Line: 15 07 03 01	0,387	0,395	0,484	0,493	0,503	0,513	0,523	3,299
Contribution Host Agreement ²³	-1,560	-1,560	0	0	0	0	0	-3,120
TOTAL	5,924	6,074	8,007	8,454	9,060	9,241	9,426	56,187

²³

The Host Agreement foresees that the Hungarian Government covers the wage costs of 20 Contractual Agents employees during 5 years (2011-2015) corresponding to a cash contribution of 1,560 million Euro by year.

3.2.3.2. Estimated requirements of human resources

- ☐ The proposal/initiative does not require the use of human resources
- ☒ The proposal/initiative requires the use of human resources, as explained below:
- **a) Human resources EIT and DG EAC**

Estimate to be expressed in full amounts (or at most to one decimal place)

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
• Establishment plan posts (officials and temporary agents)							
XX 07 03 01 (Headquarters and Commission's Representation Offices)							
15 07 03 01 (Delegations) EIT	63	63	65	67	70	70	70
15 01 05 01 (Indirect research)	3,5	3,5	3,5	3,5	3,5	3,5	3,5
10 01 05 01 (Direct research)							
• External personnel (in Full Time Equivalent unit: FTE)²⁴							
15 07 03 01 (CA, INT, SNE from the "global envelope")							
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)							
XX 01 04 yy ²⁵	- at Headquarters ²⁶						
	- in delegations						
15 01 05 02 (CA, INT, SNE - Indirect research)	2	2	2	2	2	2	2
10 01 05 02 (CA, INT, SNE - Direct research)							
Other budget lines (specify)							
TOTAL	68,5	68,5	70,5	72,5	75,5	75,5	75,5

The human resources required will be met by staff from the DG EAC who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

²⁴ CA= Contract Agent; INT= agency staff ("Intérimaire"); JED= "Jeune Expert en Délégation" (Young Experts in Delegations); LA= Local Agent; SNE= Seconded National Expert;

²⁵ Under the ceiling for external personnel from operational appropriations (former "BA" lines).

²⁶ Essentially for Structural Funds, European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF).

Description of tasks to be carried out:

Officials and temporary agents DG EAC	- Tasks related to the adoption process of the EIT Budget, in particular: draft budget, transfers; - Preparation of the Commission opinion on the EIT Triennial Work Programme; - Preparation of the position of the Commission observer at the EIT Governing Board meetings; - Preparation of the Commission decision on appointing the members of the EIT Governing Board; - Coordination and alignment with other EU initiatives, in particular Horizon 2020; - Preparation of the Commission position at the EIT Stakeholders Platform; - Organisation of the annual meetings between the EIT-KICs and Commission services; - Preparation of calls for new KICs; - Monitoring and evaluation of the EIT; - Assurance of compliance of the EIT labelled degrees with actions undertaken in the context of Higher Education Area.
External personnel DG EAC	- Contribution to the preparation of the Commission opinion on the EIT Triennial Work Programme; - Contribution to the coordination and alignment with other EU initiatives, in particular Horizon 2020; - Contribution of the Commission position at the EIT Stakeholders Platform; - Contribution to the organisation of the annual meetings between the EIT-KICs and Commission services; - Contribution to the preparation of calls for new KICs; - Contribution to the assurance of compliance of the EIT labelled degrees with actions undertaken in the context of Higher Education Area.

– **B) Human resources of EIT**

		2014	2015	2016	2017	2018	2019	2020
Establishment plan posts EIT								
Temporary staff	AD	27	27	28	29	32	32	32
	AST	11	11	11	12	12	12	12
TOTAL establishment plan posts		38	38	39	41	44	44	44
Other staff (in FTE)								
Contract agents (CA)		20	20	20	20	20	20	20
Seconded National Experts (SNE)		5	5	6	6	6	6	6
Total other staff								
TOTAL EIT STAFF		63	63	65	67	70	70	70

Description of tasks to be carried out:

Temporary Agents EIT	- Tasks process of the EIT Budget and with the Simplification Agenda; - Preparation of the new waves of designation and selection of KICs; - Coordination and alignment with other EU initiatives, in particular Horizon 2020; - EIT Stakeholders Platform; - Organisation of meetings and Hearings between the EIT and KICs; - Consolidation of existing KICs;
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	- Monitoring and evaluation of the EIT; - EIT's impact via knowledge sharing, dissemination, outreach and international exposure.
External personnel EIT	- Contribution to the preparation of the new waves of designation and selection of new KICs; - Contribution to the Entrepreneurial and Education agenda of the EIT; - Contribution to the EIT Stakeholders Platform; - Contribution to the assurance of compliance of the EIT labelled degrees with actions undertaken in the context of Higher Education Area.

In the light of the Establishment Plan regarding the current Multiannual Financial Framework, for the EIT, as newly created agency, it was foreseen a total staff of 61 TFEs covering the period until 2013 (corresponding to 37 AT + 20 CA + 4 SNE). In this context, DG EAC as parent DG, will closely follow-up the implementation by the EIT of the current Establishment Plan.

On the other hand, during the annual preparation of the Budget, the parent DG will request to the Budgetary Authority only the necessary staff in order to achieve the EIT objectives.

It is also important to underline and recognize the significant increase in workload and competences for the EIT in the context of the revision of the actual EIT Regulation and the SIA, as well as the importance of the new budget that the EIT will implement.

3.2.4. *Compatibility with the current multiannual financial framework*

- ☒ Proposal/initiative is compatible the current multiannual financial framework.
- ☐ Proposal/initiative will entail reprogramming of the relevant heading in the multiannual financial framework.

Explain what reprogramming is required, specifying the budget lines concerned and the corresponding amounts.
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- ☐ Proposal/initiative requires application of the flexibility instrument or revision of the multiannual financial framework²⁷.

Explain what is required, specifying the headings and budget lines concerned and the corresponding amounts.

3.2.5. *Third-party contributions*

- The proposal/initiative does not provide for co-financing by third parties
- ☒ The proposal/initiative provides for the co-financing estimated below:

Appropriations in EUR million (to 3 decimal places)

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Total
<i>Host Agreement with the Hungarian Government*</i>	1.560	1.560	0	0	0	0	0	3.120

²⁷ See points 19 and 24 of the Interinstitutional Agreement.

TOTAL funded	appropriations	1.560	1.560	0	0	0	0	0	3.120
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* The Host Agreement foresee that the Hungarian Government covers the rental fee of the EIT premises during 20 years (2011-2030) and the wage costs of 20 employees during 5 years (2011-2015) corresponding to a cash contribution of 1,560 million Euro by year.

3.3. Estimated impact on revenue

- ☒ Proposal/initiative has no financial impact on revenue.
- ☐ Proposal/initiative has the following financial impact:
 - ☐ on own resources
 - ☐ on miscellaneous revenue

EUR million (to 3 decimal places)

Budget revenue line:	Appropriations available for the ongoing budget year	Impact of the proposal/initiative ²⁸						
		Year N	Year N+1	Year N+2	Year N+3	... insert as many columns as necessary in order to reflect the duration of the impact (see point 1.6)		
Article								

For miscellaneous assigned revenue, specify the budget expenditure line(s) affected.

Specify the method for calculating the impact on revenue.

²⁸ As regards traditional own resources (customs duties, sugar levies), the amounts indicated must be net amounts, i.e. gross amounts after deduction of 25% for collection costs.