

//CHECK AGAINST DELIVERY//

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Keynote Address

Stepping up financing for innovation

The annual Science | Business Framework conference

Innovative Europe?

Time for a new EU innovation strategy

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Dear Richard,

Commissioner Oettinger,

Ladies and gentlemen,

Thank you very much for the invitation and for giving me the opportunity to share with you some ideas on a topic that is very close to my heart:

What do we need to do to make Europe's economy more competitive and, thus, more resilient?

I am sure you don't need convincing that science, research and innovation lie at the core of whatever answer we are going to come up with. But, when we take a look at the policy debate at the moment, it appears that there are still a number of people

for whom the need to invest more in innovation is less obvious than it should be.

In this context, I would like to thank the organizers for holding this conference just days before the Commission releases the details of the next research programme: “Horizon Europe”.

Perfect timing!

As regards timing: what we are witnessing at the moment is that problems have started to pile up again in Europe: the slowdown in growth rates earlier this year came as a surprise to many observers; worse still, the slowdown was – again - compounded by political headwinds in some member states.

Unfinished business

I am far from saying that Europe is back in crisis mode, but, taken together, recent events have reminded us that there is still some “unfinished business” left over from the crisis years.

For me, most of what I would label unfinished business relates to **structural weaknesses** and **imbalances** in Europe's economy that remain to be tackled.

They again put the spotlight on the fact that the competitiveness of Europe's economy is still far from where it needs to be.

Ignoring this negative outlook for a moment, it also needs to be said that Europe has come a long way. Courageous policy decisions since 2012 have helped the recovery get off the ground and put our economy back on track. Member States, the Commission and, of course, the ECB have worked closely together to stimulate growth and employment.

The result: investment has picked up, in part also - please allow me to make the remark - helped by investment initiatives, such as Jean-Claude Juncker's Investment Plan for Europe implemented by the EIB. Today, investment is almost back to where it was before the crisis.

So, on the surface, it looks like we are on track.

Yet, if we start scratching the surface, we realize that the recovery and last year's surprisingly strong growth only thinly veiled flaws in our growth story. Let me just mention the three most obvious ones:

First, the investment recovery has remained patchy; it has mainly been driven by the private sector. By contrast, public-sector investment remains subdued, following a decade of sub-par investments in infrastructure, education as well as research and innovation. Much of the restraint in spending was admittedly necessary to bring back public budgets into balance.

Secondly, instead of growing closer together, Europe's economy continues to diverge – between and within member states. Growth remains unbalanced.

A reminder: while unemployment levels in general have come down from their peak during the crisis, youth unemployment has remained stubbornly high in many, mostly southern, member states. Think of what has happened recently in Italy!

Also: despite impressive headline growth and moderately rising inflation, wages have – again – failed to pick up.

Thirdly, and this is for me the key point, **Europe increasingly fails to keep pace with our competitors in North America and Asia**. The productivity gap that opened up in the early 2000s has only become larger. This is a worrying trend, in many respects.

Let us not forget: Europe is an ageing continent! The working age population is declining, while the dependency ratio is rising fast. Only above-average productivity growth would enable us to maintain our living standards.

Taken together, low productivity growth, high youth unemployment and low wage growth all indicate a serious malfunctioning of our economy.

It seems that we are still – or again? - locked in a low-investment, low growth vicious circle that prevents companies, individuals and the state from living up to their potential - an absurd situation that none of us can accept!

Need for more investment & investment gaps

Without running the risk of repeating myself: Europe needs more – much more – investments in our future.

In order to stop the productivity gap from widening further - and reverse it! – we need quality investments in education, research and innovation in Europe.

Why – in view of high youth unemployment - we need more and better education, including vocational training, is rather obvious. But a serious discussion of this issue would distract us too much from our topic today.

Instead, I will focus on **science, research and innovation** that have historically been the main engines of wealth creation. Given the breathtaking pace of digitalization, advances in life sciences and materials, their importance as drivers of productivity growth is unlikely to diminish in future.

However, what we are missing at the moment, is the determination with which Europe seizes the opportunities that this age of technology offers.

More than ever before, we need to step up investments in innovation.

The scale of the challenge is daunting: if Europe wants to catch up with the US and the leading economies in Asia, we need to lift investments in innovation – R&D, digitalization of our economy and education – by about 300 billion euros per year.

Most of it, about two thirds, would have to come from the private sector. The gap is particularly large in life sciences, software & Artificial Intelligence and digital infrastructure, such as ultra-speed broadband, supercomputing and data centres for the cloud as main “innovation enablers”.

This is what I would call the long-term, or the “strategic dimension” of investment. I would like to underline this point because there are still quite a few people out there who doubt whether spending in this area should count as investment.

Innovation means commercialization; large vs. small firms.

Yet another point is important as well: “innovation” implies “commercialization”.

Innovation has become a large-scale, industrial business, often carried out by massive companies, which need to invest billions of euros and devote hundreds of staff to an industrial process of innovation. As you are all too well aware, innovation is no longer about a bright idea. It is the result of the operation of an investment machine.

Still, there is a problem with this investment machine, particularly in Europe – **small companies**.

EIB’s investment survey, based on feedback from 12,000 companies across Europe, discovered that large firms are twice as likely as SMEs to be innovators.

Innovative young firms are 50 percent more likely than other firms to be credit constrained.

The big failure in Europe at the moment is that even if a small company has an innovative idea, it is phenomenally hard for that company to become a **large** innovator. In Europe we have large, old innovators. But, as we know, we lack the Googles and Amazons. Small firms may introduce an innovative product, but they lack growth finance and, in a very stringent business environment, are unable to invest and grow.

A lack of small, new innovators may reduce the introduction of truly radical breakthrough innovations. It is these innovations that lay the foundations for completely new markets, of course.

The lack of such small new innovators may also reduce innovation at larger firms, because they do not face the competitive challenge of meeting new ideas.

Nor do they have the opportunity to acquire and improve on the ideas of these smaller firms.

And this has become a real issue that holds Europe back. Developing new technologies is no longer enough; too often, we have been proven wrong – think of the pioneering role that small companies in Europe played in developing solar PV and wind power. Today, the largest equipment suppliers are located in Asia.

In order to harvest the fruits of our work, we need to invest continuously in keeping our innovators and innovations competitive.

This is especially true when it comes to those areas, where Europe is still amongst the leaders – in the **automotive**, **mobile telecoms** equipment and **automation** sectors.

The challenge here is to come forward with business models that combine our strengths in product development and manufacturing with value propositions that are attractive enough for customers worldwide.

Electric mobility, mobile robotics, such as autonomous driving, smart grids and e-medicine are all examples of system technologies that require an integrated, interdisciplinary approach – and huge investments that run into the billions of euros per year to maintain our leading positions.

MFF & Financial Instruments

In that sense, I very much welcome the Commission's proposal for the next MFF. Not only because it exceeds even the optimistic expectations of people like me who are convinced that we need more Europe, rather than less.

No, it also sets the right priorities. Needless to add – I am more than happy that the budget for Horizon Europe would increase to about 100 billion euros.

Still, while 100 billion euros over seven years is a lot, it is equally clear that – even if we add the large funds provided by the national governments - much more funding would still be needed to lift Europe's innovation investments to the required levels.

To my mind, one answer for how to tackle the issue lies in a smart combination of public and private money - a model that the EIB epitomizes like no other institution in Europe!

The EIB is a crowding-in institution that – with only 14 billion euros of capital paid-in by the member states, manages a balance sheet of 570 billion euros that finances real-economy investments of more than 1.5 trillion euros.

And we have gone even further: on top of our normal business, we developed together with the Commission, almost twenty years ago, dedicated financial instruments, first for research and innovation and nowadays expanded to a broad range of sectors.

The basic idea is simple: a small part of public funds earmarked for science, research and innovation is used as a backstop – or, technically, a guarantee – for equity and debt financing of investments in innovation.

Public funds that could otherwise be provided only once as a grant, are instead deployed as risk capital in a fund that is used to bring in additional funds from private investors.

The fund is revolving in the sense that repayments of principal, plus returns through interest or equity participations, are high enough to compensate for the expected losses from defaults.

This approach allows us to recycle the public funds and amplify their impact, something bankers call “leveraging”.

This experience of joint risk-sharing financial instruments between the Commission and the EIB has demonstrated that the concept does not only work in principle. No, it has worked in practice, over and over again.

The long lists of successful investments – and if you allow me to add: grateful promoters – under the **Risk-Sharing Finance Facility (RSFF)**, **InnovFin** and – the most recent one – the **European Fund for Strategic Investments (EFSI)** should be proof enough.

I am convinced that if we are serious about stepping up investments in innovation in Europe, risk-sharing financial instruments are the most powerful tools we have in our toolbox.

Let me summarise their key advantages in three words: multiplication, crowding-in and recycling.

“Multiplication” means that a relatively modest amount of public funds is sufficient to make available a much larger funding package that can be used to finance innovation.

“Crowding-in” refers to the fact that risk-sharing financial instruments de-risk investments to an extent that make them safe enough for private investors, such as, for instance, pension funds.

Finally, “recycling” indicates the revolving nature of the funds. Whereas grants can only be spent once, there is a non-negligible likelihood – and I am very cautious here - that reflows from financial instruments are large enough to allow for – at least – a partial redeployment.

Having said this, I should of course also mention that there are parts of the science and innovation system where risk-sharing financial instruments have no role to play. Basic research is a case in point.

So, to be totally clear, equity or loans to fund the work of the ERC [European Research Council] are not the way to go! The ERC and the activities it funds have to rely on grants. There is, in my view, no alternative.

On the other hand, once the potential for commercialisation of a new idea appears on the horizon, financial instruments could be a suitable tool. The risk capital they provide allows one to put together a larger financial package that enables the promoter to take a new idea through the last phases of development, test it on the market and, if successful, build up, for example, the first manufacturing line.

Allow me to present some figures:

RSFF, the first of the financial instruments dedicated to R&D and innovation – supported investments of more than 30 billion euros – with only 1 billion euros of funds under FP7, plus 1 billion euros from the EIB.

By the way: the reflows from RSFF are now recycled into two high-impact facilities: one for R&D to fight infectious diseases; the other one aimed at funding demonstration projects using new energy technologies – both areas, where access to funding remains a huge obstacle.

EFSI, since its inception in 2015, has supported about 100 billion euros of investments in R&D, innovation and digitalization – more than a third of all investments supported. The multiplier effect is close to an expected factor of 15. In other words: EIB has converted 6.7 billion euros of EU guarantee into financing that allow projects with a total volume of 100 billion euros to go ahead.

These aggregate figures hide the hundreds of individual investments – each of them a fascinating piece of evidence that Europe could be amongst the world leaders in innovation, provided we give our scientists, engineers and entrepreneurs the breathing space – the funding – they need.

I am aware that some of you might find my proposals problematic as they could take away much-needed grant funding, on which a large part of especially the academic work depends.

At the same time, I am convinced that higher investments in innovation are the best – and, perhaps, the only – way for Europe's economy – and, by the way, society at large – to maintain our wealth and role in the world.

Thank you.