

# The Innovation 2000 Initiative

*Actively promoting  
a European economy based  
on knowledge and innovation*



**European  
Investment  
Bank**



*The Innovation 2000 Initiative*

## The EIB's commitment to a more competitive European economy



*The European Investment Bank was involved in putting in place the "Lisbon Strategy", decided by the European Council on 23 and 24 March 2000*

In order to support the guidelines laid down by the Heads of State or Government, the EIB is implementing its Innovation 2000 Initiative, a practical programme aimed at building a Europe based on knowledge and innovation.

*Adopted by the EIB's Board of Governors at its Annual Meeting in June 2000, this initiative covers a number of operational principles intended to target lending by the EIB Group towards the following five objectives:*

- **development of SMEs and entrepreneurship**, in particular by increasing venture capital activity encouraging the development of innovative SMEs within the Union. These operations are being implemented by the European Investment Fund (EIF), the EIB Group's specialist venture capital vehicle;
- **diffusion of innovation**, by financing projects of all

sizes, carried out by both public authorities and companies, with the aim of disseminating innovation and developing the expertise needed to apply new technologies;

- **research and development**, by supporting public and private research programmes, particularly those bringing together businesses and public bodies, the promotion of research infrastructure, centres of excellence and structures facilitating SMEs' access to research programmes;
- **information and communications technology networks**, by financing trans-European broadband and multimedia networks and the physical or virtual infrastructure providing local access to these networks, particularly in the less developed regions of the Union;
- **human capital formation**, by computerising schools, colleges and universities and

providing loans for information technology training centres.

Over the next three years, EIB support for these areas will take the form of a dedicated EUR 12-15 billion lending programme, plus a further EUR 1 billion for developing venture capital operations. Rather than increasing the volume of finance, the Innovation 2000 Initiative will mark a qualitative shift of

emphasis in the EIB Group's activities towards sectors of the future with high technological value added. To that end, the EIB will endeavour both to adapt the range of its financial instruments and to extend it to new partners and new clients. Ultimately, the EIB Group will gradually extend Innovation 2000 Initiative operations to the countries that have applied to join the Union. ■



## Entrepreneurship



*The conclusions of the Lisbon European Council confirmed the importance of SMEs, both for the economic and social development of the Union and with a view to an economy based more on knowledge and innovation*

The EIB Group possesses the financial resources and expertise needed to encourage this priority, given that, in addition to the activities it has developed over a period of nearly 30 years for the medium to long-term financing of small businesses through global loans, the EIB Group has, since 1997, taken action to strengthen venture capital structures in Europe. This today involves some 50 or so operations in partnership

with the European banking and financial community and has already mobilised nearly EUR 1.5 billion.

The EIB Group's venture capital activities have, since June 2000, been brought together under the European Investment Fund (EIF), which is thus the Group's specialist vehicle in this very specific area. Operating as a "fund of funds" in close partnership with the European financial

community, the EIF acquires holdings in venture capital funds which invest in innovative companies or those with strong growth potential. On the basis of its holdings, the EIF acts as a catalyst in attracting dedicated investors.

Under the Innovation 2000 Initiative, the EIF will build upon the action taken by the Bank to help **develop venture capital markets** throughout the Union. In this connection, it has an additional EUR 1 billion available, released by the Bank's Governors at their Annual Meeting in June 2000.

*Thus, the EIF is mobilising its resources in order to:*

- support venture capital financing for funds specialising in acquiring holdings in **innovative SMEs**;
- broaden out its activities to cover new operations targeting **seed and start-up capital**;
- facilitate the establishment of **investment funds devoted entirely to new technologies**;
- support funds with a **regional focus**, particularly in the less developed regions, so that they can take part in the “new economy”;
- encourage the emergence of **pan-European funds**, particularly if they take forward national initiatives and help to transfer expertise and best practice throughout the Union.

*At the same time, the EIB Group will consider financing, either through long-term loans or venture capital:*

- facilities encouraging entrepreneurial potential, such as **science parks** and **incubators** linked to a university or research centre, or clusters of SMEs in advanced technology sectors networking with and often partly financed by large corporations;
- structures promoting the development of **micro-credit**;

this will involve the EIB Group supporting, particularly via the EIF, and in partnership with long-standing bank intermediaries, the setting

up of pilot operations supporting local development, while at the same time combating social exclusion. ■



## The EIF is now the EIB Group's specialist venture capital arm

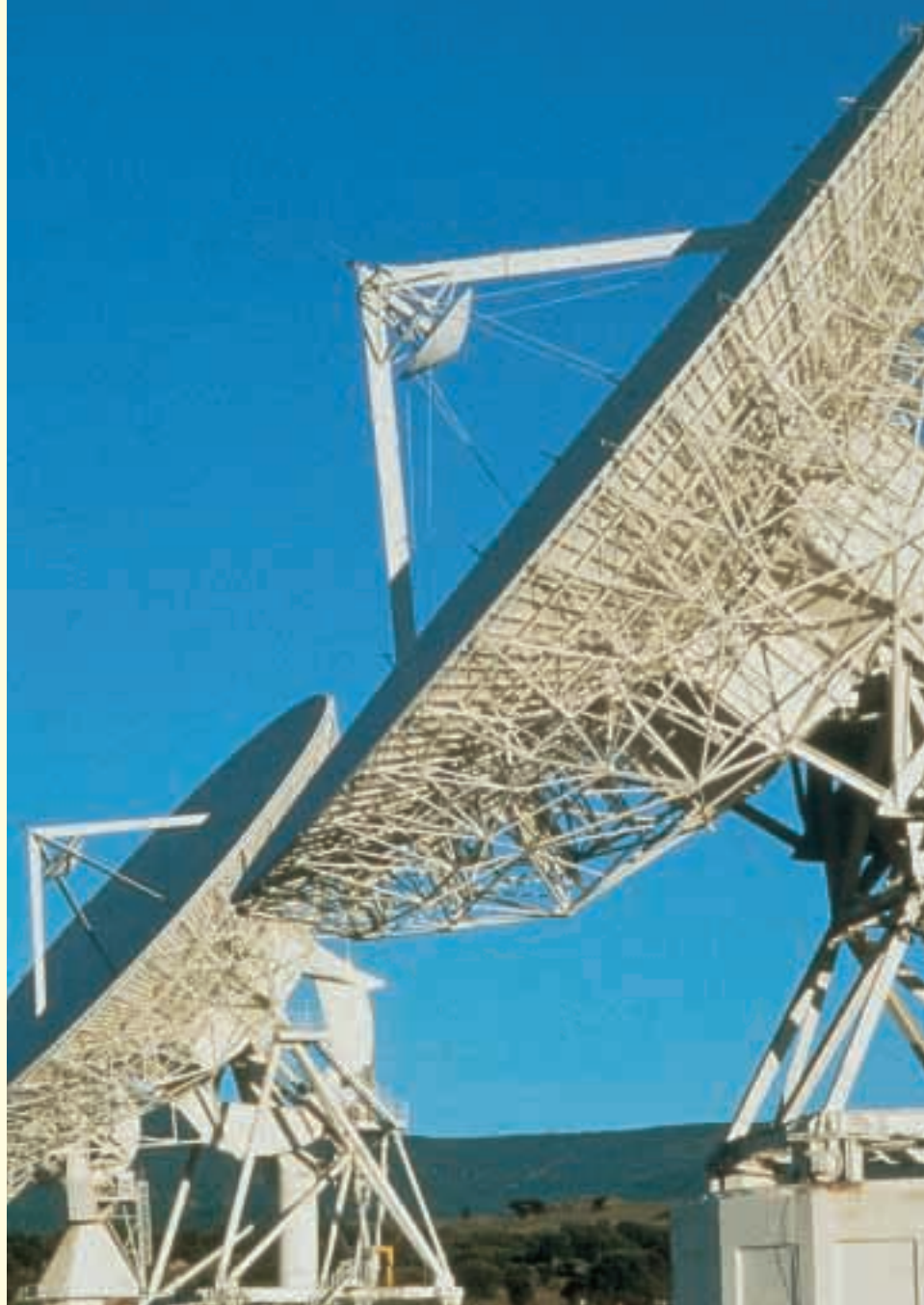
The EIB's Board of Governors has doubled to EUR 2 billion the reserve set aside to cover risks associated with the EIB Group's venture capital operations. This reserve, funded from the EIB's operating surpluses, already contains EUR 1 billion from the net profit for the 1996, 1997 and 1998 financial years, plus EUR 500 million for 1999. The balance will be drawn, in line with requirements, from the profits for 2000 to 2002.

By also authorising reform of the European Investment Fund, the Governors have turned this institution into the EIB Group's specialist “venture capital” branch. While preserving the EIF's tripartite structure (the EIF's capital is held jointly by the EIB, the European Commission and commercial banks), this reform has meant that the EIB has become the Fund's

majority shareholder and operator. Entrusting to the EIF all the EIB Group's venture capital operations (management of those operations concluded by the EIB since 1997 and the setting up of new operations as from autumn 2000) will boost the Fund's financial and operational capacity and serve to target this highly specialised market with added impact.

The EIF will bring its activities to bear in geographical areas or sectors where, because of the scale of individual investments, the lack of financial resources precludes the establishment of an efficient and coherent European venture capital market. This reform will undoubtedly further contribute to increasing the catalytic effect of the EIB Group's activities within the European banking and financial community.

## Diffusion of innovation



*Failing widespread dissemination throughout the economy, innovation is unlikely to have a significant economic impact*

Hence, the conclusions of the Lisbon European Council call upon the Commission and the Member States to coordinate their action with a view to facilitating diffusion of innovation and enhancing the application of information technology: "Every citizen must be equipped with the skills needed to live and

work in this new information society."

In order to attain these objectives, the Bank intends to support investment in innovation-driven networks, online services or equipment using information and communications technologies. The aim is to expand both the

infrastructure that will enable innovation to spread and the supply-side aspect of making use of innovation; in short, it is a matter of developing the expertise required to apply these technological innovations.

The Bank is well placed to help the "demand side", particularly the **public sector**, in investing to optimise services: local authorities, for instance, will need to invest substantially in information

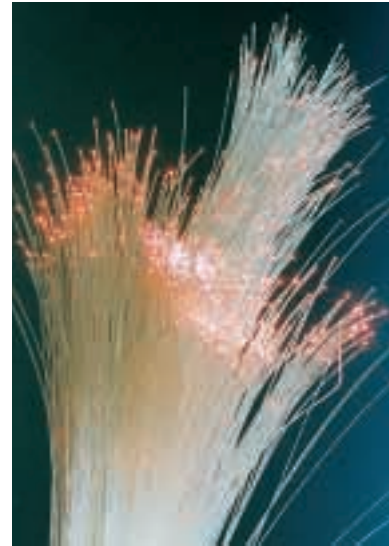
and communications technologies to remain in close contact with citizens in this information society. Generally speaking, the entire public sector needs to modernise and innovate, making the most of the information revolution in order to ensure that services reach everyone, particularly in sparsely populated areas.

Similarly, the emphasis will be placed on using these technologies in the **health sector**, particularly for developing "online healthcare" services, providing everyone with better access to medical expertise and high-level care.

In the **private sector**, the Bank will be supporting businesses, particularly those associated with the media or Internet

applications, with a view to speeding up the innovation process. This will include promoting multimedia-based industry in applying information technology to culture, entertainment and leisure.

Loans will also be granted to SMEs in order to accelerate their take-up of information and communications technology, either in order to enable them to acquire the hardware and use these innovative services or to install e-commerce applications. Interesting projects could also emerge involving companies that develop networks in conjunction with suppliers, major clients and partners in the field of research and cooperation. ■



## Research and development



*The Lisbon conclusions assign an important role to the creation of a European Research and Development (R&D) Area as a generator of economic growth, employment and social cohesion*

The Heads of State or Government made specific recommendations aimed at encouraging networking, benchmarking, mobility between researchers and programmes and even the introduction of a Community patent by the end of 2001.

The EIB decided back in 1995 to grant loans for upstream

financing of research and development. In response to the call made in Lisbon, the Bank will redouble its efforts to back the private sector and increase the effectiveness of public research.

*The Bank can encourage the private sector to expand its investment in applied R&D by:*

- lending to businesses, either for modernisation of research laboratories or for cofinancing corresponding research costs. Larger companies or SMEs are eligible for such finance if part of their business has a strong R&D bias. For SMEs the most appropriate financing instrument would be tailor-made global loans;
- opening up SMEs' access to R&D facilities or programmes by financing centres providing information on public assistance available to SMEs and on link-ups with R&D

partners. Since in Europe a relatively large proportion of R&D work is carried out by SMEs, streamlined access to such information could have major spin-offs.

The Bank can also step up its support for basic research undertaken mainly by the public sector. To that end, it will be in a position to co-finance public R&D programmes, particularly where the investment involves cooperative links with Community programmes or even international public research centres. The EIB could also urge the private sector to participate in public research, in particular by cofinancing contributions from private operators.

EIB operations can also target the establishment of centres of R&D excellence. Innovative industries tend to cluster in science parks and close to major basic research centres and universities. The promoters of this type of infrastructure could be offered long-term loans and flexible repayment arrangements.

Finally, the EIB could help to finance patents, particularly for SMEs within the framework of global loans.

*These new activities, which fall within the broader context of the European Council*

*recommendations addressed to the Commission, the Council and, where appropriate, the Member States, are intended to:*

- "improve the environment for private research investment, R&D partnerships and high technology start-ups, by using tax policies, venture capital and EIB support;
- facilitate the creation by the end of 2001 of a very high-speed trans-European network for electronic scientific communications, with EIB support, linking research institutions and universities, as well as scientific libraries, scientific centres and, progressively, schools". ■



## New information and communications technology networks



*The shift to a knowledge-based economy requires high-capacity and high-quality information and communications technology infrastructure and networks: major capital spending will be called for to carry through this technological transformation in a market environment set to be fully integrated and liberalised by the end of 2001*

In keeping with its mission as the Union's financial institution, the EIB will underpin these developments by giving priority to projects facilitating widespread access to these new networks.

With sights set on this new technology, the EIB's operations will support initiatives by public and private investors towards Union-wide development of networks for transferring data between businesses and individuals and towards establishing the local infrastructure linking into these networks.

*The EIB is consequently looking to:*

- increase its lending in favour of information and communications technology projects, focusing in particular on broadband and multimedia technologies, so as to promote state-of-the-art services at reasonable prices in all EU countries, especially in the less developed regions;
- contribute to modernisation and extension of existing networks, without which it would not be possible to

carry out innovative projects on a balanced basis between all regions of Europe;

- provide financial support for investment to establish physical and virtual infrastructure giving access to these networks. Here too, the EIB will target first and foremost projects located in the Union's less favoured areas and/or making use of innovative technologies such as ADSL, xDSL or UMTS.

The crucial consideration here is to stimulate a technological sea change, where the issues at stake are maintaining the competitiveness of Europe's economy in the telecommunications sector and opening up electronic transactions to as many economic players as possible. That is why project selection and investment decisions need to be seen within the context of tangible action on the part of EU Member Countries.

*In this connection, the Lisbon European Council has, in particular, invited:*

- "the Member States, together with the Commission, to work towards introducing greater competition in local access networks before the end of 2000 and unbundling the local loop in order to help bring about a substantial reduction in the costs of using the Internet;
- the Member States to ensure that all schools in the Union have access to the Internet and multimedia resources by the end of 2001;

- the Member States to ensure generalised electronic access to main basic public services by 2003;
- the Community and the Member States, with the support of the EIB, to make available in all European countries low cost, high-speed interconnected networks for Internet access and foster the development of state-of-the-art information technology and other telecom networks as well as the content for those networks".

EIB operations in this area will therefore depend on balanced consideration of three fundamental factors: innovation,

competition and inclusiveness. They will be based on experience acquired by the Bank since the 1980s in arranging finance for trans-European networks (TENs).

Over the period 1995-1999, the EIB committed around EUR 42 billion for projects of this type within the Union, including EUR 11 billion for telecommunications alone. In this context, the Bank saw the need to deploy a number of measures optimising the role played by its lending in the start-up and debt configuration of these major projects, in particular through active involvement in setting up public-private partnerships. ■

## The telecommunications revolution

The data exchange market will very soon dominate telecommunications networks, reducing voice communications to a marginal share. Some analysts estimate that by 2005 no less than 90% of all traffic could be data based. This presupposes a radical transformation of all aspects of telecommunications: organisation of the sector, pricing policy, network configuration and investment strategies.

The expansion of the Internet and other forms of data exchange is increasing demand for high-speed or broader band-

width transmission capacity. The limited capacity of most of the local loops on the current networks is a major obstacle to expansion of data services. To rectify this situation, two current major initiatives are aimed at enhancing traditional transmission lines and existing cable networks and upgrading wireless networks, especially mobile cellular telephony networks.

Combined with the arrival on the market of new players, these trends largely explain the increase in investment in the telecommunications sector. The

new players and providers of innovative broadband services will focus first of all on the most lucrative market segments.

This situation tends to discriminate against small businesses and, generally speaking, the less developed regions. The Bank will perform its role as a European institution to the full by giving priority support to those investment projects which favour equality of access to broadband services, in particular by financing schemes with a regional or local dimension.

## Human capital



*The conclusions of the Lisbon European Council stated that “people are Europe’s main asset and should be the focal point of the Union’s policies”*

The aim is to promote, rapidly and throughout Europe, education and training, computer literacy, lifelong learning and teacher training. The Member States therefore have a responsibility to increase significantly the level of investment in human capital, in order to raise the level of training and educational attainment.

*The Innovation 2000 Initiative will back this action by financing:*

- modernisation of schools, universities and vocational training centres (particularly by installing cabling and IT equipment), in order to promote electronic literacy among pupils and provide

them with equal access to the Internet and multimedia resources (by the end of 2001);

- teacher training centres specialising in these new technologies;
- centres for training information and communications technology specialists, in order to remedy the shortage of staff skilled in these disciplines throughout most of Europe. ■

## Promoting universal access to educational facilities

The guidelines for the Innovation 2000 Initiative take forward and build upon the operations mounted by the EIB, since 1997, in the health and education sectors. To date, the Bank has mobilised more than EUR 2 billion for educational projects. Virtually all of this lending is focused on the least favoured areas of Europe. Irrespective of whether individual loans or credit lines are involved, all projects financed by the Bank are in keeping with the educational policies pursued by the central or regional authorities. Sometimes, as in the case of the United Kingdom,

investment is implemented in close association with the private sector.

EIB-funded projects meriting special mention include the campaign to modernise higher education in Spain: at the universities of Alicante, Elche, Valencia, Almeria, Cadiz, Grenada, Huelva, Malaga and Seville the work financed by the EIB involves construction or renovation of lecture rooms, libraries, administrative buildings and laboratories, as well as the purchase of modern equipment. Priority has been given to courses geared to training specialists for industry and

to research and industrial development requirements. Financial support for major programmes of this kind foreshadows future investment by the Bank in other regions of Europe for the benefit of projects dovetailing neatly with national modernisation plans.

With a view to deepening and broadening its approach to financing in the education sector, the EIB has entered into cooperation with other institutions operating in the same field, such as the OECD, with which the EIB is working closely on defining project evaluation methods.



## Custom-made financial products



*To implement the priorities handed down to it by the Union and the Board of Governors, the EIB Group makes available for the projects it backs a range of financial products: medium or long-term loans and venture capital instruments*

*In this context, bearing in mind the novelty, diversity and complexity of the new sectors covered by the Innovation 2000 Initiative, the EIB Group will be introducing new products in order to accommodate more effectively the reduced amortisation period for certain types of investment or the lack of collateral security*

Generally speaking, the Bank lends for a term of up to 12 years for projects in the indus-

trial sector and for 20 years or more in the infrastructure sector. Depending on the

borrower's preferences, the loan may be denominated in euro, a currency of an EU country which is not a member of the euro area or even a currency of a non-EU country, such as the US dollar, the yen or the Swiss franc. The funds may be disbursed in one or more currencies. The interest rates applied by the Bank, reflecting the particularly competitive terms it is able to obtain on the capital markets, may be fixed, variable or revisable.

*With regard to long-term lending, the EIB offers the following range of financial products:*

- **the individual loan:** concluded directly with the project promoter or the banking-sector partner(s) involved in arranging the finance. On average, individual loans cover 30% of the investment cost but may cover up to 50%. Although the minimum loan amount is generally around EUR 25 million, lower sums can be made available, on a case-by-case basis, depending on the specific type of project or its importance in terms of the EIB's objectives;
- **the grouped loan:** enables the same promoter to finance a number of projects identified beforehand which, individually, would



not be large enough to meet the criteria governing the granting of individual loans;

- **the global loan:** is advanced to an EIB-approved financial intermediary; it takes the form of a credit line, drawn on by the intermediary to fund small and medium-scale projects not identified beforehand. Over more than 30 years, the EIB has built up a fruitful partnership with some 180 banks and financial institutions, both public and private, which onlend its global loans for thousands of SME or local authority projects.

*In addition, there are the **venture capital** resources managed by the **European Investment Fund (EIF)**, within the **EIB Group**.*

The EIF operates via venture capital funds which, within the Union, support innovative or high-growth companies.

The financial terms and conditions on the Bank's loans always take account of the characteristics of the projects financed. This applies in particular to transport, communications and environmental **infrastructure**, for which prefinancing, deferred repayment or extended maturity formulas may be employed.



Certain operations, particularly in **research and development**, may be set up with public institutions and/or in cooperation with EIB-approved commercial banks. This applies, for instance, in the field of information and communications technologies. Certain projects are likely to lead to "public-private partnership" type arrangements.

Across the entire spectrum of operations covered by the Innovation 2000 Initiative, the Bank will be liaising closely with the **European Commission**, in order to optimise the complementary benefits of budgetary funding (particularly for research and development) and EIB loans. ■

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An updated list of projects financed under the Innovation 2000 Initiative may be consulted on the EIB's website.

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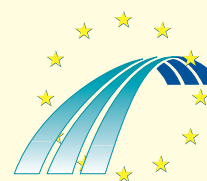
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European Investment Fund

October 2000