

Innovation and Knowledge –Based Economy

The Innovation 2000 Initiative (i2i) was put in place by the **EIB Group** (EIB and EIF) to support the “Lisbon Strategy”, as charted by the European Council in March 2000, for building a “European economy based on knowledge and innovation”.

i2i operates through:

- **medium or long-term EIB financing** (possibly in the form of risk-sharing or structured loans) and
- **EIF participations** in venture capital funds (VCFs) that provide SMEs with equity resources in the form of venture capital.

i2i focuses on five economic sectors: research and development (R&D), development of SMEs, technology networks, human capital formation, and the diffusion of innovation (including the audiovisual sector).

LOOKING AHEAD TO 2010

At end-2002, the EIB Group had fully achieved its i2i objectives: in two and a half years, the **EIB Group approved some 300 operations totalling almost EUR 17 billion (14.4 billion EIB + 2.5 billion EIF)**, carried out in all the Member Countries of the Union and seven Accession Countries; total loans signed amounted to 10.8 billion (over 3.6 billion of this in 2002) and the volume of EIF equity participations topped 2.5 billion (471.5 million in 2002).

Although at the end of 2003 the i2i programme will complete the three-year term initially fixed by the Bank’s Board of Directors, the objective set under the “Lisbon Strategy” not only remains valid but has been reaffirmed by the European Councils of Stockholm (March 2001) and Barcelona (March 2002). Accordingly, **the financing of innovation will continue to be a top priority for the Bank as far ahead as 2010.**

REVIEW OF 2000 - 2002

The results of operations under i2i show that over the past three years the EIB succeeded in meeting a real economic demand. Deploying diversified financial products, the Group accorded priority to investments that bring about a *transfer of expertise to the less advanced regions* and inject *value added*:

- **Regional development:** special attention was paid to selecting projects helping the less advanced regions to gain access to state-of-the-art technologies: **66%** of the financing went towards projects in the Union’s assisted areas or in Accession Countries, with schemes involving health, education and technology networks very much to the fore.
- **Innovative content:** since 2000, the innovative content of projects financed has grown substantially; *research and development (R&D) projects*, particularly in the life sciences and fundamental research, absorbed 59% of loans granted in 2002; *education projects* (26% of loans in 2002) have a large innovative component reflecting their application of ICT (e-learning) or research results from basic R&D (universities and university hospitals). Projects implementing *ICT networks* (10% of loans in 2002) were selected because of either their powerful regional development impact or their role in diffusing innovation (digital technologies applied to the creation or distribution of audiovisual works).
- **Sectoral distribution:** the distribution among the five sectoral components of i2i also underwent a qualitative shift: whereas, in the year 2000, projects under appraisal related predominantly to telecommunications (59% in 2000), the sectoral distribution of *approved*

projects at end-2002 was as follows, in decreasing order: education/e-learning (43%), R&D (39%), technology networks (10%) and diffusion of innovation/audiovisual (8%).

RESULTS 2000 – 2002

RESEARCH AND DEVELOPMENT (R&D)

In 2002, **the EIB invested 2.1 billion in 15 R&D projects**, spanning 6 countries of the Union, with one pan-European international cooperation project partly located in Switzerland: the CERN particle accelerator in Geneva. Most of the projects were undertaken by the private sector in the fields of electronic components, metallurgy, optics, biotechnology, aeronautics (Airbus A-380) and telecommunications. **These loans brought the EIB's R&D financing since 2000 to a total of 3.8 billion.**

Meanwhile, **the EIF's investment strategy** on venture capital continues to place the emphasis on *funds downstream from research and development*. A notable example is the operation signed in 2002 with the Heidelberg-based "European Molecular Biology Laboratory". Investments in the life sciences field featured strongly (with equity participations in 15 VCFs). This accords fully with the concerns of the "Competitiveness" Council (Joint Council of the Ministers for research and industry), which, in November 2002, stressed the need to enhance the EIB Group's role in financing biotechnology in Europe.

In November 2002, on the occasion of the launch of the 6th Research Framework Programme, the EIB and the Commission strengthened their cooperative efforts towards bringing about an increase to 3% in the share of the Community's GNP devoted to R&D within the Union - an EU target set by the Barcelona European Council (March 2002).

DEVELOPMENT OF SMEs AND ENTREPRENEURSHIP

Alongside the EIB's support for SMEs through its global loans, a noteworthy aspect of the EIB Group's operations in 2002 was the activity of its specialised subsidiary, the EIF, which **committed 471 million in 36 venture capital funds**. These new operations brought the EIF's total portfolio to over 2.5 billion, invested in 184 funds, which together underpinned the formation of nearly 10 billion of investment capital in over 1 800 SMEs.

Commitments in favour of the **regional funds** continued to mobilise a large part of the EIF's resources (notably the Mezzogiorno fund for the south of Italy, the Andalucía Desarrollo Capital fund in Spain, the Fonds pour le Capital Investissement Régional in France, Technofonds Bayern in Germany and the UK Regional Capital Scheme in the United Kingdom). In the same context, and despite difficult market conditions, the EIF invested 10 million in a fund operating in the Accession Countries (Genesis Private Equity), bringing its total portfolio in these countries to 75 million.

Also worth highlighting is the total of 112 million worth of equity participations in **pan-European VCFs**, predominantly in the life sciences, biotechnology and IT sectors. The promotion of investment vehicles of this type, operating on a multi-country base, is contributing to the emergence of a European venture capital market – an objective of the Lisbon Strategy and one with which the EIF is fully associated.

In a clearly wilting market, the EIF succeeded in maintaining a high level of investment capital, equal to around 20% of the sector total, and exerted a major leverage effect among investors throughout Europe.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) NETWORKS

As essential vehicles for the diffusion of innovation and data exchange between companies, in 2002 ICT networks attracted **366 million in EIB loans**, in Belgium, Spain, Greece and Slovenia. A large part of the network financing was for diffusion by fibre-optic cables (Belgium, Spain), mobile telephony in disadvantaged areas (Greece, Slovenia) and the launch of a Spanish satellite.

HUMAN CAPITAL FORMATION

Under the i2i programme, the EIB ploughed 987 million into **11 education and 2 health projects** in 2002, in eastern Germany, Austria, Spain, Finland and 4 Accession Countries – Hungary, the Czech Republic, Cyprus and Turkey. These mainly concerned the provision of higher education or university facilities and associated digital equipment, and the refurbishment and technological upgrading of hospitals in Styria and Upper Austria.

Among these projects, special mention may be made of a programme for the creation of 6 800 IT classrooms in some 5 100 primary schools spread across Turkey.

These projects *are located in assisted areas*, helping the populations concerned to gain better access to the latest educational and health care facilities.

DIFFUSION OF INNOVATION: “AUDIOVISUAL I2I”

In 2002, the EIB provided 146 million for equipment at ARTE’s new television centre (production, digitalisation and diffusion) in Strasbourg, for television programme co-production by BBC-Worldwide and for the financing of fiction films and cinema refurbishment by two specialist audiovisual industry intermediaries in Spain (ICF) and Italy (BNL-Audiovisual). These loans brought **EIB financing signed in the audiovisual sector to 389 million**.

For its part, the **EIF invested some 66 million in 2002 in 4 VCFs** – pan-European or located in France and Spain – specialising in strengthening the equity resources of audiovisual SMEs. **With these operations, total EIF equity participations in the audiovisual sector since the start of i2i rose to 119 million (10 VCFs)**.

Audiovisual i2i, launched by the EIB Group in December 2000, is intended to support European audiovisual production, help the industry to embrace the new technologies and encourage greater involvement by the European banking and financial community in financing the industry’s players. This initiative is being implemented in tandem with the Commission’s “MEDIA Plus” programme.