



## Annual Press Conference 2006

### Briefing Note N° 02

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## **Innovation 2010 Initiative (i2i)**

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*At the Lisbon European Council of March 2000, the European Union set itself the strategic goal of establishing a competitive, knowledge-based economy, capable of sustainable growth with more and better jobs and greater social cohesion by 2010. Soon after the Lisbon Council, the EIB created a special lending facility, the Innovation 2010 Initiative (i2i), in order to support the EU's innovation drive with the Bank's considerable financial resources.*

Since it set up i2i in 2000 the EIB has advanced loans for innovative investment projects worth EUR 34.8 billion, EUR 10.7 billion of which in 2005 alone. The overall quantified objective is to lend a minimum of EUR 50 billion under the i2i programme over the current decade, making the Bank a major player in this field.

The EIB's lending is concentrated on three main areas:

- Research, development and innovation (RDI) – private and public sector investment in research, the development of centres of excellence and academic research centres, as well as downstream investment.
- Education and training – support for university training by improving access to training as well as life-long learning, integration of research into tertiary education projects, helping to finance upgrading of IT infrastructure, digital literacy and e-learning, as well as primary and secondary education.
- The diffusion of technologies and development of information and communications technology (ICT) – involving the rollout of fixed and mobile broadband networks and access technologies, the creation of communications networks in a number of sectors (such as health and transport), and the development of electronic commerce platforms.

The European Investment Fund, the Bank's subsidiary, also plays an important role in implementing the Lisbon Strategy. It stimulates entrepreneurship by investing in venture capital funds providing innovative small and medium-sized enterprises with equity resources. In 2005, the Fund committed EUR 468 million to 24 venture capital funds, bringing the EIF's VC commitment **at end-2005** to EUR 3.2 billion invested in 217 funds. These investments are not included in the Bank's i2i activities, but are additional.

### **Innovation and growth**

Investment in research, development and innovation is one of the two legs of the European Action for Growth (the other is investment in trans-European networks) launched by the European Council in 2003. The aim is to strengthen Europe's long-term growth potential. Many i2i projects also serve European Union policy objectives beyond innovation and increased competitiveness.

Most importantly, the EIB's i2i lending window contributes to greater economic and social cohesion, which is after all included in the Lisbon objectives as a corollary to the creation of a competitive, knowledge-based economy and is the Bank's prime policy objective. The establishment of centres of excellence or the rollout of broadband networks in the less-favoured regions of the European Union is a key factor in ensuring European citizens' access to new technologies in a changing world. It helps to offset the tendency for investment to be concentrated in the wealthiest parts of the EU. Accordingly, fully two thirds of the Bank's i2i lending to date has gone to projects in the least developed regions of the Union, a testimony to the high value added of the Bank's involvement and its commitment to the transfer of knowledge to areas of the Union that are lagging behind.

## Research, development and innovation

The EIB Group gives priority to projects furthering or resulting from synergies between the public and private sectors, since mobilising their combined effort is crucial for attaining the ambitious RDI investment target of 3% of Europe's GNP by 2010, set by the Barcelona European Council in March 2002.

With 44 loans amounting to more than EUR 6.1 billion in 2005 (EUR 4.1 billion in 2004), the RDI leg of i2i accounted for the bulk of the EIB's lending. Investment in Germany played an important role, attracting a total of close to EUR 3.2 billion, which went *inter alia* to: research activities in three leading science centres in Bavaria; the construction of a research, development and production site for semiconductors in Dresden; and research activities at universities and university colleges of technology in Lower Saxony. EUR 650 million was channelled into R&D investment in the automotive sector in the Czech Republic and Slovakia.

More upstream, the EIB participated in the launching of technology platforms and supported their works. Initiated by DG Research of the European Commission, these platforms serve as a forum for linking stakeholders in innovative technological sectors that are important for the future of European industry. One basic objective is to develop a common vision and strategy for the technology. At the end of 2005, more than 20 platforms had been created, the more advanced (e.g. those focusing on hydrogen and fuel cell technology, nanoelectronics, photovoltaics, and water supply and sanitation technology) encouraging the establishment of so-called joint technology initiatives, the aim of which is to promote priority projects that will have large funding requirements.

## Education and training

In 2005, 30 loans for investment in education and training under the i2i umbrella amounted to almost EUR 2.2 billion (EUR 1.7 billion in 2004). In the United Kingdom, the construction, refurbishment and maintenance of primary and secondary schools took up a substantial portion of the Bank's lending. In Scotland, in North Lanarkshire, 21 primary and secondary schools will be constructed and maintained, as well as 28 schools in Argyll and Bute, both by public private partnerships. In Finland, schools, social care centres and higher education facilities received a total of EUR 255 million in EIB loans, while EUR 320 million went to the rehabilitation and modernisation of higher education facilities in North Rhine-Westphalia in Germany.

## Information and communications technology networks

Essential for the diffusion of innovation and sharing of data, ICT networks attracted close to EUR 1.9 billion in 2005 (EUR 1.3 billion in 2004). These networks are by definition large-scale projects with substantial funding requirements. Thus, the rollout of a broadband access network in Austria took up EUR 180 million, in Spain almost EUR 400 million, in southern Italy EUR 350 million and in Germany's eastern Länder EUR 500 million.

Smaller loans went to the EIB's film/TV financing, which is progressing steadily. Since the Innovation 2010 Initiative was set up, the EIB has co-financed 70 film/TV productions for a total EIB loan amount of more than EUR 105 million. The aggregate production budgets of these 70 projects amount to nearly EUR 800 million. In line with the objective of i2i, the Bank's lending supports the European audiovisual sector with a view to reinforcing its international competitiveness and helping it meet the cultural and technological challenges of a globalised economy.

## Cooperation with the European Commission

To support investment in innovation the EIB cooperates closely with the European Commission. Most prominently, this cooperation is visible in the coordination and co-financing under the current EU Research Framework Programme and in the intense preparations for the next framework programme, covering the years 2007-2013.

However, despite the combined endeavours of the Commission and the Bank, the mid-term review of implementation of the Lisbon Strategy, which was on the agenda of the Spring 2005 European Council in Brussels, concluded that further public and private efforts are essential, failing which Europe will certainly fall short of reaching its innovation objectives.

In order to help accelerate investment up to 2010, the EIB has developed a “toolbox” of financial engineering instruments tailored to investors’ needs and expectations. The combination of Commission grants and Bank loans plays an important role in this respect. The EIB has also set up a special window for “mid-caps” – corporates of intermediate size, which are frequently major innovators. This window is aimed at financing investments with a total cost of up to EUR 50 million, particularly in i2i sectors. For example, a loan of EUR 30 million was signed with Investkredit for financing innovative mid-cap companies in Poland in 2005.

To increase its value added further, the EIB has started to accept higher credit risks for i2i projects by extending its Structured Finance Facility (SFF). Created in 2001, the SFF is used to support priority projects and promoters that are below investment grade, through provisioning of the associated higher credit risks by setting aside part of the Bank’s surplus. The present SFF envelope of EUR 500 million (of which EUR 100 million for investment in the Mediterranean region under FEMIP) is practically exhausted and the Bank will propose an extension to its governing bodies in 2006.

### **Increased leverage of EU grant resources through RSFF**

In the context of the next Research Framework Programme covering the period 2007-2013, the EIB and the European Commission are preparing new ways of improving the leverage of EU grant resources when combined with EIB loans, as requested by the Spring 2005 Brussels European Council. A Risk-Sharing Finance Facility (RSFF) is being set up for this purpose. Under the RSFF, the Bank will use Community grant resources, together with its own funds, to cover part of the risks associated with projects that have a higher risk profile. The EU grant portion is estimated to allow the EIB to make available in loans for risk-bearing European RDI investment an additional amount of six times the value of the grant. Following the agreement of the European Parliament and Council, the Risk-Sharing Finance Facility is scheduled to start operating in 2007 and will be open to all partners in large RDI projects with a strong European dimension.

The European Investment Fund is also stepping up its efforts in support of the Lisbon Strategy. Under the proposed “Competitiveness and Innovation Programme” (CIP), covering the period 2007-2013, the EIF will manage the implementation of the Entrepreneurship and Innovation Programme, an important component of which is the High Growth and Innovation Facility. This facility will leverage private capital for SMEs seeking between EUR 200 000 and EUR 2.5 million.

*For further information on the EIB, visit its website [www.eib.org](http://www.eib.org).*

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