



Preparing for the knowledge economy

The establishment of a competitive, innovative and knowledge-based society, capable of sustainable growth, creating more and better jobs and greater social cohesion – the ambitious objective of the Lisbon Agenda – has been overtaken by the financial and economic crisis that hit the European Union in the second half of 2008. Nevertheless, the EIB has been able to step up its lending for future-oriented investment in education, research and innovation, which reached EUR 12.4bn in 2008 compared with EUR 10.3bn in 2007. Especially now, it is important to stimulate long-term investment in those areas of the economy that will benefit future generations and not leave them burdened with debt for investment that shows short-term benefits only.

Background

EIB involvement in the knowledge economy dates back to the year 2000. The Lisbon European Council of March 2000 invited the Member States, European Commission and European Investment Bank to step up investment in research, development and innovation (RDI), education, and information and communication technology (ICT). The Bank quickly responded by making the development of the knowledge economy one of its own priority objectives. As it developed expertise and experience in this area, the Bank's lending increasingly focused on higher value added projects in technologies that merit support at EU level. In this context, the experience gained was instrumental in the launch, in cooperation with the Commission, of the Risk Sharing Finance Facility in 2007. This credit risk sharing scheme enables the Bank to provide finance to high-tech projects of promoters with a low or sub-investment grade risk profile and is especially suitable for financing high risk research and development.

Recent developments

As the crisis spread, risk sharing financial products proved extremely timely. In 2008, the EIB made EUR 1bn available in risk sharing loans. Private enterprises that were no longer able to access financing from their traditional banking partners or in capital markets took advantage of the EIB's financial offer, which explains at least part of the increase in lending for the knowledge economy in 2008 and the expected further increase in 2009.

Earlier in 2008, European Councils had already led to the formulation of a renewed Lisbon Strategy, which specifically aims to redress important deficits in the EU economy, such as shortfalls in lifelong learning, R&D spending, SMEs, and energy and climate change, which are the areas where long-term benefits are substantial. At its June 2008 Annual Meeting the EIB Board of Governors decided that the Bank's contribution to the establishment of the knowledge economy must be an ongoing concern. The EIB's current lending focus is on the "Knowledge Triangle", a concept that links education, research and innovation – each at the apex of a triangle – with education and research as prerequisites for innovation. Even as the European Union finds itself in the middle of a crisis, there is a clear recognition of the importance of intangible activities and investments, such as higher education reforms, mobility of researchers, R&D, intellectual property rights, etc. for long-term economic growth. Especially in the present situation in which unemployment is growing rapidly, actions to strengthen the Knowledge Triangle will ultimately help to fight poverty, social exclusion and inequality.

2008: key projects and initiatives

Broken down into its three components, the Bank's EUR 12.4bn in 2008 financing in support of the knowledge economy was made up of EUR 7.1bn for R&D, EUR 2.6bn for education and training, and EUR 2.1bn for the application and diffusion of innovation. The Bank supported investment in most countries of the EU and also in Turkey, Serbia and Israel.

Education and R&D

A promising investment in R&D and education is the construction of a leading biomedical sciences research and training facility at Trinity College Dublin in Ireland, supported by a EUR 75m EIB loan to the university. The facility will accommodate up to 1 000 researchers in the health-related areas of neuroscience, oncology, infection and immunity and genetics.

Risk sharing finance has been used to support the Medinvest project in the EU and Israel. This project concerns ongoing R&D relating to medical devices in the period 2008 to 2010. Most of the R&D takes place in Israel, but the investment also covers clinical trials, regulatory approval and the marketing to prepare the future market launch. Companies in France, Austria, Germany, Hungary, Italy, the UK and the Netherlands are involved in the process.

At the end of 2008, total lending under the Bank's risk sharing facility had reached about EUR 1.5bn in support of 15 highly innovative transactions, EUR 1bn of which concluded last year. Over time there has been a relatively balanced spread of RSFF lending over the life sciences sector, energy, engineering, ICT investment and risk sharing credit lines to financial intermediaries supporting high-tech SMEs.

Investment in important renewable energy technology promoting the international competitiveness of a European wind turbine manufacturer was supported at Gamesa's facilities in Pamplona, Spain. For this operation the Bank also used its risk sharing facility which, especially at the time of the credit crisis, has been a cost-effective solution for Gamesa, a private company with a leading edge in its area of activities.

At the end of 2008, in response to the financial and economic crisis, the EIB also set up the European Clean Transport Facility (see also briefing note EIB support for EU energy objectives). Under this facility, which currently amounts to EUR 4bn per year, the Bank supports investment projects targeting RDI in emissions reduction and energy efficiency in the European transport industry. It covers the automotive industry – both car manufacturers and suppliers – railroad, aircraft and shipping industries as well as related infrastructure. This is an area in which the EIB is already active, but the special lending envelope to stimulate investment is new.

One of the first companies to benefit has been the Italian firm Piaggio & C spa, which received EUR 150m for research, technical innovation and product development relating to safer and environmentally friendly motorcycles and scooters as well as light commercial vehicles. The EIB loan is helping Piaggio to avoid a slowdown in the development of innovative and eco-friendly solutions for urban mobility at a time when long-term financing is not readily available in the market.

Application and diffusion of innovation

Enabling high-speed mobile broadband and phone coverage together with a network capacity upgrade in Hungary has been supported by a EUR 200m EIB loan to Magyar Telekom. Access to efficient telecom services is an important factor contributing to economic growth in convergence regions such as Hungary. The rural component of the project will lead to investment in areas where normally no network deployment would be made due to poor financial returns.

For further information on the EIB, visit its website www.eib.org.

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