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Subject : "Innovation 2000 initiative" one year after  
- Progress and perspectives in implementation

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In the framework of the preparation of the forthcoming European Council Meeting in Stockholm, I am pleased to send you as agreed the status report to the European Summit on progress under the EIB's "Innovation 2000 Initiative".

(Complimentary clause)

(s.) D. de Crayencour

<sup>1</sup> This document was forwarded to the Council Secretariat in English only.

## From Lisbon to Stockholm: The EIB's "Innovation 2000 Initiative" one year after Progress and perspectives in implementation

### Summary:

- i2i is able to give a substantial push to the emergence of the European knowledge-based economy and information society, as well as to support the creation of competitive and stable employment opportunities.
- The implementation of i2i is well under way in the Member States, and the reform of the EIF in 2000 and the creation (under preparation) of the EIB's Structured Finance Facility in 2001 should further help in that context.
- Special efforts during 2001 are in particularly needed in the new fields for EIB operations, like R&D and the media sector. Preparations are progressing and a strong pipeline is building up.
- The extension of i2i to the Accession Countries should give additional impetus to the programme as well as provide it with an additional regional development dimension, as well as with a pan-European perspective.

### I. Introduction

1. In the Lisbon Summit Conclusions, "...the European Council welcomes the contribution that the EIB stands ready to make...with the "Innovation 2000 Initiative"...". In the following Summits, the Council underlines its continuing interest: in the Feira Conclusions it "welcomes... the rapid implementation (of i2i) and calls on the Bank to pursue its efforts...", and in the Nice Conclusions it "takes note of the first results of the EIB's "Innovation 2000" initiative."

This brief document takes stock of progress and perspectives in implementing i2i one year after its creation.

### The main components of the EIB's "Innovation 2000 Initiative" programme

2. This initiative is the Bank's contribution to the emerging knowledge-based economy and information society in Europe and an integral part of the "Lisbon strategy". It implies a shift in EIB lending towards innovation-rich projects and focuses on five key components:

- **Education/Human Capital**, contributing also to the eEurope Action Plan and to eLearning;
- **SMEs and entrepreneurship**, in cooperation notably with the reformed EIF;
- **Research & Development**, supporting the creation of a European research area;
- **Information and communication technologies and networks**, a vital backbone for the other components;
- **Diffusion of innovation**, including in the field of the content industries.

3. The EIB Group implements the i2i initiative through **financial instruments**, i.e. through loan operations, as well as risk capital funding for SMEs (through its specialised subsidiary, the EIF). The finance thus mobilised over a period of 3 years supports viable investment projects that are particularly prone to drive innovation and the capacity to innovate. These in turn are expected to promote productivity and competitiveness of European industry and services, and thus stimulate employment creation in the Union.

### One year after Lisbon: Progress achieved in implementing i2i

4. The Bank's Board of Directors approved i2i in May, 2000, and the Board of Governors did so in June. The programme includes a **dedicated lending envelope** of 12-15 bn euros. The Governors further approved both the reform of the statutes of the European Investment Fund, and agreed to release a second billion euro out of the EIB's annual surpluses over the next years, of which 500 million were directly made available out of the 1999 surplus. This allowed to **develop the EIF into the specialised instrument of the Bank's involvement in risk capital operations** and provided it with the necessary resources to fulfil its part under i2i.

5. In terms of concrete operations, a total of 26 projects worth over 2.5 bn were approved since May 2000, and many of them have already been signed, in part or in total. Almost one half of the projects are located in the Union's assisted areas, often in objective 1 regions, namely in Spain, Eastern Germany and Greece. To this must be added another 100 m of committed EIF participations in a dozen venture capital funds in the second part of 2000.

But i2i is not only statistics; more important is that it entails new fields of EIB activity and cooperation, notably with Commission services. The following sums up progress in each key area:

6. **Education/Human capital** has been among the EIB's fields of operation since the Amsterdam European Summit (June 1997). In general, the related projects contribute to a labour-intensive sector, and more importantly help raise the level of skills and education, enhancing the society's innovative potential and the EU's overall effort to push eLearning. Through i2i, the EIB's involvement focuses on the modernisation of schools, in particular in the university field, where the supported investments typically cover teaching functions as well as R&D activities. Among the recently approved or signed projects are in particular a modernisation programme for universities and technical colleges in the Valencia region and the Saarland, the university hospital of Leipzig, the Kapodistrian University of Athens and the Sodertorn university college in Sweden. In the UK, PPP-type arrangements covering the modernisation of schools in the Sheffield and Glasgow areas are supported by EIB. The pipeline under assessment contains modernisation works with other universities, university hospitals or technical schools.

7. **SMEs and entrepreneurship** as a key area of i2i relates notably to **venture capital** operations. The reform of the EIF in 2000 cleared the way for a rationalisation of the EU's venture capital activity. The EIB became the majority shareholder of the EIF, which maintained its tripartite structure, and transferred its existing risk capital activity to the EIF. The investment capacity of the EIF has been multiplied through the reform, and the investment target of the Fund, for 2001, is in the range of EUR 750 m, for investments in around 40 venture capital funds. At the end of 2001 this may represent a total venture capital portfolio of around 160 funds. The current portfolio already covers a wide array of individual operations, both geographically and when looking at the target SMEs: Approved operations since September 2000 include the support of business angels, of incubators, several technology-oriented funds (part of them blending public and private funding sources, or having close links with universities) in the field of biotechnology, internet convergence, and also for the first time in "content industries" (through a Finland based venture capital fund), as well as a new pan-European operation in the food & agrobusiness field. Furthermore two operations providing EIF guarantees to lending in the area of microcredit were launched in the framework of the EU-sponsored "Multiannual Programme for SMEs"; it provides 350 m of venture capital or guarantee instruments managed by the EIF. In its main field of SME lending, the EIB has further stepped up during 2000 its finance through the instrument of **global loans** and is now contemplating, in cooperation with the EIF and potentially also with the Commission, to combine SME lending with risk-sharing mechanisms, to offer wider finance options to intermediary banks involved in SME finance.

8. **Research & Development** is, contrary to the previous key areas, a relatively new field for EIB lending. Therefore, the first year of i2i was mainly devoted to increase the relevant sector expertise, develop a marketing approach and identify the existing cooperation potential with the Commission. As a result, the first concrete operations with industrial companies heavily involved in high tech and related research have now been identified, two projects have been approved (in the microchip and biomedical sectors) and others are under consideration, including in the increasingly important biotechnological sector. Furthermore, the potential for cooperation, including co-finance, with research operations supported under the 5<sup>th</sup> and the 6<sup>th</sup> Research Framework Programme (currently under preparation) has been analysed in some detail between the Bank and the Commission. The perspectives are encouraging and should lead, in the next few months, to the preparation of a cooperation agreement identifying key areas and types of cooperation, including an appropriate combination of grants, loans and/or venture capital resources.

9. **Information and communication technologies and networks** refer to the various forms of advanced telecoms and digital TV networks that constitute the logistical backbone and catalyser of much of the information society. The related investment (and financing) needs are large and the Bank is involved in selecting promoters and projects that in its view contribute best to the development of modern ICTs, in particular also in assisted areas. Accordingly, loans worth about one billion have been approved or signed, for projects related to broadband transmission and access in the local loop, notably in Spain, Portugal, Italy and the UK, and a strong pipeline for new operations exists. The Bank's selection rests on a balanced consideration of three basic criteria for individual projects: innovation, competition and non-exclusion (in addition to the financial solidity of the promoter). Therefore, EIB lending supports in many cases newcomers on a specific market. This balanced view seems most appropriate to contribute, through loan resources, to the aim defined by the Lisbon Council "...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...".

10. **Diffusion of innovation** is the last key component of i2i. It often relates to one of the other core areas, and encompasses a number of demand-side activities designed to widely spread and apply innovations, like in the field of "healthcare online" or "public administration online". A particular role in the diffusion context is played by the European content industry, and the EIB has therefore launched last December a special sub-programme called "i2i-audiovisual". It aims at supporting, also in cooperation with the Commission, investment in the content industries (film/TV, other media) and thus developing a sector which, even through being an important diffusion and employment pole, still remains largely oriented at fragmented national markets and lacks a truly European stature. The first approvals under i2i (totalling 270 million) cover new TV studios and equipment in Denmark, as well as a participation in a Finnish venture capital fund oriented specifically at firms in the content industry sector. Other operations relating to the audiovisual or the wider TIME (telecom-internet-media-entertainment) fields are in the pipeline, including interventions aiming at SMEs and at investment by larger public or private companies active in audiovisual production and distribution.

#### After Stockholm: Widening the perspectives for implementing i2i

11. It is natural that the implementation of i2i has so far been more rapid in those key areas where EIB had already been involved in the past, like education, ITC and venture capital. There the Bank was able more rapidly to refocus its marketing and identify innovative projects; accordingly, the main part of approvals and signatures to date were registered in these sectors. In comparison, EIB used to be little present in the R&D or media fields, and it therefore took some more time to identify suitable projects in an often complex environment, and bring them up to an operational stage. But the necessary cooperation lines are now under way, market knowledge has been built up and a **strong and balanced pipeline of projects** worth loans of about 4-5 bn is **coming on stream**, including in the "new" areas. It is therefore expected that in 2001 a significant amount of i2i operations will come to maturity in the R&D and audiovisual activities, as well as in the other key areas.

12. But Europe does not stop at the Union's border, and the Bank therefore considers it as one of its prime objectives to help preparing the Candidate Countries for Accession. These efforts must also aim at enabling the Candidate Countries to increasingly fill their role in a pan-European information society. Therefore, it is an operational objective for EIB (and EIF) to rapidly roll out **all lending possibilities under i2i to the Accession Countries**. Accordingly, the Bank and the Fund will during 2001 undertake the necessary marketing efforts, identify suitable projects, assess them and bring them up to approval and signature state. In order to do so, the Bank does not need to start from scratch: The annual lending volume in the Accession Countries now stands at some 3 bn p.a. (over 11 bn since 1995) and covers a relatively wide array of sectors, from e.g. modern telecommunication networks to SME finance. The first operations in the education/human capital sector are already under assessment, and over the next few months an initial pipeline in fields such as venture capital, R&D activities or the audio-visual sectors should also be identified; a first venture capital operation was indeed already concluded by the EIF. In the final outcome, one of the measuring rods when evaluating the Bank's implementation of i2i will therefore not only be the sufficient coverage of objective 1 or 2 areas by individual operations, but also of the Accession Countries.

13. These are ambitious objectives, but the Bank is gearing up to meet them.

- The **reform of the EIF** as well as of the Bank's lending structures in 2000 was a first step into this direction (cf. 7 above).
- Another innovation, though not strictly speaking limited to i2i, is the **introduction of the Structured Finance Facility** in the course of 2001: It is a special facility for the financing of higher-risk investment projects which, once approved by the Council of Governors and fully deployed in operational terms, could cover an annual volume of 1.5 to 2.5 bn of EIB lending.
- The Bank furthermore intends to **develop cooperation schemes** under i2i: this includes the banking and venture capital sector in the Member as well as Accession Countries, the Commission services (notably in fields like regional development, R&D or audio-visual activities), the national and local authorities, as well as the other multilateral financing institutions.

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