

EIB Forum  
Helsinki 27-28 October 2005

**Philippe Maystadt**

President of the EIB



Lisbon Strategy – Closing Europe's Innovation Gap

Ladies and gentlemen,

It is my pleasure to welcome you to this year's EIB Forum! Our topic is the European Unions' Lisbon strategy and especially how to make Europe's economy more innovative and competitive.

You will recall that the Lisbon European Council in 2000 set itself the ambitious goal of creating "the most dynamic knowledge-based economy in the world by the end of the decade", with a new competitiveness, powerful economic growth and increasing employment. This year's mid-term review of the Lisbon strategy has raised doubts about Europe achieving this far-reaching objective. True, some Member States have been successful, notably the smaller ones, but on balance the results have been rather disappointing. There are numerous reasons for this: perhaps we were trying to do too much at once; perhaps we did not set clear enough priorities; perhaps the respective tasks of the European Union and the Member States were not clearly enough defined. But above all it seems that a large number of our citizens were not sufficiently aware of the fact that reforms to our product, services and labour markets, social security systems and tax regimes, along with redoubled efforts in the areas of training and research, are essential if we wish to maintain our standards of living in the future. This makes reforms politically risky for governments, obstructing their ability to take the necessary steps.

No European government questions the need for the Lisbon strategy. So in order to move ahead we must now mount a massive information campaign. We must persuade the citizens that in a rapidly changing world Europe also has to change and adapt to new international competitive forces. And then Europe's governments and the Union will have to clearly focus their political action on the Lisbon objectives, follow up their words with deeds and make available the necessary resources by saving in other areas.

We will only be discussing part of the Lisbon strategy at this EIB Forum. The main focus will be on investment in education, research, development and innovation, as this is the key to Europe's future competitiveness, growth and jobs.

We are all aware that the European Union as a whole is lagging behind the United States in all these areas of investment. We spend substantially less on university education than the US or even Korea. Our spending on research and development is markedly below that of the United States or Japan - and that is particularly true of R&D spending by the private sector. It is difficult to measure and compare Europe's capacity for innovation, but we know from our every-day experience that too few major players in the high-tech sector are European. As I said, this applies to the European Union as a whole. I am well aware, of course, that when it comes to training and research the Scandinavian countries are consistently ahead of the pack, both within the Union and in comparison with other economic areas, and are especially powerful innovators. The European Union can learn from the Scandinavian countries. And we must all learn from one another, because alongside competition from the United States and Japan we are facing increasingly fierce competition from "emerging Asia". The up-and-coming Asian countries will not longer compete only on the basis of their lower wage costs but also increasingly by virtue of their technical expertise and highly trained scientists and engineers.

The European Investment Bank Group is committed to providing sustained support for the Lisbon Strategy in the form of long-term EIB loans and venture capital from the European Investment Fund. We have already come a long way down this road, and will undoubtedly honour our pledge to make EUR 50 billion available for investment in education, research and innovation during this decade. This is a major step for the EIB – because of the size of its commitment, but even more so because it is entering new territory: it is gradually complementing its traditional financing of tangible assets such as infrastructure with the financing of intangible assets – by which I mean knowledge and human capital.

I would like to briefly outline the EIB Group's support for the Lisbon strategy, which is known within the Bank as the Innovation 2010 Initiative or i2i: The four planks of this programme can be outlined as follows.

**First**, we started from the premise underlying the Lisbon strategy, namely that transforming Europe into a leading knowledge-based economy requires a considerable improvement in the Union's innovative potential. Accordingly the EIB committed itself to financing **research and development** projects. This first financing area covers a vast domain, ranging from fundamental research undertaken by universities to applied research done principally by private sector businesses. Since the launch of this activity in 2000, the Bank has signed loans for more than EUR 14 billion under this heading. One of the EIB's objectives is to support the Union in its R&D efforts, and not to replace other sources of financing. Thus the EIB has provided loans to companies engaged in advanced R&D programmes and to technological research centres (nanotechnology, optics, biotechnology, etc.) as well as for the creation of regional science parks that encourage the clustering of innovative industries, often around universities.

---

**Human capital** forms the **second** plank of our programme, its objective being to improve the employability of European workers and enable them to acquire the skills that a modern knowledge-based economy calls for. The bulk of our loans in this area (more than EUR 8 billion since 2000) has been directed towards the enhancement and technological upgrading of university facilities. Examples include financing for the modernisation of higher education establishments in some ten Member States, generally in close cooperation with the local authorities – as in, for instance, a number of German Länder and Spanish and Italian regions. This investment should make for a better quality of higher education in the Union.

But offering better educational infrastructure is not enough. If we wish to improve the capacity of Europe's citizens to make their way in the world of tomorrow, it is also important to help them to gain access to higher education, especially in the scientific fields. The EIB has offered its support in this area – experimentally – through the financing of loan programmes for students attending engineering schools in Italy and Hungary.

The **third** plank of our i2i programme is development of **information and communications technologies** (ICTs in our jargon) and dissemination of their use throughout society. The EIB's loans (more than EUR 7 billion since 2000) are aimed at supporting the development of more efficient and faster communications networks, such as broadband. Nevertheless, building better communications networks are only part of the strategy. Realizing the full benefits from the new technologies depends critically on the diffusion and application of these technologies throughout the whole economy. A substantial gain in economic efficiency can be achieved only if more traditional sectors take advantage of the improved communications and information infrastructure. Hence we are financing the establishment of e-commerce platforms, for example in publishing and tourism. Similarly, the creation of new services on the back of the new infrastructure is equally important. This is particularly true of the health sector, where we are financing integrated information and communications systems.

The three types of activity just discussed can be financed by long-term EIB loans featuring maturities of longer duration than commercial banks can normally grant. Nevertheless, an innovative enterprise cannot be wholly funded by conventional borrowing, since innovation is inherently high-risk. Numerous projects founder and only some of those successfully completed generate profits, though these can at times be enormous. This characteristic calls for a kind of financing based on equitable risk-sharing. Hence the **fourth** plank of i2i: after the Lisbon Council, the European Investment Fund (EIF), whose shareholders are the EIB (62% of the capital), the European Commission (30%) and various European banks (8%), became the EIB Group's **venture capital** financing arm. The EIF backs innovative companies and promising SMEs through specialised venture capital funds, often with the participation of regional public authorities. With a portfolio of participations totalling more than EUR 3 billion invested in some 200 funds over the past four years, the EIF has become the leading provider of venture capital for start-ups in Europe.

This has given you a brief overview of the EIB Group's support for the Lisbon strategy. And I wish to stress that, wherever synergies are possible, we always work very closely together with the European Commission and the banking sector, in appraising and co-financing suitable projects, and in developing new financing instruments, in particular through risk-sharing facilities. If, as proposed yesterday by President Chirac, our shareholders – the EU Member States – would agree to commit additional resources in this direction, we would be ready to take up the challenge.

As a final remark I would like to stress that creating a more innovative Europe is not only a question of financial resources but also of organisation and microeconomic reforms. We need universities that compete with one another for the best students and for research funding. Research funding must be deployed as effectively as possible at European level. Research results and innovations must be protected economically by a European patent. Non-European research scientists must be able to work in Europe without barriers. All these things are essential if we wish to reap the benefits of an increased investment drive. Additional resources for R&D and innovation are certainly needed but complementary measures are also needed. Without such complementary measures, additional resources alone may fail to have a tangible impact on economic growth.

Ladies and gentlemen, the EIB Forum 2005 should provide an opportunity to reflect further on the challenges ahead and on what needs to be done in order to make Europe more innovative and competitive. Given the eminence of the speakers and delegates and their wealth of operational and academic expertise, I am sure that you will find the next two days of discussion a fruitful experience.

I therefore wish you a rewarding Forum!

Thank you for your kind attention.