

As the EU's financial arm, the European Investment Bank (EIB) finances capital projects to promote EU policies. With its eEurope action plan, the Commission is now addressing the New Economy and encourages the development of the Information Society. *Sigma's* BARBARA JAKOB spoke to **ADAM MCDONAUGH, CHRISTOPHER HURST** and **PATRICK VANHOUDT** of the EIB to find out more about the measures taken to adjust to current Community policy developments.

EVOLUTION rather than REVOLUTION

What is so new about the 'New Economy' that justifies so much interest in this topic? Christopher Hurst, Head of Division of the Chief Economist's Department at the EIB, tries to provide an answer: "Europe is asking itself why it is falling behind the USA in terms of sustained economic growth that lasted for around a decade there, representing a much longer business cycle than usual.

"This continuous US growth coincides with the take-off of computer technology and the Internet boom in the mid-nineties. What's more, at the micro-economic level, companies are re-organising themselves in an unprecedented way with outsourcing, networking arrangements, and so on. The Internet is, clearly, opening up the market for business and contributing to better competition and higher growth.

"Against this background, Europe, of course, wants to understand the factors behind such growth and is asking itself what it can do better in the future." In

response, the EIB implemented the Innovation 2000 Initiative that focuses on the knowledge-based economy.

Under the initiative, the EIB expects to lend 12 to 15 billion euro over the next three years for investments in the promotion of the Information Society, research and development, innovation and competitiveness as well as human capital.

A qualitative shift

"It is not a programme in the sense of a fixed budget line being allocated to this initiative, nor are there special instruments or special terms being offered. Rather than a dramatic change, it marks a qualitative shift of emphasis in the EIB's normal activities", Adam McDonough, the EIB's Head of Media Relations, explains.

"Because of its mandate to finance capital investment that promotes the European Union's economy, the EIB gets involved in a broad range of activities. We have funded telecom networks, R&D and advanced technologies already, well

before the Innovation 2000 Initiative. This programme marks an evolution of what was done before."

"It is more an acceleration of interest rather than something that started completely from scratch", Hurst confirms. "Our mandate is to fund projects of common interest or support regional development activities. Insofar as IT becomes an integral part of these goals it obviously becomes our interest as well. It is not something

beyond the broader mandate, but rather something that supports a harmonious development within Europe."

Following this "shift of emphasis", as Hurst and McDonough call it, the EIB intends to channel financing into five areas:

- ▶ **Human capital formation:** financing the provision of computing equipment for schools and universities and also offering loans to support IT training centres.



Christopher Hurst, Head of Division, Chief Economist's Department, EIB

► **Research and development:**

co-financing public or private-sector research programmes, corporate investment in R&D, research infrastructure, centres of excellence and measures enabling SMEs to access research programmes.

► **Information and communications technology networks:**

financing trans-European broadband, multimedia networks, and physical or virtual infrastructure providing local access to such networks, especially in the Union's less advanced regions. The Bank will focus its lending in this field on innovative technology projects such as ADSL, xDSL and UMTS¹.

► **Diffusion of innovation:**

financing 'on-line healthcare' services and the use of information technologies to bring Europe's citizens closer to local authorities and public services; helping to

equip companies, especially SMEs, with advanced information technologies.

► **Development of SMEs and entrepreneurship:**

strengthening venture capital support (via the European Investment Fund – EIF) for the development of innovative SMEs, fostering science parks and company incubators, and launching new products tailored to the business of very small enterprises.

Sound statistical basis

The successful financing of capital projects depends on a number of factors, one being a sound basis of statistical information. The first set of information required relates to project appraisals. The micro-level data used to consider the various projects come from a variety of sources, including the sector specialist who knows where to draw information

for a specific small sub-sector, industrial organisations and the project promoter himself.

The second set of information, i.e. macro-economic data, is used to understand the changes within the economy and the role of the New Economy within this development. For this the EIB relies mostly on Eurostat and OECD data.

For Patrick Vanhoudt, statistics are daily bread for his work as lead economist for regional development research within the Chief Economist's Department: "We do have physical indicators at our disposal: the number of computers per worker, the number of mobile phones in a given country, etc."

Investment or expenditure?

"When it comes to investment data, however, my first observation is that the dou-

ble dots for 'data not available' predominate. It is not clear from the data so far how much Europe is, in fact, investing in new technologies, IT or communication equipment."

Although, as Hurst says, the OECD and EITO (European Information Technology Observatory) make substantial efforts in collecting these data, major problems remain to be solved. "People are progressively realising that software is an investment, not an expenditure. However, national accounts have only recently been adjusted to re-classify outlays for software as investment, rather than intermediary consumption."

Linked to this issue is the question of depreciation. "If you want to know the net effect of investing in ICT you need to know how fast it depreciates", Vanhoudt explains. "With new software packages coming out every six months and a new computer generation land-

Patrick Vanhoudt, lead economist for regional development research, EIB



Adam McDonough, Head of Division Media Relations, EIB



ing on the market every year, equipment depreciates very rapidly."

"This information is vital to understand how the capital stock develops", Hurst affirms. "One euro invested in computer hardware this year may completely disappear in two years' time. Whereas if you invest that same euro today in a manufacturing plant that will depreciate over the next 15 years you will still have a capital stock of more or less one euro two years from now.

"The regional allocation of investment in a given country would also be highly desir-

able information", Hurst continues. "The national aggregate may be swamped since the activity in the ICT sector is often concentrated in certain parts of the country. Information about regional concentration and how it changes is a precondition to support the development of areas lagging behind."

Vanhoudt would also like to see a price index for ICT. "While in the US a complex system called 'hedonic pricing' is in use, we still have a very conservative system of average producer prices for these kinds of capital goods in Europe which does not

really take into account quality changes. That makes comparisons of real investment extremely difficult."

Another difficulty, typical of an emerging topic like the New Economy, is differing definitions or even the lack of any definition. The EIB's experts strongly opt for standardised international measures to ensure that apples are really compared with apples.

In addition to these basic data requirements, Vanhoudt throws some more questions on the table: "What is the impact of the New Economy

on employment? How does it affect inequalities within the EU? To what extent are these inequalities going to be reduced due to new technologies? Or do we have to face the fact that inequalities may increase?"

These questions are waiting for a response and it is up to statistics to provide some answers. ■

1) ADSL - Asymmetric Digital Subscriber Line; xDSL - Digital Subscriber Loop; UMTS - Universal Mobile Telecommunications System

Mobilising resources for crucial EU objectives

With its banking resources, the EIB supports projects which give practical expression to EU objectives. More concretely, its aim is "to contribute towards the integration, balanced development and economic and social cohesion of Member Countries," according to the EIB's website (<http://www.eib.org>). Like a bank, the EIB provides medium- or long-term loans, thus co-financing projects which help increase the competitiveness of the European economy or which support regional development. In 1999, total lending amounted to well over 30 billion euro.

Typically, a project promoter presents a project to the EIB which then decides whether the project is sound and whether the loan application is acceptable. Although no individual loan applications from SMEs are con-



sidered, their projects may also derive some benefit from funds in the EIB's so-called 'global loan' instrument. Here, an intermediary bank receives a credit line which it then redirects to small- and medium-scale projects. In this case, the intermediary bank makes the credit assessment.

The EIB's global loans, directed to the SMEs, account overall for around 25% of the bank's total annual activities.

Apart from long-term loans, the EIB has, in the past, issued a cer-

tain amount of risk capital. The bank's activity in support of venture capital financing has been expanded as part of the Innovation 2000 Initiative. However, for simplicity's sake and to better distinguish between these two completely different instruments, it was decided that risk capital management should be entirely carried out by the EIF (European Investment Fund) affiliate.

The EIF, whose capital is jointly owned by the EIB, the European Commission and commercial banks, operates as a fund of funds

participating in the capital of venture capital funds around Europe, which, in turn, support the start-up or the early-stage phases in technology companies with strong growth potential. Two billion euro are being provided as risk capital by the EIB, which recently became the majority shareholder of the EIF.

The EIB, being the EU's financing institution, continuously adapts its activity to developments in Community policies.