



Innovation Union

Funding New Sources of Growth

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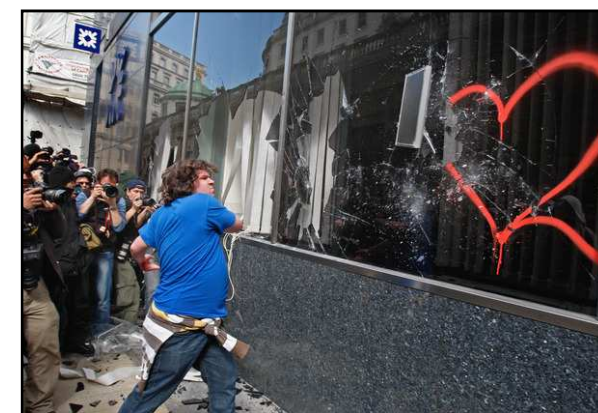
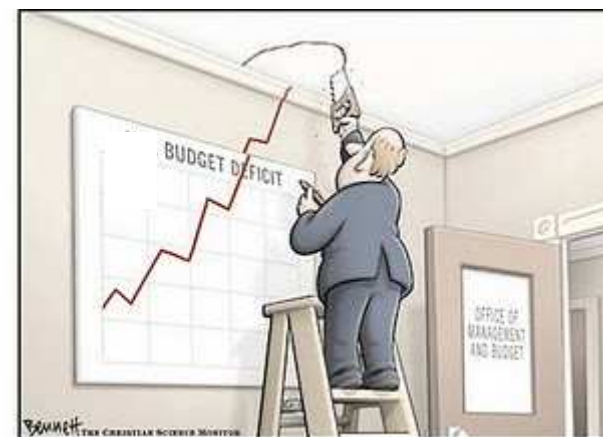
Lisbon Civic Council - Stuttgart, 21th October, 2010

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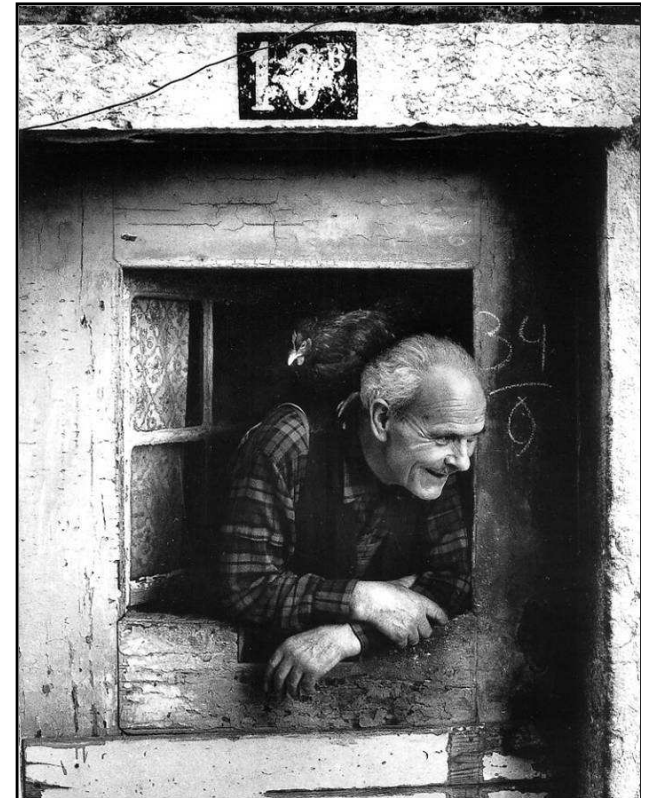
Challenges

- **Economic growth** - restarting economic growth, ensuring **long-term sustainability and competitiveness**. 2009, GDP fell by 4% . Cumulative output loss amounts to 5% across EU (3 times more than the average loss in the previous 3 recessions.) All EU states have been affected, albeit unevenly.
- **Fighting unemployment** – especially youth unemployment. Rate across Europe is 9.8%, Portugal 10,2%, highest in Latvia (20.9%) and Spain (19.3%). Oct2009, **the youth unemployment rate (under-25s) was 20.7%** in the EU27 (October 2008 was 16.2%). Spain (42.9) and Latvia (33.6%) have the highest rate youth unemployment
- **Climate change** –will require major changes: new sources of energy, new infrastructures, working patterns, methods of production and distribution



Challenges

- **Ageing population** – by 2020, 25% will be over 60. 80+ will double by 2050 - **ratio 2:1 workers to retirees**. Costs pensions, social security, health and long term care to increase by 4-8% GDP 2025.
- **Social exclusion** - due to ageing, poverty and/or cultural diversity. **New solutions needed better access** to health, care, housing and education and opportunities for learning and employment.
- **Public Sector Innovation** – growing social needs, together with budgetary constraints, call for **radically new public service models**.
- **Health** - Due to demographic and lifestyle changes, **chronic conditions leading cause of disability** by 2020. Biggest healthcare challenge: **delivering care to older people** and those with **chronic conditions**



A Brother Sense to Innovation

*“Growth, sustainable public finances, tackling climate change, social inclusion, a strengthened industrial base and a vibrant services sector are not alternatives. **We need new sources of growth to replace the jobs lost in the crisis”** ¹*

*“We must develop a **broader understanding of innovation**. The report of the Business Panel we set up to advise us on future innovation policy will be published today. I urge you to read it.” ²*

President Jose Barroso

1. EU 2020 Consultation 2. Opening speech European Innovation Summit, 13 October 2009



REINVENT EUROPE
FROM A KNOWLEDGE SOCIETY TO AN INNOVATION SOCIETY
THROUGH INNOVATION

*“We propose to base EU action around **compelling social challenges**, to finance venture and social **innovation funds**, to incentivise large scale **community level** innovations, to **transform the public sector** and to unlock the potential of new **infrastructure** and new types of **partnerships**”*



Recommendations by a Business Panel on future EU innovation policy
Supported by an online debate at <http://blogs.ec.europa.eu/innovationunlimited/>

http://ec.europa.eu/enterprise/policies/innovation/files/panel_report_en.pdf



INNOVATION UNLIMITED

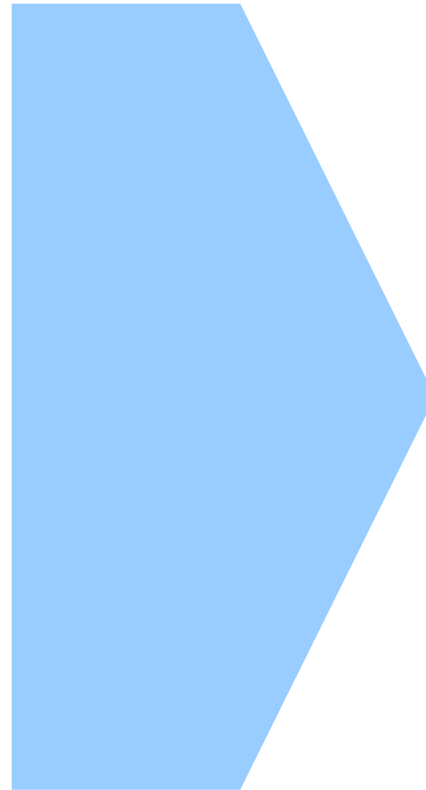
Re-invent **Europe** through innovation

Discuss, debate, share ideas here

1. Broaden the **concept of innovation**
2. Invest in **future infrastructure**
3. Innovative **financing models**
4. Speed and **synchronisation**
5. New places for **new types of collaboration**

Societal challenges

- Climate change
- Health and ageing
- Use of natural resources
- Energy security
- Clean transport
- Land use
-



- Powerful **drivers of change** in economy and society
- Major **global market opportunities**
- Requiring **EU-scale approaches**
- From **research to market**

New needs → new ideas → new markets

Innovation Union timeline

- **A priority** for EU Institutions
 - European Council dedicated discussion in December 2010
 - Council invited to meet as **“Innovation Council”**
 - European Parliament discussions
 - Innovation Group of Commissioners
- **Accelerating national reforms**
 - Self assessments R&I systems under Europe 2020
- **Tracking** progress
 - EU target of 3% of GDP on R&D and national targets
 - New indicator on fast-growing innovative firms
 - New Scoreboard of 25 indicators
- Annual Innovation **Convention**



Economic and financial context

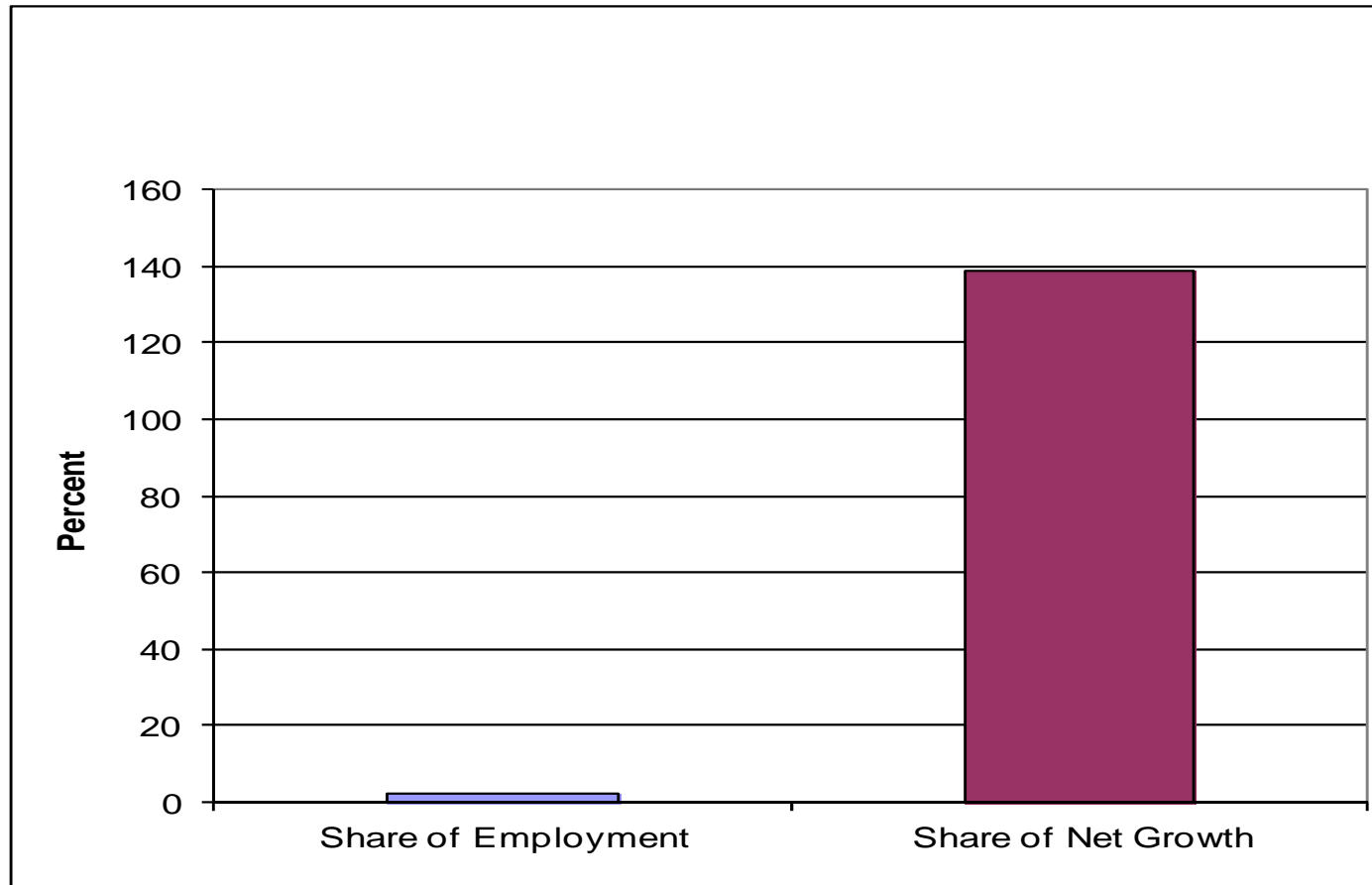
- EU lost **six million jobs**, **€1000 Bn annual GDP** due to crisis
- **Invest in future growth**: EU target of **3% of GDP for R&D** in 2020 could create a net **3.7 million jobs** and close to **€800 Bn annual GDP** by 2025
- **Innovation Union**: make the most of available resources through **leverage effects, integration and cooperation**



<http://ec.europa.eu/innovation-union/>

Who creates jobs?

Contribution of business start-ups to overall employment and the net employment growth (US, 1992-2005)



Haltiwanger, Jardin and Miranda, 2009, : Business Dynamics Statistics Briefing: Jobs Created from Business Star-ups in the United States, Erwin Marion Kauffman Foundation

New headline indicator Europe 2020: “Young Innovative firms”

- Europe is characterized by a strong deficit in term of **fast growing innovative firms**
- A **dynamic business sector** is at the hearth of growth, creativity and innovation
- New indicator “**share of young and innovative firms (YIF) as a % of the total population of firms** “ is **good complement of the R&D** intensity indicator



Niklas Zennstrom and Janus Friis,
the founders of Skype

http://ec.europa.eu/commission_2010-2014/geoghegan-quinn/hlp

New headline indicator “Young Innovative firms”

- Summarizes relevant dimensions of an innovation system
 - Framework economic conditions**: financial markets and access to credit, education, competition, bankruptcy laws, orientation of economic institutions towards entrepreneurship and dynamism.
 - Structural changes**: emergence of population of fast growing innovative firms is a sure sign that something disruptive, and positive, is happening.
 - Likelihood that a good **representation of the next generation** of very large firms, leaders in their domains, originate in Europe
- Show current **structural changes on organization of innovation** (new **division of labour** in invention activities; increasing role of **small firms**; vertical specialization and entries into new and highly focussed segments in the **upstream phases of innovation**) (D. Foray)

Lack of financial support for young innovative companies

- The **lack of growth funding** systematically rates first in all studies as the biggest problem facing high-tech high-growth entrepreneurs
- European high-tech entrepreneurs typically only raise **one fifth of the funding raised by US competitors.**
 - Lack of specialised private follow-on funding for innovation has installed a "vicious circle" making earlier-stage investments unattractive.
 - There are very deep disparities in private sector funding of innovation and entrepreneurship across Europe and its regions.
 - The fragmented market of “small cap investment”, “IPOs” or “venture capital” has failed to achieve critical mass across Europe.
 - Policies of Member States are very different and mostly not capable to **mobilize the private institutional investors in the long-term**

Lack of financial support for young innovative companies

- As a result, private investments into venture capital have hardly increased in the past 20 years and **the gap with the US has remained one to five**, despite the big role of the EIF to invest as a passive investor into 300 venture capital funds
 - Today's venture capital fund management in Europe is **too fragmented, too small-scale, and too illiquid** to interest institutional investors.
 - As Europe's institutional investors and banks are focusing on securing their stability amidst the huge financial turmoil, their interest to invest in the long-term in innovation **will remain insignificant**.
- Market-lead and competitive innovation can only widen and deepen if Europe's significant private savings can successfully be **invested profitably in the most promising companies**.

Financing innovative firms with growth potential

- **Innovation Union:**
 - **New generation of Financial instruments** with EIB (by 2014)
 - Regime for **cross border Venture Capital** funds (2012)
 - Stronger brokerage between innovative SMEs and investors
- The Innovative **Start-up Facility**
 - Commercially-oriented **reimbursable financing**
 - Loans, mezzanine instruments, guarantees and equity
 - Targets firms in **seed and start-up phases**, research-based spin-offs
- European **Growth and Innovation Facility**
 - Aims to set up **three funds-of-funds** staggered over 2014-2020.
 - These funds-of-funds will be required to attract at least 50% of their initial fundraising from private investors, and should aim for **80% private funding.**

Cohesion funds for innovation fall short of their investment targets

- Regional as opposed to national growth divergence remains a characteristic of European growth over the last decade.
- Cohesion policy's investment for innovation and research (2007-2013) amounts to **€86 billion** (compared to € 50 billion for FP7) out of a total of € 343. (2000-2006 : € 26 billion)
- Dramatic increase in structural funds for RDI has led to **a large proportion of cohesion funds not being used** (estimates vary from 50 to € 100 billion) particularly in less developed regions
 - The current sovereign debt crisis is likely to exacerbate this problem.
 - For less developed euro-zone regions, cohesion policy's investment in innovation and research appears the **only instrument left to catch up**.
 - The EC has too little influence on the quality of the structural investments in RDI, there is only ex post audit and other management control.

Need rethink Cohesion Funds for innovation

- Need to re-assess the nature of **regional specialization**.
Innovation regional level is all about collaboration, leadership in making people participate in new challenges (**social capital**)
 - At the moment the opposite is the case. European investment in innovation at regional level is managed through regional “management authorities” primarily concerned in terms of **accountability and control**.
- Need to rethink grant funding under the Cohesion Fund in RDI as part of a new form **Risk-Sharing Financial Facility**. Current RSFF between FP7 and EIB should be expanded to cohesion funds RDI
- Such a new form of public-private partnerships between use of **European budgetary resources** (structural funds) and the use of **private, loan based resources** (through the EIB) would raising significantly the effectiveness of European regional

Prof. Luc Soete

**Europe is not investing effectively in the infrastructure,
needed for 21st century innovation**



European Future Oriented Infrastructures...

- Europe is still putting most of its infrastructure investments as it did in the 19th and 20th centuries
- If Europe has leadership ambitions, must act decisively to lead the on **next generation infrastructures and services**
- The recently approved **Digital Agenda has ambitions goals** , namely
 - Basic broadband to all Europeans by 2013
 - Access to 30 Mbps or above by all Europeans by 2020
 - 50% or more of European households subscribe to internet access above 100 Mbps by 2020
- For these goals to be achieved, Europe needs to **mobilize major resources on infrastructure and innovative services.**

... Requires Specific Funding Initiative

- Traditional telecommunications companies inherited the current infrastructures and are **not wired to invest in long term infrastructure**
- The financial crisis has totally **dried-up financing for infrastructure projects**
- European telecom companies are increasingly buying from Chinese suppliers, since they are able to offer 100% CAPEX funding with the back of China Development Bank.
- Europe needs to create **Next Generation Infrastructures**
Funding mechanism (Bonds in context forthcoming Budget?)

A major development of the EIB

- Europe's **best kept secret**
 - European Institution, created by the Treaty of Rome in 1958 to **provide long-term finance for investment projects** promoting European integration.
 - Policy driven but project based**, the EIB complements the financial sector, has excellent reputation and provides unique value in current context: i) volume, ii) maturities, iii) attractive financing conditions and iv) credibility
- **EIB ideal funder of long term infrastructures**, mobilizing private and Structural Funds investment to build Europe's competitiveness.

EIB to become European Innovation Bank

- The EIB finances a broad range of projects in energy, infrastructure and industrial sectors.
- All these investments should be assessed in terms of their innovation potential, making EIB **Europe's Innovation Bank**
- Next Generation Infrastructures Fund in partnership with European Commission and EIB
- Role on Cohesion Policy, on European Innovation Partnerships, etc



Use Public Procurement to boost Innovation

- EU public procurement 2155 billion Euro, **17-18% EU GDP**
- Current public procurement rules and practices obstruct innovation
 - European directives are **complex**
 - Regulations focus on legal issues, **not on goals and purpose**
 - **Limited contacts** with potential suppliers limit the scope
 - **Risks are avoided**, not managed
 - Few public organizations have a **procurement strategy**
 - Many stakeholders are involved but there is **little cooperation**
 - **Lack of incentives** for procurers and contractors to innovate
- There is **significant room for a greater use of public procurement as a tool to achieve policy objectives.**
- Public purchases can be a **boost for innovative** products and technologies in the area of climate change, energy, digital media, health services, aging and other societal challenges.

Use Public Procurement to boost Innovation

- European Commission has launched a **broad evaluation** of the 2004 public procurement directives, as a basis for **future reform**.
- Opportunity to make **public procurement work for innovation**, green growth and social inclusion by imposing mandatory requirements - as suggested on the Monti report.
- **US Small Business Research Initiative** (SBRI) interesting way to promote innovation (lead to 1800 new products yearly)
 - SBRI is not a funding mechanism, but a **pre-commercial procurement** mechanism designed to enable public sector bodies to obtain technology development to meet their needs or their policy objectives.
 - Interesting examples in Europe: UK, Sweden and Netherlands
 - A European annual investment of 1 billion. may lead to 2000 new products yearly (source: Dutch Ministry of Economic Affairs)

Public Sector Innovation



“Reforms are ultimately designed to ensure the continuation of the current model - not prompting a rethink for a 21st century public service” David Eaves, Govt2 Task Force (Canada)



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what's new with SIX



Sarah Schulman, InWithFor

"Its about working 'with' rather than 'for' people, and eventually services can be designed 'by' people"



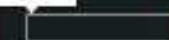
what's your social innovation?

Charles Leadbeater

from **SIX**



00:42



vimeo

SIX would like to wish everyone a great festive season, and is hopeful that 2010 will bring even more social innovations from around the world.

Merry Christmas and Happy New Year!

SIX talk (the blog)

[more six talk →](#)

upcoming events

[more events →](#)

13 May 2010

Deepening Democracy as a Way of Life.

Challenges for Participatory Democracy and

Citizenship Learning in the 21st Century.

Facultad de Ciencia Política y Relaciones

Internacionales, Universidad Nacional de Rosario

Social Innovation Funds

- **Transform the way public services** are provided, by tapping the ingenuity of people in the private sector, especially social entrepreneurs.
- Several examples in US, UK, Australia, Singapore...
- **Safes spaces to innovate** (27 Region, Mindlab, NESTA's PS Lab)
- "A **public service 'ecosystem'** of social entrepreneurs, advocates and providers is more likely to be able to respond to the challenges of the 21st century than the **command-and-control** model of the 20th (ACEVO)

Social Impact Finance: Social Impact Bonds

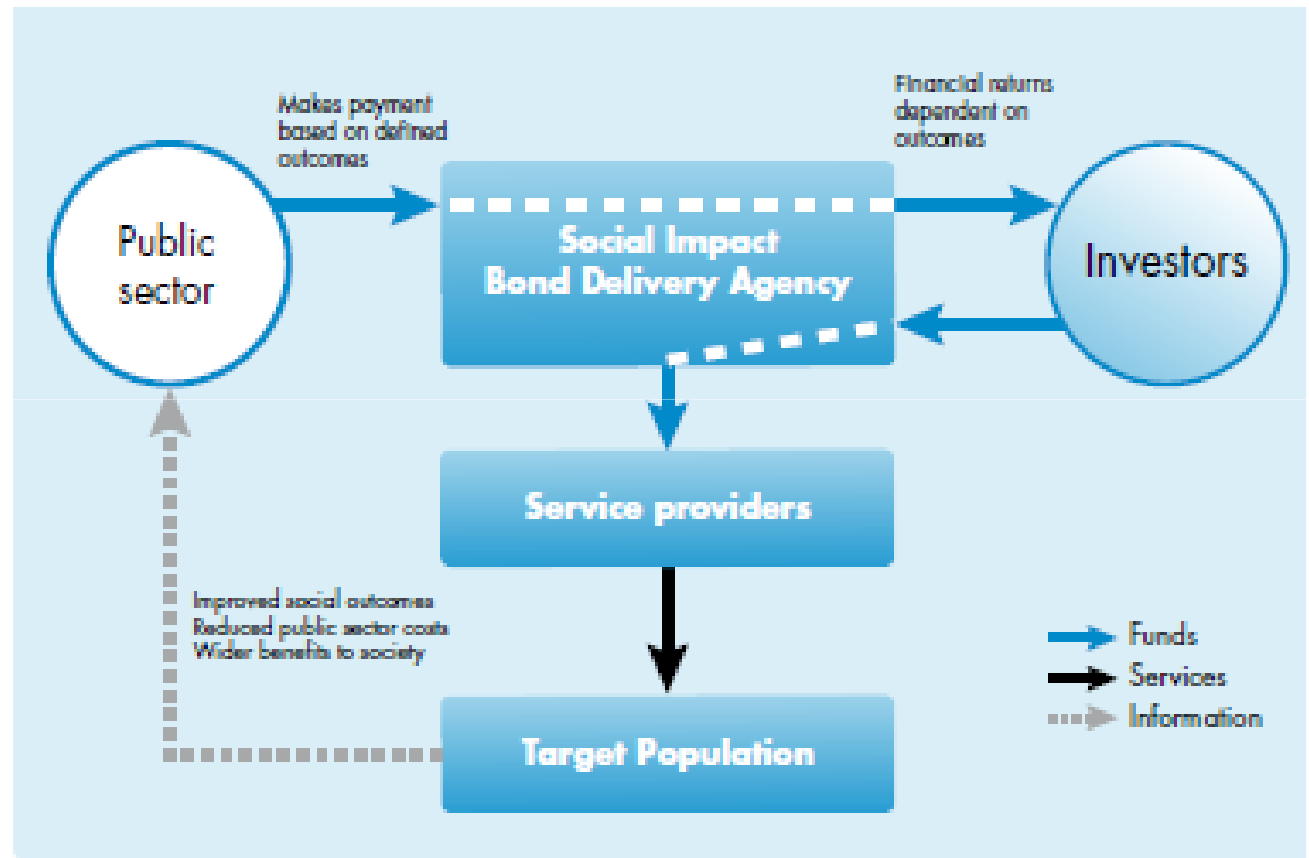
- A contract with the public sector in which it **commits to pay for improved social outcomes.**
 - On the back of this contract, investment is **raised from socially-motivated investors.**
 - This investment is used to pay for a range of **interventions to improve the social outcomes.**
 - The financial returns investors receive are **dependent on the degree to which outcomes improve.**



www.socialfinance.org.uk

Social Impact Bonds

“Drive significant non-government investment into addressing the causes of **deep-rooted social problems** with returns generated from a proportion of the related reduction in spending on acute services.”



Conclusion: a turning point?

- Innovation Union includes **major policy initiatives**
- **Short window of opportunity** (European Innovation Partnerships, new funding mechanisms, reform of Cohesion Policy, evaluation of Procurement directives, etc)
- Young Innovative Firms indicator as an opportunity to **reshape policy agenda**
- Further **institutional innovation** is needed (eg. EIB)

Conclusion: Time to Fix the Future

**A call for sustainable, entrepreneurial
and innovative growth**





THE FUTURE
STARTS
IMMEDIATELY

AFTER THE
END OF THIS
SENTENCE