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Recovery and cohesion through green and digital transformation

Europe needs to wake up to the potential for digital technologies to achieve sustainable growth. The digital revolution has already transformed industries, production processes and ways of living and working, but many of these shifts are only just beginning. Most European firms surveyed by the European Investment Bank (EIB) think that the COVID-19 pandemic will accelerate the use of digital technologies even further.

On digital adoption, however, Europe lags behind other regions, notably North America and Asia-Pacific. With the “winner takes all” tendency of digital technologies and digital platforms, Europe risks being left behind for good. After the pandemic, Europe will need a digital transformation to underpin its green transition.

The adoption of digital technologies by EU firms is growing, but it has not yet closed the gap with the United States. In 2020, 37% of European firms had still not adopted any new digital technologies, compared with 27% in the United States. There is a risk of polarisation within Europe, too, because its small businesses are creating the lag. And while some countries and regions are at the global forefront, others risk being left behind. The downside risks to jobs and growth from both automation and the climate transition are not evenly spread. In fact, some of Europe’s least developed regions are most at risk, often aggravating structural weaknesses.

But digitalisation is mainly an opportunity, not a threat. Our data shows that digitalised firms are more productive and foresee higher wages and more employment growth. By taking action to help firms, notably SMEs, to adopt the new technologies they need to thrive, we can spur sustainable growth and help close the divides that exist within Europe and strengthen cohesion.

Innovation will also be vital. Unfortunately, the United States still dominates in the sphere of digital innovation, with China – not Europe – catching up. But Europe has a chance, thanks to the green transition. Digital technologies will play a critical enabling role in the green transition, and Europe is a global leader in green innovation. We lead specifically at the intersection of green and digital, latest data showing that we registered 76% more patents combining green and digital technologies than the United States. This lead is fragile. Building on it will be critical for future

sustainability and competitiveness.

To accelerate the pace of digital innovation and adoption, we need above all three things: an enabling ecosystem, the right kind of financial support and a European vision to counter the imbalances across our Union. The EIB Group plays an important role in all three regards.

Skills and management capabilities are proving key barriers to digital adoption. Digital innovation hubs, such as those supported by the Innovation Finance Advisory service of the EIB’s European Investment Advisory Hub, can be game-changers in overcoming these barriers. At the same time, access to very high capacity digital infrastructure (i.e. 100 Megabits/second or above) is critical, not only in urban but also in remote areas. 16% of European firms say that lack of digital infrastructure is still a major impediment to digitalisation, compared to only 5% in the US. Data show that digital adoption rates are higher where local municipalities claim good digital capacities and infrastructure. The constraints facing municipalities are financial and technical, requiring the combination of advisory services with adequate financial instruments. The EIB has financed telecom infrastructure projects with €10 billion over the last four years. The Bank estimates that the total investment needed to achieve the European Commission’s goal of Gigabit Society is about €380 billion, but the market can deliver only about one third of this. An investment gap of €50 billion per year remains. This may be exacerbated by COVID-19.

Digital innovation by firms, meanwhile, requires risk-absorbing finance that is still hard to obtain from private investors in much of Europe. Here again, the EIB Group is part of the solution. We spur innovation through our RDI lending, and the European Investment Fund catalyses the Europe-wide market in equity finance and venture debt. This is just what the continent’s most innovative and growth-enhancing firms need.