



Conference on Intellectual Capital for Communities

Paris, 20 June 2005

Intangibles and Intellectual Capital in EIB Investment Project Appraisal

Jean-Jacques Mertens & Jacques Van der Meer

EIB Projects Directorate



EIB lending objectives

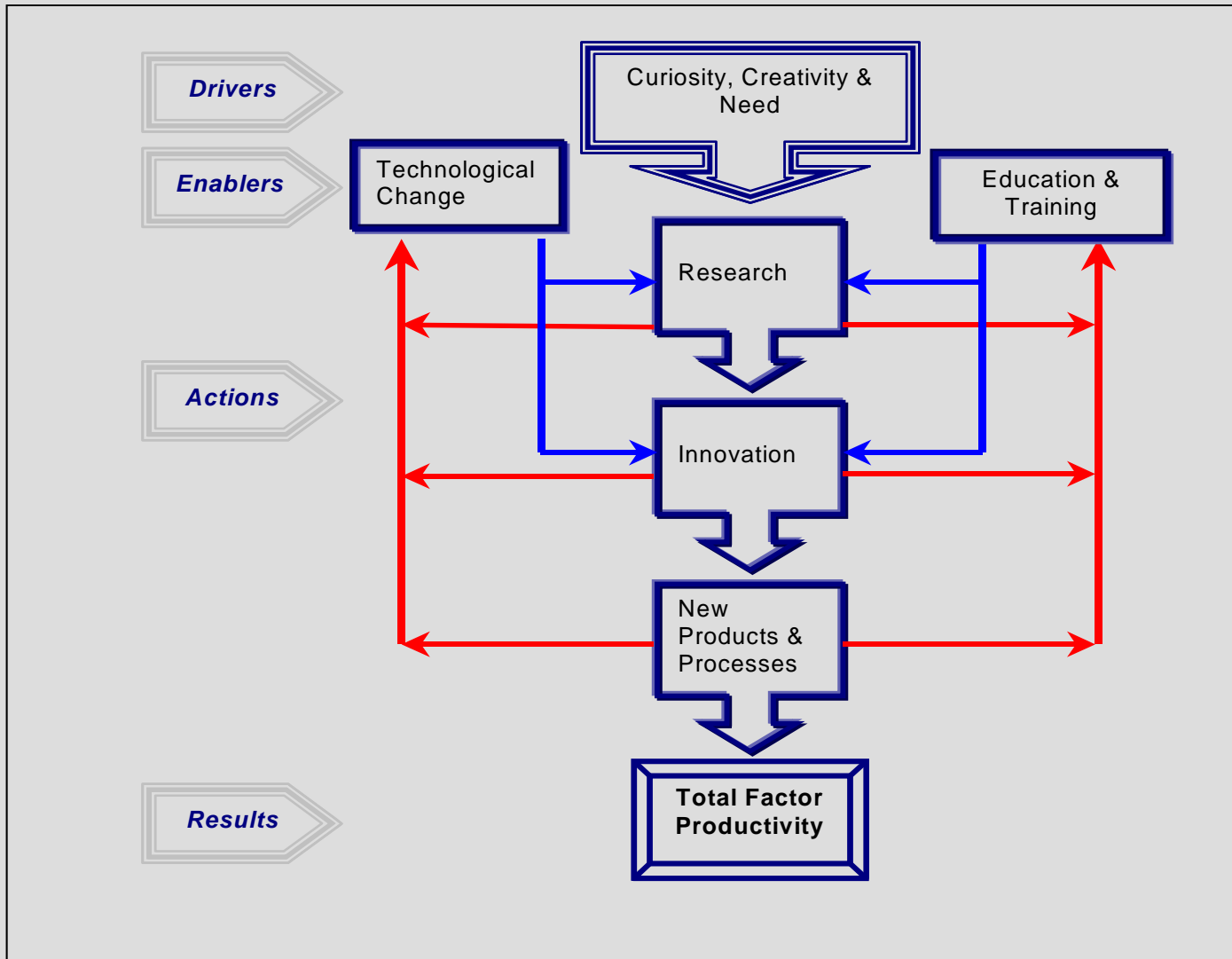
EIB objectives in EU:

- Economic and social cohesion (incl. TENs and Candidate countries) *(75% of lending in 2004)*
- LT sustainability (water, energy, environmental proactivity and remediation, climate change) *(23%)*
- EU competitiveness (KBE, RDI, SMEs) *(18% without SMEs)*

Outside EU: *(10%) (10%)*

- Support of EU development and cooperation policies with Partner Countries (ACP, Med, ALA), including FEMIP and IF

Fig. 1: EIB's Knowledge Net





Innovation 2010 Initiative (i2010i)

- Innovation is leading theme of EIB finance for the decade
- i2i was launched in 2000 for 3 years, and given its success, was then transformed in i2010i in 2003.
- 28 bn € signatures 2000-2004 (>>50 bn € by 2010)
- 2004: €7.1 bn; Edu 24%, RDI 57%, ICT 18%

Intangible Content

- R&D activities and Higher Education (creation of knowledge)
- Education (spreading of knowledge)
- Audiovisual, ICT (diffusion of knowledge)

Tangible content

- Communication networks, R&D facilities, Education hardware.



From Intangibles to IC

General

- Understand and explain differences between market and book values
- Unlock and manage hidden values (intangible capital)
- Avoid misallocation of resources

At EIB:

- Increase of intangible investment in EIB projects, further reinforced by Lisbon objectives and i2i initiative, and
- Tentatives to understand and explain competitiveness of enterprises

Have led to:

- Review intangible investment eligibility for EIB finance
- Develop methodologies to appraise how customers manage their intangible assets and activities, based on IC
- And now, IC possible valuable instrument for deepening measurement of regional development



The Meritum Concept

- $IC = HC + RC + SC$
- $IC = IR + IA$
- **IR: Intangible resources** = assets + skills = stocks
 - “Property” (=“Intangible assets”): brand, label, patent, license, trademark
 - Other: skills, organisation, procedures
- **IA: Intangible activities** = processes
 - do develop or transform existing intangible resources or do create new ones
 - R&D, training, planning, marketing, writing



Criteria for financing the acquisition of intangible assets

Criteria for defining whether an asset appears in the eligible investment cost category (an internal criterion):

1. Is the asset a public resource ?
2. has the asset been generated or not ?
3. has the asset an inherent productive capacity ?

Examples



Criteria for financing intangible activities

- As a component of a “tangible project”:
 - For instance, project preparation and engineering work, training
- As a project in itself: **all intangible activities that enhance the qualities of the resources they act upon, if :**
 - The project is an identifiable activity, with boundaries well defined;
 - Inputs and outputs are identifiable and measurable.
 - The activity is original and planned to bring economic benefits, such as new or improved products or processes

Salaries of researchers are therefore an eligible investment



Probing Intangibles Management

- What are your critical intangibles ?
- How do you measure them?
- Do you control their evolution ?
- If yes, how do you manage them?
- Do you train to manage them?
- Do you report on them?
- Do intangibles-related indicators figure among your key performance indicators
- Which methodology do you or would you follow?



Conclusions

- As well as in the economy, Intangibles are having an increasing role in EIB appraisal of operations proposed for its financing.
- Their study is helping the Bank better appraise intangible-intensive operations
- The use of Intangible Capital to assess our operations in favour of regional development is getting more attention (thanks to book!)
- Further work is devoted at spreading good practice, and later, at refining criteria on the basis of collected data.



Thank you very much
for your kind attention!

www.eib.org

www.eif.org