

# Evaluation of the National Reform Programme of Spain

## Main conclusions and recommendations



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Promoting the evaluation of public programmes and policies, developing transparency and improving the use of resources and quality of services to citizens are government priorities. Every year, the Council of Ministers approves a number of programmes and public policies to be evaluated by the National Agency for the Evaluation of Public Policies and the Quality of Services, within the scope of the functions outlined in its action plan.

On the proposal of the Minister of Public Administrations, the Council of Ministers, in its meeting of 30 March 2007, decided on the public programmes and policies to be evaluated in 2007. These included: The National Reform Programme of Spain; the administrative procedures for the creation of enterprises; the national register of greenhouse gas emission rights and the quality of services in state museums.

The evaluation of The National Reform Programme of Spain was to focus on: the effect of measures adopted for the rationalisation of pharmaceutical expenditure, the effectiveness of energy security policies, programmes to foster research, development and innovation, and the financial facilities to boost entrepreneurial activity.

**Please note that the English-language version of this text is a translation of the original Spanish-language document and is for informative purposes only. The Spanish text shall be regarded as official in all cases.**

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## 2007 EVALUATION OF THE NATIONAL REFORM PROGRAMME MAIN CONCLUSIONS AND RECOMMENDATIONS

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## **1. Introduction**

To successfully meet the challenges of globalisation and demographic change, Europe must become a modern, dynamic knowledge-based economy, open to the rest of the world, as outlined in the Lisbon strategy for growth and jobs. As part of the revised strategy approved by the European Union in 2005, the commitment of Member States to the resulting reform agenda has given rise to their National Reform Programmes. These reflect the priority areas of action of the national governments and thus the objectives set at European Union level become cemented in national objectives.

Two years subsequent to the setting up of these National Reform Programmes, the result is positive. Both in its 2006 Annual Progress Report, and its interim report to the Informal European Council in Lisbon on October 18 and 19 of this year, the European Commission considers that the reforms implemented are having a positive effect in terms of growth and employment. In addition, it reaffirmed the need for progress in the four priority areas identified: the fostering of research, development and innovation, improvement of the business environment, investment in people (education and employment), and energy and climate change.

Spain is firmly committed to the objectives outlined in the revised Lisbon strategy and its National Reform Programme (NRP) reflects this. This programme outlines the measures which should guide the economic policy of the government in the period 2005 – 2010 to meet the challenges faced by all members of The European Union. The more than 350 measures of which the NRP is currently comprised have as their main objective for 2010, full convergence in income per capita with the European average and an employment rate of 66%, almost on a par with the overall EU objective (70%). To achieve these goals, it is essential to increase the growth rate of labour productivity in the Spanish economy.

The appraisal of the European Commission in its annual reports is positive overall. Arising from the Commission's analysis of the strengths and weaknesses of the implementation of the NRP, the European Council of March 2007 has given Spain a series of specific recommendations: improvement of competition in the energy market, the reduction of job market segmentation and the need for further improvements in education and training. The Commission also requests that, during the period of the NRP, Spain concentrates on a number of priority areas, chiefly: control of inflation in the medium term, improvement of competition in retail markets, the implementation of environmental measures, with special emphasis on CO2 emissions, and increased emphasis on training.

According to the Commission, one of the strengths of the NRP is the monitoring and evaluation mechanism which facilitates its annual appraisal and revision. This mechanism includes an independent evaluation of the degree to which the NRP has



been implemented and its success. This annual evaluation is entrusted to The National Agency for Evaluation and Quality.

## **2007 Evaluation**

The Agency started its work in January 2007 and this is its first annual evaluation report. The structure of the report follows the mandate given by the Council of Ministers in March of this year: the effect of measures for the rationalisation of pharmaceutical expenditure, the effectiveness of energy security policies, programmes to foster research, development and innovation, and financial facilities to boost entrepreneurial activity.

This report summarises the main conclusions and recommendations for each of the four areas evaluated. The complete reports for each area are attached separately in order to facilitate their reading and distribution to interested parties.

A number of aspects should be emphasised with respect to this first NRP evaluation:

- The ministerial departments in question showed their interest in the evaluation and fully co-operated with the process. This enabled the evaluation to be carried out rigorously and in a transparent manner.
- Given the relationship between the implementation of public policies and the resources available for such implementation, the selection of public policies to be evaluated in a given year could form part of the parliamentary discussion of the national budget for that year.
- Success in the implementation of public policies could be increased if coordination mechanisms were improved. This is true both with respect to the National State Administration and at the level of the Autonomous Regions (*Comunidades Autónomas*).

The NRP provides an excellent basis on which to work towards the continued improvement of the planning, implementation, monitoring and evaluation processes of the policies it contains, adhering to criteria of transparency and accountability to the citizen. The aim of the Agency reports is to contribute to this process. The beginning of a new three-year cycle for the revised Lisbon strategy starting in 2008 represents an excellent opportunity to demonstrate this.



## **2. Effect of measures taken to rationalise drug spending**

Public health spending plays a key role in total public spending evolution, in particular for Autonomous Regions (*Comunidades Autónomas*) budgets. The Strategic Pharmaceutical Policy Plan (PEPF - *Plan Estratégico de Política Farmacéutica*) has been designed to achieve the objective of containing drug spending growth – one of the main reasons for public health spending growth – set out in the first pillar of the National Reform Programme (NRP).

The PEPF tackles many of the problems related to drug spending trends. It takes on board many of the recommendations made by drug policy experts to improve the quality of the service and is in line with the strategies developed by neighbouring countries to achieve the same objective. There is a new global approach to objectives and measures that focuses on the factors responsible for the growth of prescription drug spending.

The Spanish Ministry of Health and Consumer Affairs (MHCA) has made a significant effort to implement the PEPF measures, above all in terms of providing information, transferring funds to finance training activities, improving authorisation, registration and price-setting procedures, introducing electronic prescriptions and improving transparency. Most of these initiatives are contained in the Medicines (Guarantees and Rational Use) Law 29/2006 (*Ley 29/2006, de garantías y uso racional de los medicamentos*). As a result, there has been a significant increase in the number of generics in the supply of publicly-financed drugs, as well as a notable extension of the reference price system.

Prescription drug spending since the PEPF was implemented shows the effectiveness of the price-reduction and profit-margin measures in the Plan, since the moderation in spending is largely due to price containment. The trend in average spending per prescription since April 2007 also shows the positive effect of the reference price system, although the limited time that has passed since it was introduced makes it impossible to evaluate properly its effectiveness and sustainability.

The PEPF does have some flaws, however. It focuses exclusively on prescription-drug spending and ignores hospital drug spending, which represents a growing proportion of total drug spending. It is worth noting the almost complete absence of projected results and impacts, and the lack of a system to monitor and evaluate results. In addition, the fact that the measures have been mainly embodied in Law 29/2006 and many of them are pending development in regulations means that they are being implemented gradually. This affects the scope of their evaluation, especially in relation to the criteria of real effectiveness and sustainability. In other words, not enough time has passed to enable the real effectiveness of the measures already implemented to be evaluated, let alone to quantify their contribution to the results obtained.



The main difficulty for the PEPF is caused by the distribution of competences between central and regional government. The limitations on the measures affecting the scope of the Autonomous Regions can even be seen from the way that they are drawn up. Such limitations are also evidenced by the divergent pattern of spending trends, since the measures implemented to date affect all regions equally. These results suggest that rational drug use policy has been unevenly promoted, as does the fact that increased spending in the last two and a half years is mainly due to a rise in the number of prescriptions that does not appear justified by the demographic or care factors claimed to be behind such growth.

The evidence suggests that containing spending through price intervention is only viable in the short term. Further, in Spain there is little margin for controlling spending through price regulation since in Europe there is a move towards price convergence, and medicines in Spain are, on average, cheaper than in other Member States. Containing drug spending growth will depend increasingly on taking actions that affect supply (a central state competence) and prescriptions (Autonomous Regions' competence).

As for supply, measures must be developed to ensure that the selective financing principle is effectively applied. This entails drawing up a regulated procedure based on the scientific classification of the therapeutic value of medicines to be financed on a cost-effectiveness basis. With prescriptions, measures promoting rational drug use should be extended, particularly those that have proved to be effective in certain Autonomous Regions.

Therefore, the key to rationalising drug spending growth continues to be tackling the factors responsible for such growth in a comprehensive manner. The challenge is to do so in a scenario where two administrative tiers with different (although complementary) competences interact. The effectiveness of such policies will improve if the measures applied at different government levels are consistent and there is synergy between them.

In short, the Autonomous Regions need to be more involved in drawing up the PEPF. This would hopefully lead to better-defined objectives and measures. Further, the Autonomous Regions would be more committed to implementing such measures, particularly those coming within their jurisdiction.

The complex nature of pharmaceutical supply requires the policies used to improve the situation to be based on the widest possible consensus, especially among the public authorities, while also taking into account the often decisive role played by different interest groups. Promoting procedures to improve the supply of information, and negotiating with a view to obtaining the agreement of all actors involved not only help the effectiveness of policies in this area, they also make it possible to evaluate better their impact on other areas of public and private activity, thus improving the transparency of public intervention.

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## **2. Effect of measures taken to rationalise drug spending**



### Recommendation 1

The PEPF should be reviewed after three years with input from the Autonomous Regions with a view to (i) introducing objectives and measures to rationalise hospital drug spending; (ii) achieving increased participation and commitment from the Autonomous Regions in the plan's implementation; and (iii) introducing mechanisms to monitor and assess its success. The opinions and possible contributions of different interest groups in the sector could also be taken into account in this review.

### Recommendation 2

A procedure to assess the therapeutic use of medicines needs to be devised. The Autonomous Regions should be involved in both drawing up and implementing it, under the coordination of the Spanish Drugs and Health Products Agency (AGEMED - *Agencia española del medicamento y productos sanitarios*). There is also a need to design and implement agreed statistical indicators to measure prescription quality, which could be done by the Pharmacy Commission of the Interterritorial Council (*Comisión de Farmacia del Consejo Interterritorial*). Taking further steps to encourage prescription quality is a key instrument in rationalising demand.

### Recommendation 3

As with other areas of public intervention where a high degree of decentralisation exists, there is a need to put in place mechanisms to promote an exchange of good practices and information, and to make possible the use of benchmarking as a tool to judge better the results obtained in each context. The MHCA could facilitate these procedures for exchanging good practices between territories. One way forward would be to promote joint evaluation of those well-established initiatives that have been effective in a given territory, so that they can be extended to others.



### **3. Effectiveness of energy security policies**

Energy security of supply is essential to the well being of citizens and the economy. The new international energy context of rising prices and lower security of supply, coupled with cases of serious supply interruptions both nationally and internationally, confirm the need to review principal risk factors and the effectiveness of both European and national energy security policies.

Security of supply is a central strategic element of Spanish and European energy policies, along with the objectives of competitive and sustainable energy. This is reflected in the Spanish National Reform Programme (NRP), which puts forward a series of objectives and specific reform measures with respect to security of supply. These are aimed at: improving certain aspects of planning and coordination, reform of regulated tariffs and improving infrastructure and interconnections. As commissioned by the Council of Ministers, this evaluation focuses on the analysis of measures to improve gas and electricity security of supply in mainland Spain, whilst not losing sight of the close relationship between security, competitiveness and sustainability.

In line with the European drive towards liberalisation and free competition, Spanish gas and electricity sector laws have been geared to the unbundling of regulated activities (transmission system operators (TSOs) and distribution system operators (DSOs), re-gasification, basic storage of gas) and deregulated activities (electricity generation, gas and electricity marketing). It has also established an independent regulatory body, the National Energy Commission (*Comisión Nacional de Energía*, CNE in its Spanish initials). The principle of free third-party access to networks subject to the payment of a tariff is applied. Environmental regulation has, to a large extent, imposed limitations on coal plants and given rise to an increase in wind power generation and a growing number of combined cycle gas turbine plants. Increasing gas and electricity interdependence means that electricity supply, especially at peak demand, is increasingly dependent on gas plant availability.

As a result of market transformation and regulatory change, gas and electricity companies are diversifying and participating in different ways in the later stages of the added value chain. This ranges from gas extraction to the use of gas in electricity production and its subsequent marketing and can have implications in terms of market dominance and security of supply.

In addition to these context elements, energy system reliability also depends on framework elements, the individual reliability of each element of the chain (generation/storage, transmission and distribution grids), and its integrated management, planning and supervision. From the detailed analysis of each of these factors in relation to supply risk management in the Spanish gas and electricity markets, it can be observed that, on the whole, Spanish policy is in line with that of Europe and has an acceptable degree of effectiveness. Diversification of gas supplies,



projected investment in electricity generation and energy mix flexibility provide security. However, network infrastructure could be improved, particularly with respect to electricity transmission, and weaknesses include underground gas storage facilities and interconnection with France.

The main conclusions and recommendations are:

The current 10-year plan for gas and electricity sectors is a pillar of Spain's energy policy. Its main objective is to satisfy demand and plan electricity transmission networks and certain gas infrastructure elements. The fact that the plan is conceived as an implementation plan, excludes any analysis and debate with respect to key strategic questions, such as technology selection and overall system planning within a timetable more in line with infrastructure lifespan (20-30 years).

Gas and renewables play a role of growing importance in the technology mix of Spanish electricity production. There are technical production limitations on the quantity of unmanageable (high volatility) renewables that can be accommodated by the system in given time periods and limits on bonus payments affecting the cost of energy. From a security of supply perspective, this means there is a need to complement unmanageable renewables with energies that can be stored and enable rapid start up and these are generally expensive.

#### Recommendation 1

The current 10-year plan should be complemented by a long-term (20-25 year) strategy document enjoying both political and regional consensus. Taking the work of *Prospectiva 2030* as a starting point, the strategy should take an integrated overview of the system. This would include analysis of regulatory matters and the energy mix to help those implementing policy and players operating in the sector. It would clearly establish monitoring objectives, measures and indicators. Study of the technology mix should be based on a cost/benefit analysis of all currently available technologies, both with respect to reliability and their contribution to competition and sustainable environmental objectives.

The increasing use of renewables means there should be continued monitoring and reporting of system reliability mechanisms. The Committee for the Monitoring of The Technical Management of the System (*Comité de Seguimiento de la Gestión Técnica del Sistema Energético*) contemplated in the revised law of the hydrocarbons sector could include this matter in its reports.

Red Eléctrica Española (REE) and Enagas are companies with a central role in the electricity and gas systems. By law, they are the guarantors of security of supply and continuity. Regulations safeguarding the independence of the REE and Enagas units



acting as system operators reflect the legislator's concerns about potential conflicts of interest.

In the past, the plans did not provide for sufficient alarm signals in the face of supply risks. Indeed, the Ministry of Industry, Tourism and Trade (MITT) does not have sufficient technical capacity to draw up, fully respond to or supervise the plans of electricity and gas system operators. As a result, part of the political responsibility for planning actually resides with the limited liability companies Enagas and REE.

#### Recommendation 2

There should be continued progress in the design of institutional coordination mechanisms for gas and electricity system management and their information and transparency systems should be reinforced.

The MITT should consolidate its planning function on a technical level and have access to human and material resources necessary to carry out its duties independently and more extensively.

Given the central role of Enagas and REE in the system and their multiple responsibilities, they should have mechanisms of public accountability in line with their political and social responsibilities. After a period, the effectiveness of safeguard regulations to deal with conflicts of interest should be evaluated.

Although there was a problem of insufficient electricity generation capacity at the beginning of the decade, a look at current installed capacity and projected new installations suggests that this problem has been overcome. Nevertheless, the power guarantee mechanism which should have given rise to investment did not work sufficiently well.

Infrastructure development and network development in particular suffers from considerable delays due to long administrative procedures, uncoordinated action of different government levels and public opposition to building new transmission lines. Also, little progress has been made in interconnection projects with France, despite the efforts of the Spanish authorities and the European Commission.

There are imbalances between electricity generation and demand in different zones. If new generation facilities are not installed in such deficit zones, network investment costs increase due to transmission costs between zones, losses during energy transmission and congestion.



### Recommendation 3

Progress must be made with respect to the function of price as a signal for suppliers and users. Using the proposals for the reform of the power guarantee mechanism as a starting point, the new system of payment by capacity, currently under development, should provide clear, transparent methodologies and produce sufficient incentives for energy availability and investment, if it is to avoid the failings of the previous system.

Introduce a regulation (a request to prepare a proposal already exists) to provide zonal signals, incentives and disincentives to producers in order to promote the efficient location of generating installations.

Study ways to speed up administrative procedures and to facilitate the setting up of appropriate coordination mechanisms with the Autonomous Regions. This implies also the need of greater involvement of local authorities. Also, study measures to bring about greater public awareness of the necessity for electricity transmission lines.

Gas and electricity interconnection projects, particularly with France, should continue to receive the necessary political support. All cooperation possibilities with companies operating in France should be explored.

Transmission network quality, as measured by the System Average Interruption Duration Index (SAIDI) is acceptable and, broadly speaking, the grid has a high level of interconnection. That said, analysis of interruption causes shows that supervision, maintenance and updating of installations could be improved.

Most supply interruptions have their origins in the distribution grid. There is a shortage of published information on this matter but it would seem that there is insufficient grid investment. This is partly due to a tariff system which, perceived to be insufficient by distributors, fails to offer investment incentives to meet growing demand. Nor does it offer incentives to improve quality or reduce losses during transmission. The tariff system is currently being reformed to include network quality and efficiency incentives. In addition, and in order to fill an existing void, the CNE will have new tools to regulate tariffs and supervise investment in transmission grids.

### Recommendation 4

Maintain the high level of transparency on questions related to the transmission grid density and supplement it with maintenance indicators. Speed up, as much as



possible, improvements to transmission grid protection systems. Push for the supervision of REE's performance by the CNE in line with the responsibilities assigned to the latter by the recent reform of the electricity sector law (LSE in its Spanish initials)

Reform the distribution tariff system (currently in progress), so that proper incentives are introduced for transmission grid investment, quality and efficiency. Similarly, the CNE should carry out the supervision duties assigned to it by the LSE and promote the transparency of indicators to measure the robustness and maintenance of the distribution network.

Frequent changes in regulations have given rise to regulatory uncertainty, while there has also been a considerable delay in necessary regulatory reforms. Corrective action has been taken in this respect since 2004.

#### Recommendation 5

To consolidate liberalisation and competitive markets, the regulatory framework should contribute to make investor's behaviour more predictable, and incentives and price signals more stable. Any measure geared towards regulatory risk reduction will improve business the environment and will facilitate investment decisions.

An ongoing public policy accountability calls for a transparent setting up of its goals and continuing monitoring of its outcomes. This can be done by properly implementing the energy policy rationale put forward in the NRP and completing the current list of indicators to ensure proper monitoring.



#### **4. Programmes for the fostering of research, development and innovation –INGENIO 2010**

Increasing resources invested to create knowledge and improving the mechanisms used to transfer such knowledge so that it benefits society as a whole are top priorities of the European strategy for growth and jobs. INGENIO 2010, the research, development and innovation strategy, implements this priority in Spain, being one of the main pillars in its national reform programme. Its objectives are to reduce the technological gap between Spain and the rest of Europe and to achieve convergence as regards the information society.

Its design and content respond to recent evaluations of the science and technology situation in Spain. Among the most notable challenges detected are the limited level of cooperation between actors, and the poor results obtained both with respect to technology transfers and the use made of the knowledge generated by the business community. INGENIO 2010 aims to change the course of the policies implemented to date in the context of national R&D and innovation plans managed by the National State Administration (NSA). Supported by a significant budget increase, it focuses on financing large-scale research projects capable of creating cooperation between actors and fostering greater involvement by the business community. These actions are supplemented by legislative measures and the development of new instruments that seek to improve the management and evaluation of concrete initiatives, a key aspect that has been largely overlooked.

Two years on, the data available from the monitoring process show a satisfactory degree of implementation of the main strategic programmes. But it is still too early to measure the impact on the ground of a programme whose main projects, which are due to last four years, have only recently started. In addition, the establishment of the Global Evaluation and Monitoring System (SISE - *Sistema Integral de Evaluación y Seguimiento*), a key part of the strategy, has not progressed as quickly as expected, having run into problems caused by the complexity of setting up a central database for all programme managers. All of this has affected the evaluation's approach, focused on the analysis of the relevance and design aspects of the chosen measures. That said, wherever possible a more detailed evaluation of the implementation of strategic programmes has been made, trying to judge forecast results.

One weakness of INGENIO 2010, launched in June 2005, has been the very limited level of coordination with the national R&D and innovation plan 2004-2007. Over the last two years, new and already-existing programmes have co-existed, and the latter have not been able to assimilate either the new approach or the new strategic objectives. This has limited the concentration of budget increases and frustrated efforts to simplify and improve the management of an excessively complicated aid system. However, INGENIO 2010 has inspired the design and content of the National



Science and Technology Strategy (ENCYT - *Estrategia Nacional para la Ciencia y la Tecnología*) agreed by the different Autonomous Regions (*Comunidades Autonomas*) as well as the new national R&D and innovation plan for 2008-2011. These two programmes provide a platform on which improvements to innovation in Spain can continue to be built.

The proposed legislative measures are a step in the right direction and their application must be a priority. This is an area where further action is required in the future, so that the scope of the proposed measures is extended. Finally, for the future it is vital that the policy of encouraging R&D and innovation is interrelated better with the other main sectoral policies.

#### Recommendation 1

The structures of government and management within the National State Administration should be strengthened in order to guarantee the effective implementation of the new national plan for 2008-2011 within which INGENIO 2010 will be fully integrated.

To this end, the continuity of the Monitoring and Support Committee (CAS - *Comité de Apoyo y Seguimiento*), attached to the Interministerial Science and Technology Research Commission (CICYT - *Comisión Interministerial de Ciencia y Tecnología*), should be guaranteed, being mainly responsible for coordinating the national plan within its operational scope. Its functions in relation to the different programme committees should be clearly established and its hierarchical dependence strengthened. Full links between the CAS and CICYT's permanent body should be put in place. Attempts should be made to ensure a more flexible and operative set up for the latter body than that currently existing. Finally, during the implementation of the plan it is important to guarantee the full involvement of the CICYT advisory bodies responsible for liaising with the Autonomous Regions (General Council) and to ensure the participation of the scientific community, stakeholders and public authorities (Advisory Council).



### Recommendation 2

Greater priority should be given to providing the SISE with the tools it needs to do its job properly.

It is important that the autonomy and authority of the SISE governing body is strengthened, to facilitate its job of centralising and handling information and its responsibility as advisor for the continuous improvement of the system.

### Recommendation 3

The managing authorities of major projects financed by INGENIO 2010 must contribute all the resources needed to guarantee project monitoring and evaluation (interim and final). As regards *ex ante* evaluation of projects, it is important to make progress in the harmonisation of the selection criteria and the standardisation of aid approval procedures, both at national and regional level. The future creation of the State Agency for Monitoring, Financing and Foresight (*Agencia Estatal de Evaluación, Financiación y Prospectiva*), should play an important role in this respect.

Managers must emphasise the achievement of concrete results measured in terms of transfer of knowledge to the market and impact on the internationalisation of the system. On this latter point, a key indicator will be the number of Spanish companies in charge of projects within the Seventh Framework Programme. Mechanisms to identify and exchange good practices, with full involvement of programme managers and beneficiaries, should be set up for the continuous improvement of programmes. As regards identifying good practices, a key aspect is cooperation with the Autonomous Regions, an area where good examples can already be considered (Avanza Plan, I3 programme). The possibility of creating permanent bodies to guarantee the continuity of the most promising projects within the Consolider and Ciber programmes should be examined.



#### Recommendation 4

Implementing the legislative measures and improving framework conditions put forward in INGENIO 2010 is a priority, and the scope of certain key reforms should be extended. In 2008, when the new national plan begins, it would be very useful to undertake the reform of the Science Law (*Ley de la Ciencia*) with a view to consolidating and ensuring the consistency of all legislative reforms, whether under way or planned.

This is particularly important as regards the need to design a consistent research career for all research bodies, capable of both attracting and retaining the best, and of offering young people attractive career prospects. This must be combined with an increase in the level of autonomy and responsibility of universities and public research bodies. It is also essential that for 2008 the government considers extending the measures simplifying the management of R&D and innovation subsidies. Finally, the current draft of new public procurement rules should be examined in detail and a far-reaching consultation process carried out before it becomes law to ensure that the proposal strengthens some aspects related to the important role that state purchases of technology can play in boosting innovation.

#### Recommendation 5

The government should strengthen the cooperation mechanisms between R&D and innovation and other sectoral policies that directly help to achieve established targets. Similarly, the cross-cutting nature of R&D and innovation policy - in particular its contribution to the objectives of the Spanish Sustainable Development Strategy (*Estrategia Española de Desarrollo Sostenible*) - needs to be reinforced.

Policies relating to education, better regulation and reduced bureaucracy when setting up a business and the improvement of competition in services and product markets will help to achieve technological development and knowledge transfer goals. As regards the interaction and complementary nature of these policies, generally well reflected in the drafting of the Spanish NRP, this should be reinforced during the development and implementation stages. In the same way, the success of R&D and innovation policy will be crucial for Spain to meet its growth, employment and sustainability objectives.



## 5. Financing facilities to boost entrepreneurial activity

There is a risk of identifying entrepreneurs with up-and-running small or medium-sized enterprises but these are not relevant to this assessment. Up-and-running enterprises, regardless of their size, may be entrepreneurial but for the purpose of this report, entrepreneurs are people with business ideas and projects who wish to set up a company as a vehicle for such projects but whose limited capital or resources make it difficult for them to obtain finance from financial institutions in the market.

For the purposes of this report, there is an important relationship between entrepreneur and enterprise but they are two separate concepts. It is important to be aware of this distinction in order to analyse the lines of finance specifically aimed at entrepreneurs as opposed to the financing of up-and-running enterprises.

It can be confirmed that National State Administration aid, initiatives and subsidies are mainly aimed at enterprises already in existence. These companies, be they small or medium-sized would not seem to require such aid in order to have adequate financing and therefore the subsidies they receive do not appear to be justified, despite the fact that this is common practice in Europe<sup>1</sup>.

In contrast, many entrepreneurs have limited access to loans unless they can provide guarantees and security. To overcome this market failure, the mutual guarantee system for enterprises, the Official Credit Institute's (*Instituto de Crédito Oficial - ICO*) specific lines of finance to entrepreneurs and aid to technology-based companies would currently seem to be the most efficient initiatives. However, these initiatives receive considerably less attention from the National State Administration and have much lower subsidies than those available to up-and-running enterprises.

Therefore, some of the measures contained in the seventh pillar of the Spanish National Reform Programme to boost the financing of entrepreneurs and accelerate the rate at which companies are set up should be re-examined. This is because the market failure does not seem to lie in the access of up-and-running companies to loans but rather in the availability of loans to the start-up business of entrepreneurs. In any case, the market failure should be studied in greater depth to enable adjustment of intervention policies.

Existing specific lines of finance to entrepreneurs suffer from lack of direct contact with clients in some cases and scarce resources and large spread of initiatives in others. These failings could be overcome by the creation of a public-private consortium, which would have direct contact with entrepreneurs for the granting of

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<sup>1</sup> Small and Medium-sized Enterprises (SMEs) create jobs and are the biggest contributors to the economy's added value. They also give large companies flexibility in their adjustment processes. Nonetheless, this evaluation sets out to analyse lines of finance to entrepreneurs rather than to SMEs.



loans or aid, through extensive use of new technologies and a small network of offices. This body should have the capacity both to analyse the financial viability of the projects and to monitor them using private management criteria. It should have sufficient financial support from the National State Administration to assume the higher risk of such projects and it should be responsible for coordinating and managing all public initiatives to finance entrepreneurs.

In the specific area of the mutual guarantee societies, the autonomous regional governments have a very relevant role to play. Greater coordination in the intervention policies of the National State Administration and the autonomous regions would be welcome, despite the fact that a certain degree of competition between them acts as a stimulus to improve the financing of entrepreneurs.

#### Recommendation 1

Carry out more specific studies to clearly identify the market failure with respect to the financing of enterprises in order to justify public intervention and subsidies and facilitate the optimum use of resources.

#### Recommendation 2

Until there is change in current criteria with respect to the market failure, National State Administration subsidies should be aimed at those initiatives which best enable entrepreneurs to have access to necessary finance. At the moment, these would seem to be the activities of the mutual guarantee societies, the Official Credit Institute's specific lines of finance to entrepreneurs and aid for the creation of technology-driven companies.

#### Recommendation 3

Study the setting up a public-private consortium that would have direct contact with entrepreneurs, thereby overcoming the failings of existing lines of finance to entrepreneurs and coordinating these lines of finance within a general National State Administration policy. Potentially, there seems to be high demand for such a public-private consortium.



#### Recommendation 4

As the resources outlined in the second recommendation are redirected, the National State Administration units with current and future responsibility for the financing of entrepreneurs should be strengthened.

#### Recommendation 5

Finally, it would be beneficial to increase coordination with the autonomous regions with respect to the objectives, tools and subsidies related to this policy, whilst retaining the stimulus of competition between the different regions.

#### TURBULENCE IN THE INTERNATIONAL CREDIT SYSTEM

The evaluation of the financing facilities to boost entrepreneurship has been mainly carried out prior to the current turbulence in the international credit system, i.e. at a time when there was liquidity in the markets and the upward trends of the growth stage of the cycle seemed set to continue. Nonetheless, if there were a change from a situation of liquidity to one of credit tightening and uncertain economic perspectives, the main conclusions of this report would not differ and indeed might well be reinforced. The first to suffer from tighter credit conditions would be entrepreneurs incapable of offering guarantees or security.