

Support for business is a priority

By Mark Mulligan

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Soon after taking office in 2004, the main economic adviser to José Luis Rodríguez Zapatero, the Spanish prime minister, sent a team of aides into the street to try and register a business.

Most gave up within weeks, defeated by a mind-boggling maze of paperwork. Of all the challenges that Spain faces in the years ahead, most agree that making the country less bureaucratic and more business-friendly looms the largest.

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The government learned a valuable lesson from the early-term experiment, and Mr Zapatero has adopted the so-called "Lisbon Agenda" on European competitiveness as his personal guide to economic policy.

Pedro Solbes, the finance minister, early this year said the government would cut big companies' corporate tax rate to 30 per cent from 35 per cent over five years, and to trim the rate for small businesses from 30 per cent to 25 per cent. Madrid also announced employer incentives designed to reduce the high proportion of short-term contracts in the job market, a phenomenon that partly explains Spain's relatively low levels of job training and productivity.

The 2007 budget currently before congress includes a 31 per cent year-on-year increase, to €8.9bn, in spending on education, research and development, areas where Spain is constantly singled out in Europe as a laggard.

Latest Eurostat data, for example, show that in 2005, Spain invested just 1.03 per cent of its gross domestic product in research and development - around half the European Union average of 1.9 per cent. The figures for the US and Japan were 2.6 per cent and 3.1 per cent respectively.

The government hopes to address this with large annual increments in direct investment. Of the €8.9bn earmarked for next year, more than 70 per cent will go towards research in key sectors such as energy and agro-industry, long-term specialist projects and the public sector's own modernisation.

Madrid's apparent commitment to making the country more competitive has been welcomed by the business community. However, critics are calling for a more comprehensive response to Spain's mediocre performance on the global stage, including more incentives for new businesses, particularly in high-tech sectors.

Spain was recently ranked 30 out of 155 in the World Bank's "Doing Business" survey on competitiveness. Although improving, it lags well behind European peers such as the UK, Germany, Ireland and Denmark.

According to critics, the country's heavy bureaucracy partly explains the desperate shortage of the private capital and enterprise needed to get ideas out of the laboratory and into the market.

The dotcom crash in 2000, which hit Spain hard, is also blamed, as are cultural particularities such as lack of worker mobility, relatively low use of technology and an entrenched aversion to risk-taking.

However, there are signs of improvements.

Uninvest, Spain's first university-based risk capital group, in July made its first allocation, of €5m, to six life sciences start-ups. One of the recipients was Biocontrol Technologies, a company spun off from Barcelona University dedicated to creating micro-organisms as a substitute for chemical agents in, say, agriculture.

Spain, with its strong but wilting rural tradition, has been identified in Europe as a potential hothouse of business development in this area.

"Spain has an abundance of highly trained scientists and researchers, who, compared with, say, the US, are cheap to hire," says Catherine Moukhebir, director of capital market operations at Zeltia, the Spanish life sciences company that is developing cancer drugs from marine micro-organisms. "The problem is that their ideas rarely translate to application in the sector."

Uninvest hopes to go some way towards correcting this, investing in up to eight projects a year.

It raised €18.5m in its first fund closing and a further €1.5m in its second. More than 70 per cent of the money came from the private sector. "Risk and seed capital is still at the hunting and gathering stage in Spain," says Carlos Hernández, managing director at Uninvest and a leading academic at the Universidad de Santiago, in Galicia.

"Bringing the two sides of the equation together is the important thing."

"A banker or local entrepreneur is unlikely to know what potentially commercial innovation is under way on campus, while scientists and researchers don't know how to take their ideas off campus and into the development stage.

"So, the problem is not so much the money, but the articulation and context."

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