

European  
Commission

ANNEX 4.8 TO THE JRC TECHNICAL REPORT

# High Growth Enterprises:

demographics,  
finance &  
policy measures

## FACTSHEET - SPAIN (ES)

F. FLACHENECKER

J. GAVIGAN

X. GOENAGA BELDARRAIN

G. PASI

N. PREZIOSI

B. STAMENOV

G. TESTA

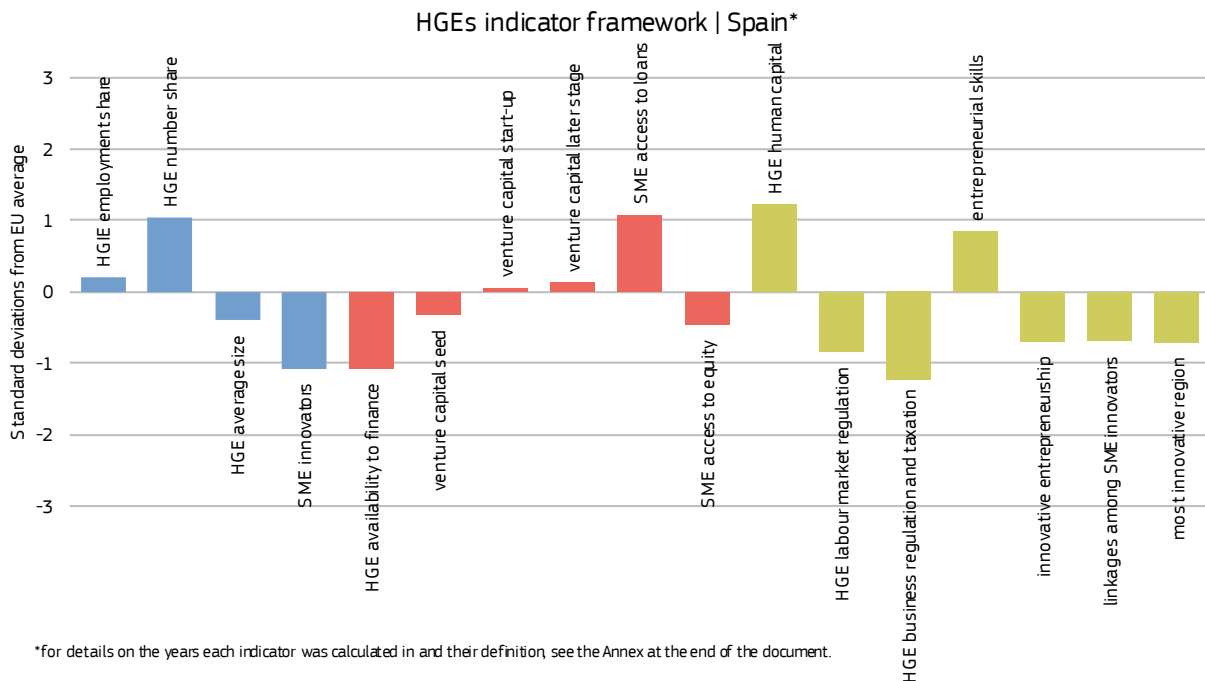
## 1. Executive summary

High growth enterprises' (HGEs) in ES follow an unequal distribution among industries. Only five sectors recruit more than half of total employment in HGEs: transportation and storage; employment activities; construction; accommodation and food services; and wholesale trade. Within this set of sectors only one of them (employment activities) is considered as knowledge-intensive.

Although the levels of investment in venture capital (VC) in ES are similar to those of neighbouring countries, they are still very far from the world leaders in this area, such as the United States and China. Concerning the development phases of VC-backed firms, VC investment in ES is more concentrated in the start-up phase, followed by the later stage venture in 2017. Being the riskiest investment, the availability of seed phase capital is traditionally much lower. Turning to the sectoral distribution of VC funds in ES, the transportation and storage sector is the largest recipient, having received 28% of total investment in 2017 followed by manufacturing, and administrative and support services activities.

In ES, policy interventions could be better targeted to increasing funding availability and its more even distribution across different stages of firm development. This is consistent with the policy implications provided by Haugh et al. (2017),<sup>†</sup> which point to the importance of an efficient allocation of capital which addresses the funding needs of new innovative firms. The regulatory framework in terms of the labour market, business and taxation is also an area of improvement.

## 2. HGEs indicator framework



- ES performs above the EU average in terms of the number of HGEs and the employment share of HGIEs, whereas it performs below the EU average in terms of the share of innovative SMEs as well as the average size of HGEs.<sup>‡</sup>
- Compared to the EU average, ES venture capitalists provide slightly more funding to start-ups and scale-ups, whereas fewer of them tend to invest in seed companies. It also emerges that the typical source of finance for SMEs is loans, rather than equity.

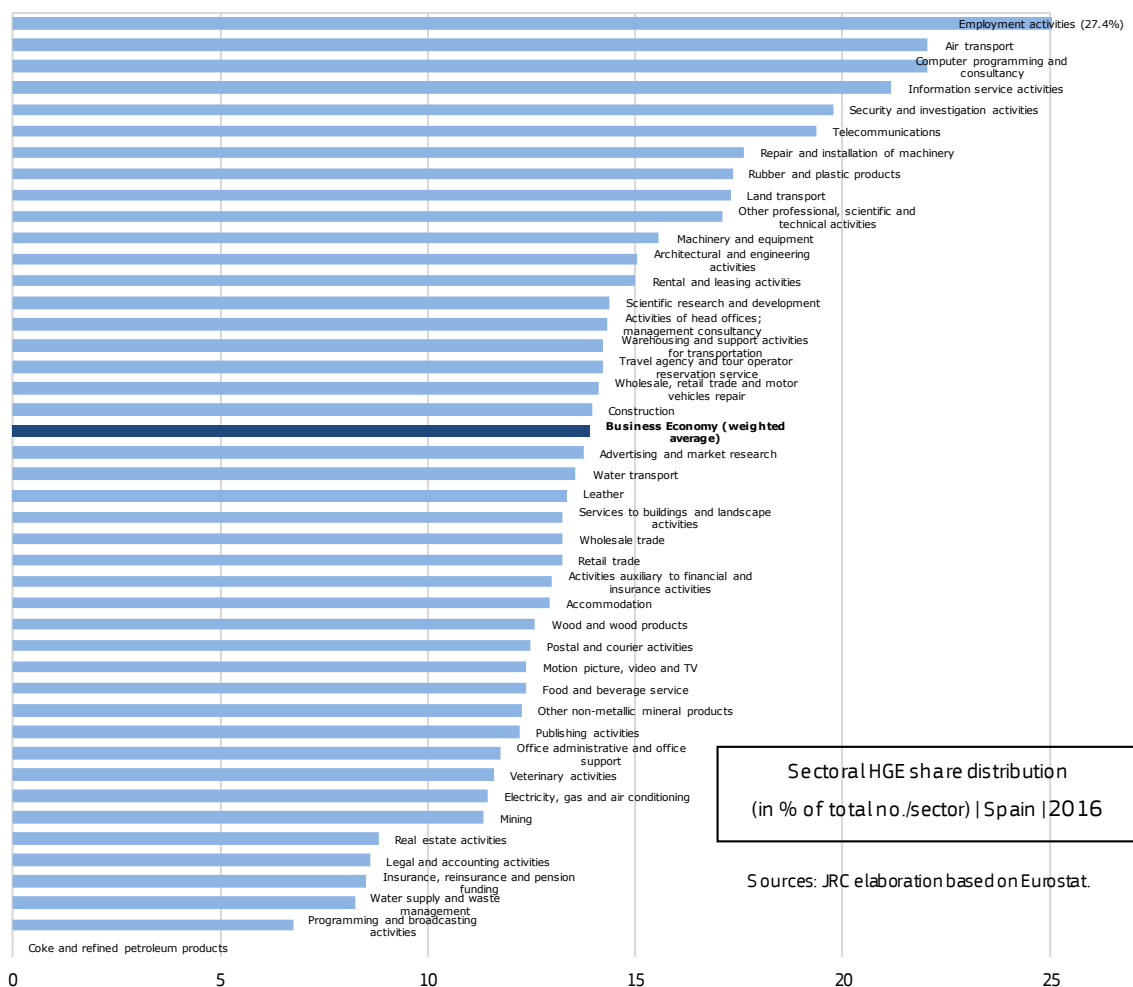
<sup>\*</sup> In line with Eurostat, HGEs are defined in this factsheet as enterprises having (i) experienced an annualised average employment growth rate of 10% per year over a three-year period and (ii) at least 10 employees at the beginning of the growth period. The importance of HGEs is directly linked to their substantial contribution to employment growth, productivity improvements, economic renewal and innovativeness.

<sup>†</sup> Haugh, D., M. Adalet McGowan, D. Andrews, A. Caldera Sánchez, G. Fulop and P. García Perea (2017), 'Fostering innovative business investment in Spain', OECD Economics Department Working Paper 1387, OECD, Paris.

<sup>‡</sup> Units are normalized using the standard deviation of the distribution of 'differences' across countries with respect to the EU for each indicator. These differences should thus be interpreted as 'number of standard deviations away from the EU average'.

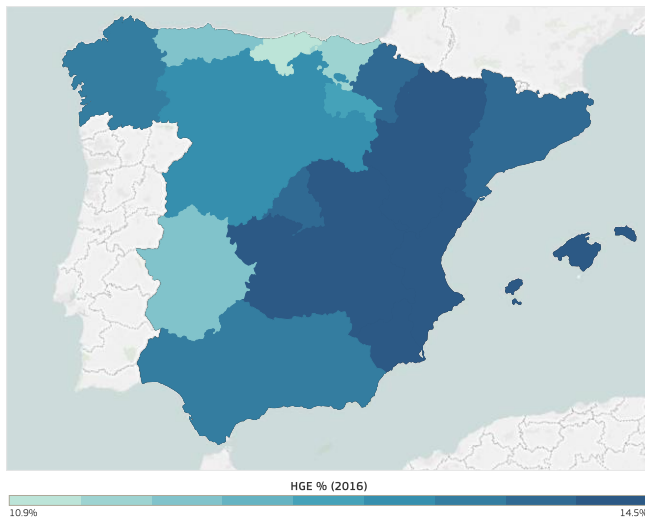
- Despite good performance in terms of human capital relative to the EU average, framework conditions (shown by the green bars) are not favourable for the emergence and development of both HGEs and innovative SMEs in ES. But ES entrepreneurs tend to believe more strongly that they have the required skills and knowledge to start a business than their EU counterparts.<sup>5</sup>

### 3. Firm demographics and sectoral decomposition



- The average share of HGEs in ES is around 14% across the business economy, ranging from 6.8% in programming and broadcasting activities to 27.4% in employment activities.
- The highest shares of HGEs are found in knowledge-intensive and high and medium-high tech manufacturing industries, particularly in ICT and research-related sectors in addition to employment activities.

<sup>5</sup> See definition of entrepreneurial skills in the Annex at the end of this document.



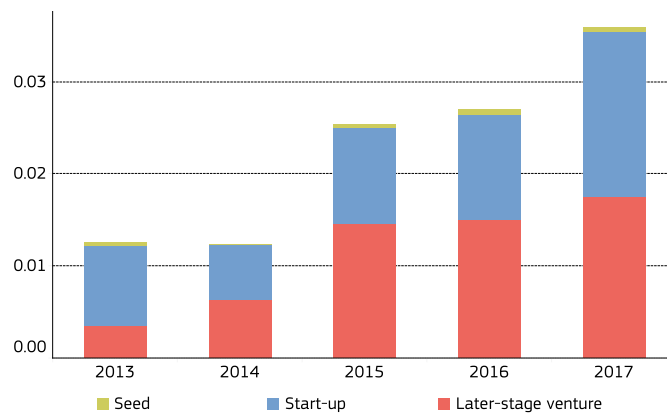
HGE share (% of active enterprises) across NUTS2 regions | 2016 | Spain

Sources: JRC elaboration based on Eurostat

- From a geographical point of view, the highest shares of HGEs among active enterprises are found in Comunidad Valenciana, Canary Islands\*, Balearic Islands, Aragon, Castilla La Mancha and Murcia.

#### 4. Financing HGEs and start-ups: the role of venture capital

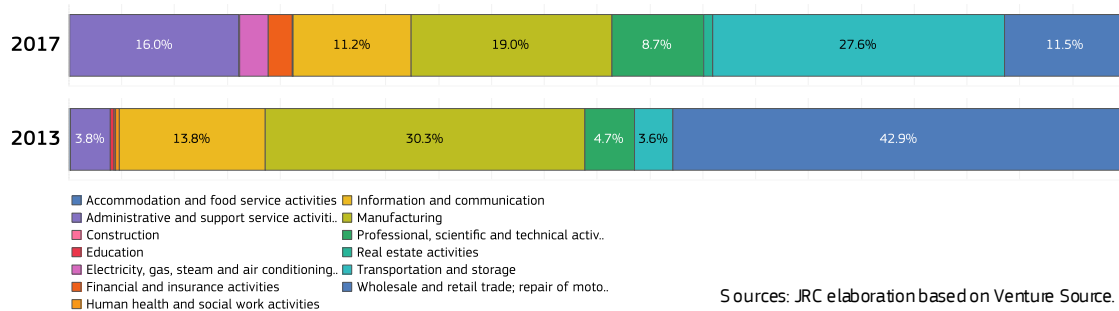
Venture capital by stage of financing (in % of GDP) | Spain | 2013-2017



Sources: JRC elaboration based on Venture Source.

- Despite the high level of entrepreneurial skills previously documented, ES's VC total investment represented only 0.02% of GDP in ES on average in the 2013-2017 period.
- The weight of VC investments has increased mainly for start-up and later-stages in the last five years.

Sectoral distribution of VC investment (in %) | Spain | 2013 & 2017



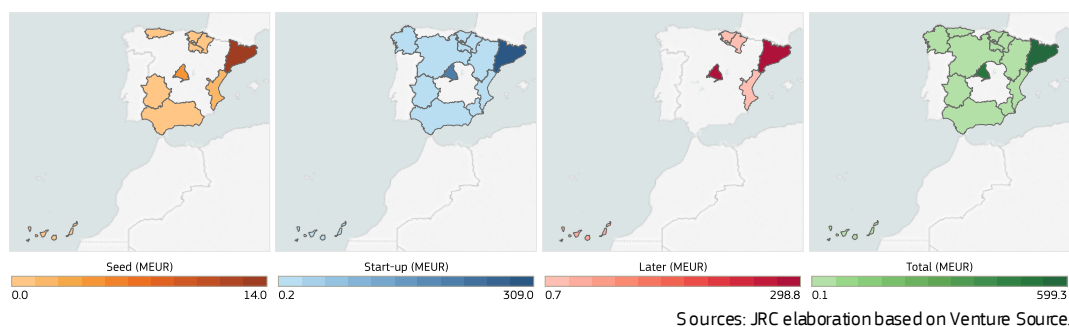
Sources: JRC elaboration based on Venture Source.

- Compared to 2013, in 2017 a larger share of VC investments went to firms in the transportation and storage sector, and administrative and support service activities.

\* Not shown on the map.

- There are also significant variations in other sectors from 2013 to 2017. A lower share of firms in manufacturing and wholesale and retail sector received VC investments in 2017 compared to 2013, whereas firms in electricity businesses have started to be VC-backed only in 2017.

#### Regional distribution of VC investment by stage of financing (in million euros) | Spain | 2013-2017



- Over the period 2013-2017, a sizeable amount of VC investment concentrated in VC-backed companies located in Catalonia and Madrid.
- The regional distribution of start-up VC investment is more evenly distributed than that of seed and later stage.

### 5. Finance-related policy measures

Instrument	Type	Target population
CDTI Invierte Programme	Fund-of-funds	Knowledge-intensive sector in all stages of financing
CDTI Innovation Line	loans	Firms or a group of firms or a consortium, including outsource centres, research institutes, and universities engaged in R&I projects.
Gauzatu Industry Programme	loans	-
Incentives for Business Angels	tax incentive for private equity	-
National Innovation Company-ENISA	loans	Innovative companies

- CDTI's Invierte Programme aims at promoting entrepreneurial innovation through support for VC investment in technological or innovative companies. In 2019, the funds of the Invierte programme doubled (from EUR 100 million in 2018 to EUR 200 million in 2019).
- CDTI line of innovation aims at companies (irrespective of size) having proved enough capacity at the technical, economic and financial levels to carry out proposed projects. Support is provided to projects that allow the adoption of new technologies at sectoral level. The loan has a variable interest rate depending on the source of the funds and the amortisation period chosen.
- ENISA has financing lines with Business Angels Networks, VC firms and the ES start up co-investment fund programme for innovative companies. The aim of the ES start up co-investment fund is to stimulate the seed capital sector in ES through the creation of a co-investment fund of up to EUR 40 million, contributed in equal parts by ENISA and a group of specialised investors, both Spanish and international. This co-investment fund is intended not just to be an instrument for the development of the ES VC market, but also to attract the interest of the most active specialised investors in other countries for the high enterprise potential that now exists in Spain. It finances up to EUR 1.5 million per operation.

## Annex: HGEs indicator framework details

Indicators	Details	Motivation
<b>HGEs indicators</b>		
HGE employment share	Percentage share of employees among HGEs in 50% 'most innovative' industries relative to total employment ( <a href="#">EIS; 2018</a> )	Measures contribution of HGEs to employment creation
HGE number share	Percentage share of HGEs of total enterprises with at least 10 employees ( <a href="#">Eurostat; 2016</a> )	Measures how many firms are HGEs
HGE average size	Average size of HGEs (employment definition); employees divided by number of HGEs ( <a href="#">Eurostat; 2016</a> )	Measures average size of HGEs, an indication for future job growth potential
SME innovators	Share of SMEs with product, process, marketing or organisational innovations or innovating in-house among all SMEs ( <a href="#">EIS; 2018</a> )	Existing SME innovativeness as predictor for future innovations
<b>Financing HGEs indicators</b>		
HGE availability of finance	Percentage of HGEs considering the availability of finance is not an investment barrier ( <a href="#">EIBIS; 2016-2018</a> )	HGEs access to finance is considered a precondition for the development of HGEs
Venture capital seed	Share of seed venture capital to GDP ( <a href="#">Venture Source; 2017</a> )	Venture capital is a relevant source of finance for potential HGEs
Venture capital start-up	Share of start-up venture capital to GDP ( <a href="#">Venture Source; 2017</a> )	Venture capital is a relevant source of finance for potential HGEs
Venture capital later stage	Share of later stage venture capital to GDP ( <a href="#">Venture Source; 2017</a> )	Venture capital is a relevant source of finance for potential HGEs
SME access to loans	EIF SME Access to Finance Sub-index for loans, comprising the use and cost of loans ( <a href="#">EIF; 2018</a> ).	SME access to loans is an important framework condition indicating the access to loans for HGEs
SME access to equity	EIF SME Access to Finance Sub-index for equity, comprising use of equity and the sophistication of the equity market ( <a href="#">EIF; 2018</a> )	SME access to equity is an important framework condition indicating the access to equity for HGEs
<b>HGEs framework conditions indicators</b>		
HGE human capital	Percentage of HGEs considering the availability of staff with the right skills is not an investment barrier ( <a href="#">EIBIS; 2016-2018</a> )	HGEs access to human capital is essential for the development of HGEs
HGE labour market regulation	Percentage of HGEs considering the labour market regulation is not an investment barrier ( <a href="#">EIBIS; 2016-2018</a> )	HGEs may be constrained by existing labour market regulation
HGE business regulation and taxation	Percentage of HGEs considering the business regulation (e.g., licences, permits, bankruptcy) and taxation is not an investment barrier ( <a href="#">EIBIS; 2016-2018</a> )	HGEs may be constrained by existing business regulation
Entrepreneurial skills	Percentage of 18-64 population who believe to have the required skills and knowledge to start a business ( <a href="#">GEM; 2018</a> )	HGEs may require entrepreneurial spirit, skills and knowledge
Innovative entrepreneurship	Ratio between improvement-driven and necessity-driven entrepreneurship ( <a href="#">EIS; 2018</a> )	Countries with high relative prevalence of improvement-driven opportunity, and entrepreneurship tend to be primarily innovation-driven, thus conducive for HGEs
Linkages among SME innovators	Innovative SMEs collaborating with others, public-private co-publications and private co-funding of public R&D expenditures ( <a href="#">EIS; 2018</a> ).	Quality of innovations increases with collaboration and provides information on sophistication of SME innovation ecosystem, thus related to HGEs.
Most innovative region	Relative performance of most advanced region in the Regional Innovation Scoreboard within each Member State vis-à-vis the best performing regions across all other Member States ( <a href="#">RIS; 2017</a> ).	HGEs innovation ecosystems tend to be concentrated in most innovative regions/centres.

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