OECD Science, Technology and Industry Working Papers
2003/18

Venture Capital Policy Review: Spain

Ricardo Tejada

https://dx.doi.org/10.1787/423325882343

OECD

Unclassified **DSTI/DOC(2003)18**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development **08-Dec-2003**

English text only

DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY

DSTI/DOC(2003)18
Unclassified

VENTURE CAPITAL POLICY REVIEW: SPAIN

STI WORKING PAPER 2003/18
INDUSTRY ISSUES

Ricardo Tejada

English text only

JT00155575

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

STI Working Paper Series

The Working Paper series of the OECD Directorate for Science, Technology and Industry is designed to make available to a wider readership selected studies prepared by staff in the Directorate or by outside consultants working on OECD projects. The papers included in the series cover a broad range of issues, of both a technical and policy-analytical nature, in the areas of work of the DSTI. The Working Papers are generally available only in their original language – English or French – with a summary in the other.

Comment on the papers is invited, and should be sent to the Directorate for Science, Technology and Industry, OECD, 2 rue André Pascal, 75775 Paris Cedex 16, France.

The opinions expressed in these papers are the sole responsibility of the author(s) and do not necessarily reflect those of the OECD or of the governments of its member countries.

http://www.oecd.org/sti/working-papers

VENTURE CAPITAL POLICY REVIEW: SPAIN

Ricardo Tejada

Abstract

Spain's expanding venture capital market is still biased towards mature firms in traditional sectors with little investment in technology-based start-ups. Although the country has benefited from substantial inflows of foreign venture capital, steps are needed to increase domestic levels of entrepreneurship and risk investment expertise. The government maintains a number of small firms participatory loan schemes, which could be transformed into privately-managed equity programmes to attract venture investors. Restrictions relating to authorised venture investors and amounts could also be lightened. This paper analyses trends in Spanish venture capital markets and makes policy recommendations which have been developed through an OECD peer review process.

EXAMENS DES POLITIQUES DE CAPITAL-RISQUE : ESPAGNE

Ricardo Tejada

Résumé

Le marché du capital-risque en Espagne, en expansion, privilégie encore les entreprises parvenues à maturité des secteurs traditionnels et peu d'investissements sont consacrés aux jeunes entreprises des secteurs technologiques. L'Espagne a bénéficié d'importantes entrées de capital-risque étranger, mais de nouvelles mesures s'imposent pour accroître les créations d'entreprises d'origine intérieure et développer l'expertise dans le domaine de l'investissement à risque. Le gouvernement met en œuvre un certain nombre de dispositifs de prêts participatifs au profit des petites entreprises. Ce dispositif pourrait être transformé en programmes de capital-investissement gérés par le secteur privé, de façon à attirer davantage d'investisseurs en capital-risque. On pourrait aussi assouplir les restrictions concernant le régime de l'investissement en capital-risque et le montant des financements. Cet article analyse les tendances des marchés de capital-risque en Espagne et présente les recommandations qui ont été formulées à l'issue d'un examen par les pairs réalisé dans le cadre de l'OCDE.

TABLE OF CONTENTS

ASSESSMENT AND RECOMMENDATIONS

Spain has developed a functioning venture capital market with limited government assistance in a relatively short period of time. The sector recently experienced rapid growth, increasing investments by four-fold since 1997, and maintained investment levels during the recent market downturn, largely through international capital inflows. However, the Spanish venture market is heavily biased toward mature expansion-phase firms in traditional sectors with little investment in technology-based start-ups. More diversification in venture investments is needed.

In 1999/2000, the government launched a number of "new economy" initiatives, including an investment plan for information and communications technology (ICT), tax credits for research and development (R&D), small firm schemes, and a new venture capital law, *Ley 1/1999 -- Reguladora de las Entidades de Capital Riesgo* (LECR). In addition to unfortunate timing due to the technology market crisis, the initiatives were fragmented and without great effect. Public schemes for small firm financing have been primarily participatory loan programmes. The venture capital law helped institutionalise venture capital companies, but in an overly rigid way, and gave tax incentives for venture investments, but only to registered companies.

Changes are needed to both regulatory and fiscal frameworks to expand the range of venture investment vehicles as well as investors, including institutions, individuals and corporations. In addition, steps are needed to overcome risk-averse attitudes on the part of these investors and to stimulate demand through higher levels of entrepreneurship. The government could further develop equity programmes from existing loan schemes to leverage private capital, looking to innovative regional initiatives such as the *Centre d'Innovació i Desenvolupament Empresaria* (CIDEM) in the Catalan region. Co-financing ventures with international investors would help impart experience to public and private fund managers. A summary of progress and recommendations concerning Spanish venture capital policies is given in **Table 1**.

Table 1. Progress and recommendations on Spanish venture capital policies

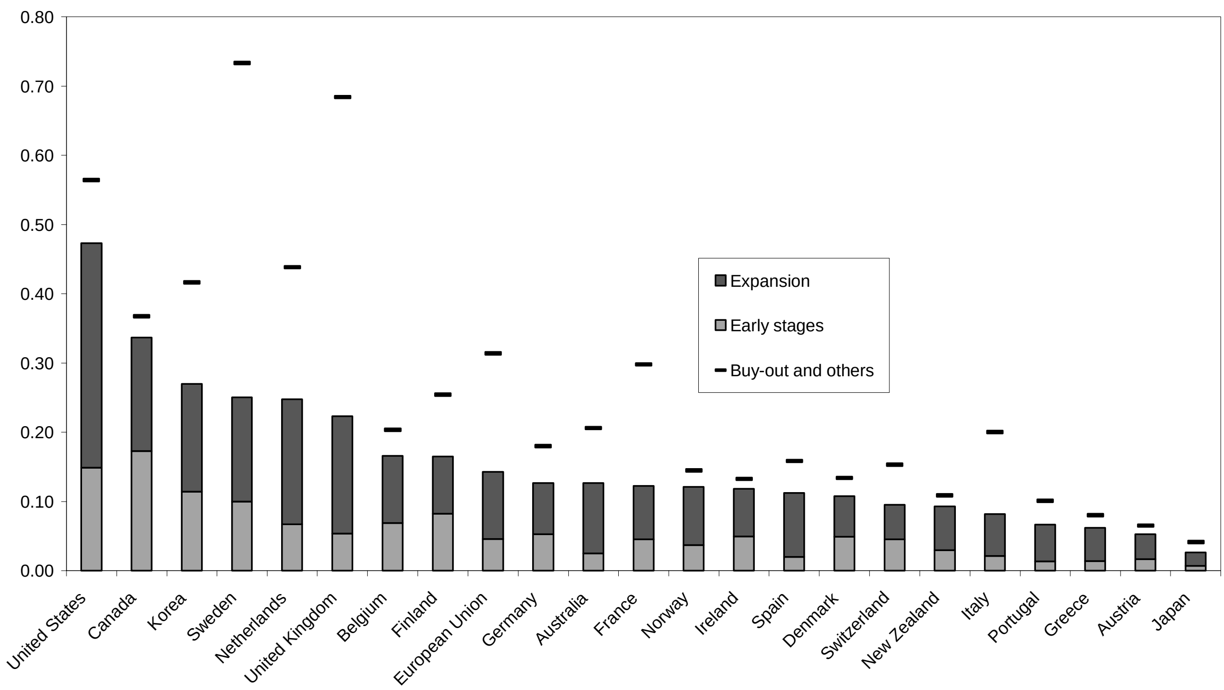
Area	Recent/planned action	Recommendations
Investment regulations	Venture activities restricted to SCRs, FCRs and SGECRs. Relaxation of quantitative restrictions on institutional investors under consideration.	Expand range of legalised venture investors; remove quantitative restrictions and enhance venture investment expertise and culture among institutional managers.
Tax incentives	Reduction in dividends tax and capital gains tax for SCRs and FCRs.	Lower capital gains taxes for a wider range of investors.
Equity programmes	Participatory loan schemes for small firms at national level. At regional level, SODIs and the CIDEM programme in Cataluña.	Integrate loan schemes and further develop equity programmes to leverage private venture investment.
Business angel networks	One local network operating in Cataluña with other regional networks in planning stages.	Create a national-level “network of networks” once regional business angel networks are up and running and link to incubators and other funds.
Second-tier stock markets	*Nuevo Mercado* launched in April 2000 for technology-based start-ups but suffered from market downturn.	Encourage creation of single second-tier stock market through joining with European partners; also join with Latin American exchanges.

TRENDS IN VENTURE CAPITAL MARKETS

Overview

The venture capital market in Spain averaged 0.15% of GDP in the period 1999-2002 (**Figure 1**). This market has had strong performance in recent years, demonstrating a level of resilience in 2001 and 2002 uncommon among OECD countries in the face of the world technology market downturn. From 1987 to 1991, Spain's venture market grew at a yearly average of 31%. Following a sluggish period in the mid-1990s, it expanded from 0.04% of GDP in 1997 to 0.19% in 2000, before dropping to 0.13% in 2002. Despite its relatively small size, the Spanish venture capital sector is now reasonably well entrenched.

Figure 1. OECD venture capital investment by stages as a share of GDP, 1999-2002



Note: 1998-2001 for Australia, Japan, Korea and New Zealand. The definition of private equity/venture capital tends to vary by country.
Source: OECD venture capital database, 2003.

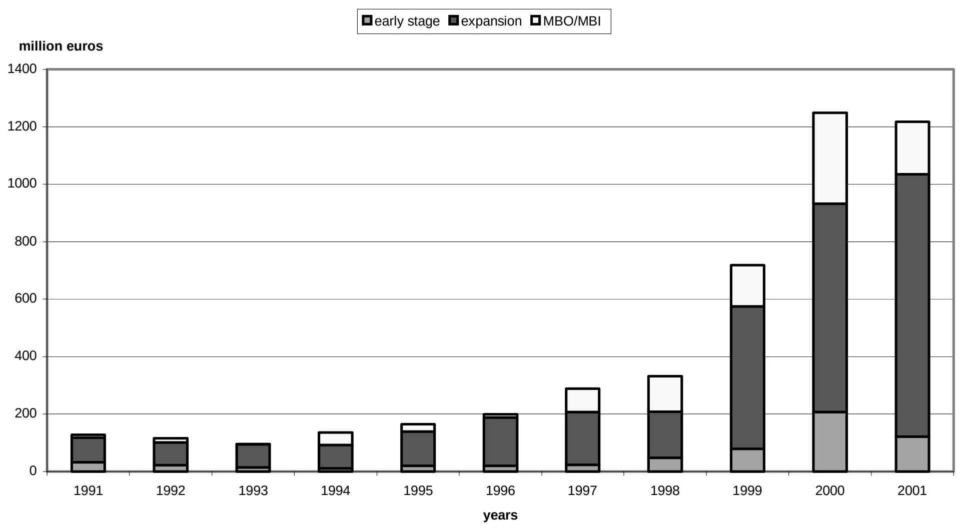
Venture capital activity in Spain began in the early 1970s through programmes designed to stimulate industrial activity in the country's less-developed regions. The industrial development associations *Sociedades de Desarrollo Industrial* (SODIs) used public funds to invest in companies in early stages of development in an attempt to diversify regional economic activity. Following the entry of Spain into the

European Community (EC) in 1986, European structural funds supplemented other public sources of finance. However, growth in venture markets was also spurred by private sector investors – both domestic and international -- who have sustained the level of venture capital activity.

Investment by stage and deal size

With a heavy concentration on mature firms, Spain has one of the smallest shares of venture investment in seed and start-up enterprises among OECD countries. The major share of private equity investment goes to expansion-phase companies, which typically account for 60% to 70% of both capital invested and total deals (**Figure 2**). As in many OECD countries, Spain has had difficulties channelling venture capital investment to early-stage companies. Returns from companies in these stages are generally perceived as too low relative to their more mature counterparts, particularly given their risky and illiquid nature. Moreover, the current investment culture in Spain does not tolerate a high number of failures in a given portfolio, regardless of how successful a single star performer may be.

Figure 2. Spanish venture capital investment by financing stage



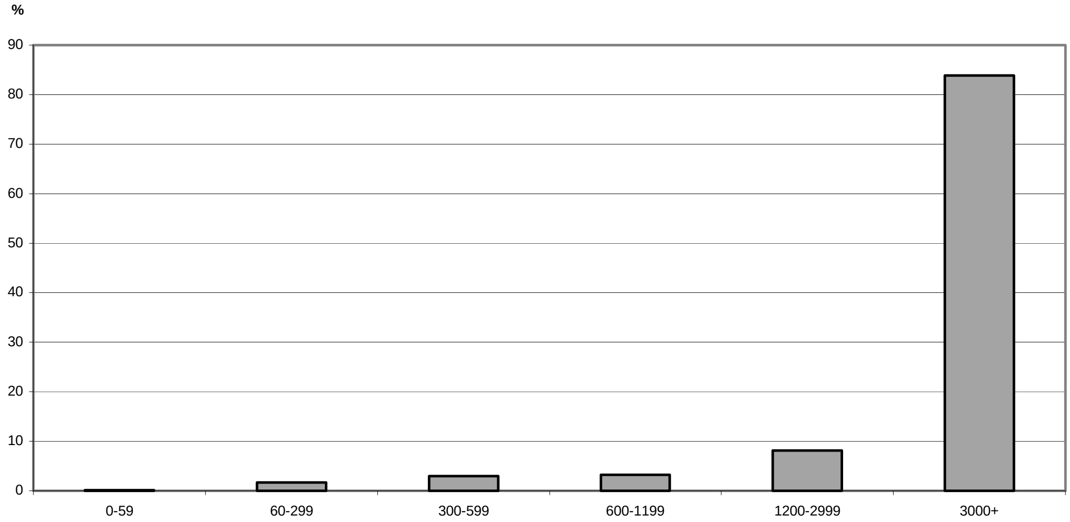
Source: Martí, 2002*a*.

In terms of number of deals, early-phase investments account for less than 20% of venture capital transactions, on average, in recent years. At the same time, a relatively small portion of investment in Spain goes to finance later-stage management buy-ins and buy-outs (MBI/MBOs). The dearth of late-stage investments has been attributed to the scarcity of large, complex conglomerates seen in the United States and the larger economies in Europe. This has also resulted in a low number of corporate spin-offs of smaller firms. On the other hand, the share of equity investment in expansion stages is large and growing. It is expected to continue gaining importance as small and medium-sized companies mature and as family and private business owners become more comfortable with the idea of selling shares of their businesses to outside buyers.

In consequence, the Spanish equity market gives preference to larger transactions. In 2001, over 83% of equity investment went to deals of more than EUR3 million (**Figure 3**). Average deal size grew steadily over the 1990s reaching EUR 4.4 million in 2001 compared to EUR 660 000 ten years earlier. The sector is now dominated by larger funds with 85% of total capital managed by the 31 largest venture companies.

These tend to concentrate on low-risk mature investments with clear avenues for exit. The strong bias toward expansion-stage firms results from both a conservative investment culture and Spain's industrial structure which is centred on medium-sized firms in traditional sectors.

Figure 3. Spanish venture capital investment by deal size, 2001 (€000)



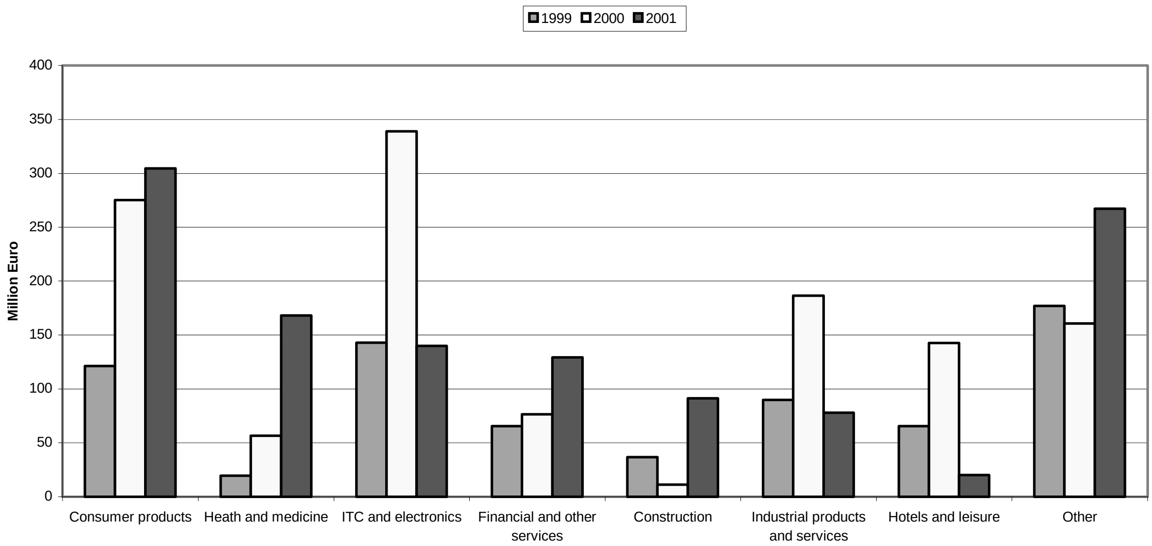
Source: Martí, 2002*a*.

Investment by sector

Venture capital investment in Spain has been drawn to more traditional sectors, particularly consumer products such as processed food and textiles, where the average deal size is over EUR 11 million (**Figure 4**). Spain's economy has a large agricultural sector (4% of GDP) and construction sector (9% of GDP) while manufacturing is dominated by lower-technology components such as textiles, food products and metals. However, the services sector is expanding, particularly retailing, banking, telecommunications and tourism. Enterprises in financial services and tourism have been the beneficiaries of recent growth in venture capital flows.

The rush to invest in the information and communications technology (ICT) sector arrived later in Spain than in many other OECD countries. The ITC sector – primarily computer software and radio and television broadcasting - gained prominence in 1999 and 2000, rising to over a quarter of new venture investments. However, this share fell to under 12% in 2001 as technology markets crashed, with marked declines in Internet-related investments. Most deals in the ITC sector are now follow-on funding rather than investments in start-ups. Spain has yet to realise "new economy" productivity growth and still has relatively low levels of ICT expenditures, Internet subscribers and users of electronic commerce. A lack of demand from innovative ICT-based start-ups contributes to the low share of early-stage venture capital investment.

Figure 4. Spanish venture capital investment by sector

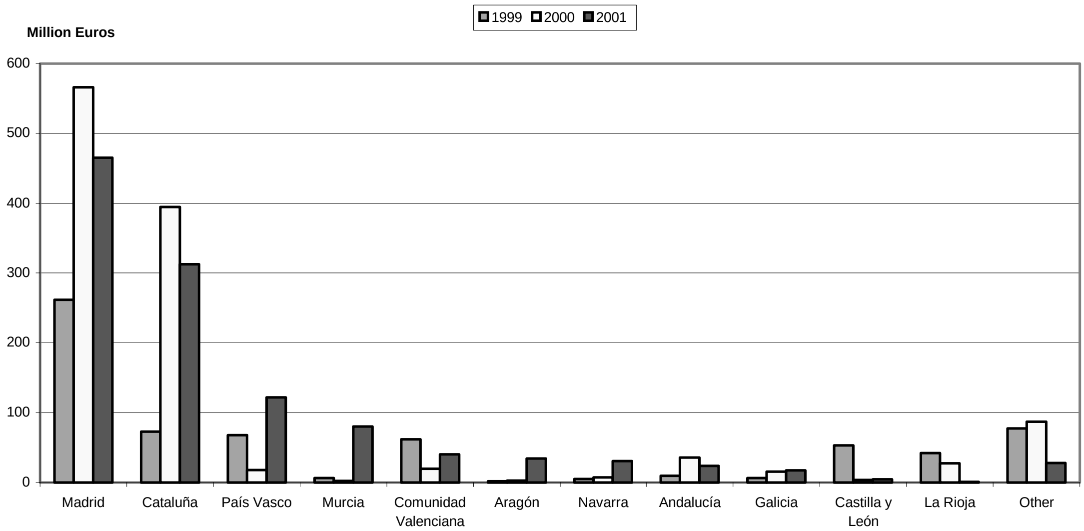


Source: Martí, 2002*a*.

Investment by region

As in most OECD countries, there is a high level of regional disparity in the Spanish venture capital market where the autonomous regions of Madrid, Cataluña and, to a lesser extent, the Basque Country receive disproportionate amounts of investment (**Figure 5**). The concentration of investments in these three regions, particularly in Madrid and Cataluña, has grown from less than 50% of the total in 1997 to over 80% in recent years. These regional venture capital clusters coincide with the concentration of overall economic activity in Spain. But the regional dispersion also reflects the venture activities of the localised industrial development funds.

Figure 5. Spanish venture capital investment by region



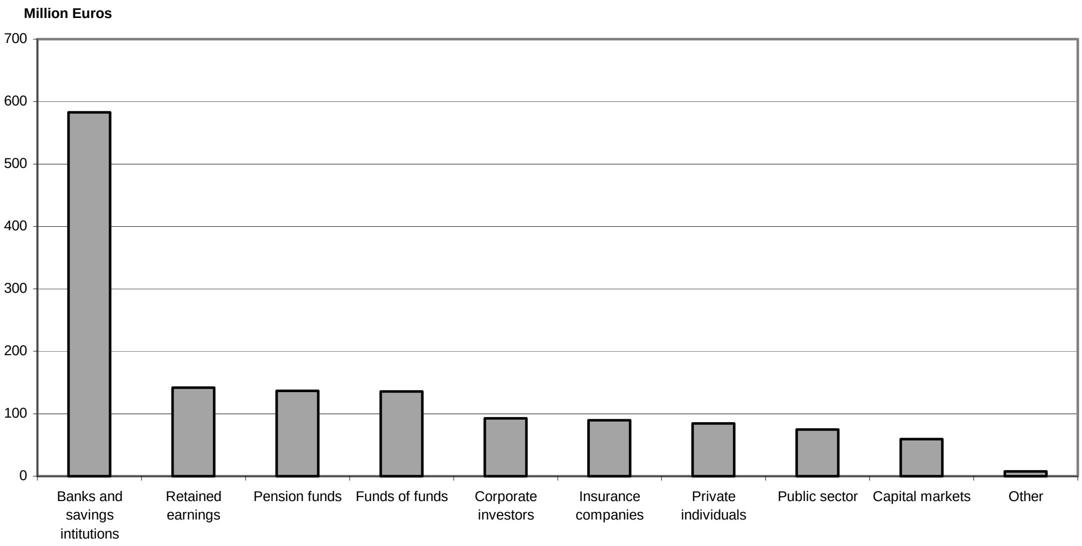
Source: Martí, 2002*a*.

Investment by source

The Spanish venture capital market is heavily dependent on domestic banks and savings institutions for funding (**Figure 6**). The dominance of these sources, which contributed about 50% of domestic funds (20% of total funds) in 2001, has a strong influence on the sector's preference for investments in low-risk, mature companies in traditional sectors. Corporate investors are the next largest domestic source of venture funds contributing about 5% of total capital. Spain differs from many OECD countries in that institutional investors do not participate significantly in the private equity market. Spanish pension funds accounted for a negligible 0.1% and insurance companies 0.6% of domestic contributions in 2001. Government participation in venture funds has been steadily decreasing and accounted for just over 7% of domestic funds invested in 2001, down from 26% in 1997.

International flows play an increasingly significant role in the Spanish venture capital market contributing nearly half of total investments in 2001 (**Figure 7**). High growth rates in the 1990s relative to its European neighbours and a perceived position as a gateway to Latin America have made Spain attractive to foreign funds. Countries of the European Union, particularly the United Kingdom, are the largest foreign investors, regularly contributing about a quarter of total funds. The United States has become an important source of venture funds contributing almost 14% of the total in 2001. A number of foreign funds, including 3i, Apax and the Carlyle Group, have established subsidiaries in Spain.

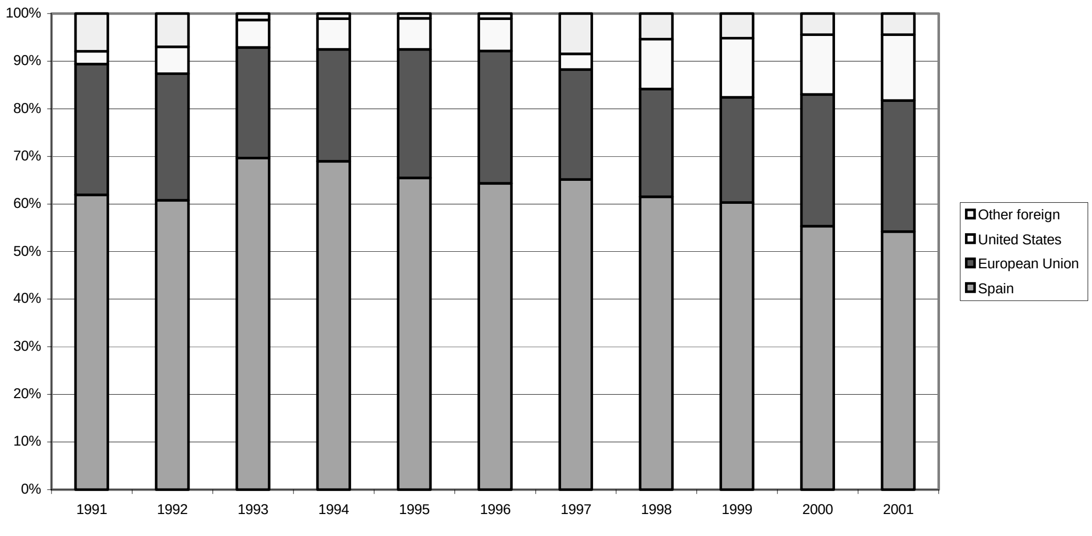
Figure 6. Spanish venture funds raised by source, 2001



Notes: Includes funds from both domestic and international sources.

Source: Martí, 2002*a*.

Figure 7. Source of Spanish venture capital by country



Source: Martí, 2002*a.*

VENTURE CAPITAL POLICIES AND PROGRAMMES

Overview

In 1999, the Spanish government begun a series of initiatives to strengthen the technology sector and increase funding for early-stage firms. These included tax incentives for venture capital companies, participatory loan programmes for small firms and the establishment of a new secondary stock market. However, these have done little to provoke an increase in venture capital activity. The timing of these initiatives, introduced at the start of the decline of world stock markets in early 2000, is an important factor. However, a lack of demand from small technology-based firms coupled with a risk-averse investment culture and lack of venture capital experience also explain the low level of activity.

The Spanish venture capital sector, though skewed to mature businesses, is reasonably well established within the Spanish economy. The challenge to the government is to develop this sector by diversifying investment to earlier-stage firms in a wider range of sectors. An integrated approach which brings together different national programmes supporting small firms and supports them through the complete life-cycle from seed to exit is needed. Growing the venture market will depend on both attitudinal and regulatory changes to stimulate contributions from institutional investors, corporations and individuals. Both the public and private sector should build on the extensive international flows of venture capital into Spain to gain experience in venture capital management and investment through co-financing and co-investment arrangements. Exit opportunities for small firms also need to be expanded through economies of scale in secondary stock markets.

Investment regulations

The Spanish venture capital market is subject to specific regulations regarding investment vehicles under the *Ley 1/1999 - Reguladora de las Entidades de Capital Riesgo* (LECR). By consolidating existing regulations and numerous amendments into single legislation, authorities have attempted to provide a more transparent legal framework for venture investing and to increase market stability. Under the LECR, there are two private equity investment vehicles - venture capital companies (SCRs) and venture capital funds (FCRs) - and also venture capital management companies (SGECR) (**Box 1**). Regulations specify that they cannot invest more than 25% of their assets in the same company or more than 35% in the same company group. These structures are accountable to the stock market supervisory body, the *Comisión Nacional del Mercado de Valores* (CNMV). Spanish law does not allow for the creation of pooled investment vehicles which have played an important role as catalysts for venture capital growth in some OECD countries. The limitations on potential investment vehicles and the allocation of supervisory and administrative power over investments in unquoted companies to the CNMV – which tends to be an overly rigid and bureaucratic system – has thus far not been successful in stimulating venture capital activity in Spain.

Box 1. Venture capital investment vehicles in Spain

***Sociedad de Capital Riesgo* (SCR)** – A legalised and registered company which may raise and manage its own venture capital funds.

***Fondo de Capital Riesgo* (FCR)** – A fund without legal identity and a limited lifespan which can raise resources but whose venture investments are managed by either an SCR or SGECR.

***Sociedad Gestora de Entidades de Capital Riesgo* (SGECR)** – A venture capital management company which does not raise its own funds but manages those of other entities (*e.g.* FCRs, EC funds and government loans, funds from individual investors).

Institutional investors remain an untapped source of venture capital investment in Spain. Although total pension fund assets grew from EUR 153 million in 1998 to EUR 44 billion in 2002 (6.8% of GDP), these funds devote a negligible share to private equity investment. The same is true of insurance companies in Spain. Both are regulated by quantitative restrictions designed to balance the risk profile of funds in specifying that unlisted shares can represent up to 10% of their portfolios. These ceilings - which are specified in the *Reglamento de Planes de Pensiones, Real Decreto 1307/1988* for pension funds and the *Reglamento de Ordenación y Supervisión de los Seguros Privados, Real Decreto 2486/1998* for insurance companies – are rarely reached. The conservative actuarial investment culture may be largely to blame. Relaxation of quantitative restrictions on institutional investors is now under consideration, but this should be combined with steps to develop better venture investment expertise among institutional managers.

Tax incentives

The *Ley 1/1999 -- Reguladora de las Entidades de Capital Riesgo* (LECR) provides for tax incentives for entities registered with the CNMV as venture companies (SCRs) or venture funds (FCRs). These receive a 100% exemption from taxes on all dividends paid by the investee company as well as an almost total reduction of capital gains taxes on profits, provided that divestment takes place between two and 12 years, which can be extended to 17 years under certain circumstances. Previously these tax benefits were forfeited when a company was listed on the stock exchange, but as of the end of 2002, investors are given a two-year window during which they may take virtually tax-free exits from investments which have been taken public. This revision, however, is unlikely to have a major impact on venture investments given the scarcity of initial public offerings (IPOs) in Spain.

The registered venture capital entities – the SCRs and FCRs – are the only investors in Spain who benefit from tax breaks on dividends and capital gains from venture investments. The overall capital gains tax on long-term investments was recently reduced from 18% to 15% for individuals, although it remains at 35% for corporations. While maintaining a framework of fiscal neutrality, consideration should be given to lowering taxes on capital gains for a wider range of market participants. This could help lure would-be venture investors, including more individuals (business angels) and corporations.

Equity programmes

Spain maintains a number of subsidy and participatory loan schemes focused on small firms in the technology sector (**Box 2**). Established in 2001 as part of a new innovation strategy, these programmes are run by the Ministry of Science and Technology (MCYT) and seek to bring knowledge from universities and scientific research institutions into the economy through the creation of new businesses. The *Programa de Fomento de la Investigación Técnica* (PROFIT) gives funding to promising projects and potential entrepreneurs, while the *Nuevas Empresas Tecnológicas* initiative (NEOTEC) provides soft loans to seed and start-up firms.

The *Real Decreto 601/2002* programme is intended to serve as a follow-up source of funds to projects funded by NEOTEC by extending government loans to SCRs and SGECRs for infusion into small firms. However, critics say that the limits imposed by the European Commission on loan levels and a bureaucratic application and selection process leading to a nine-month delay in disbursement of funds have resulted in limited usefulness to early-stage firms (Martí, 2002*c*). The government should explore ways of streamlining and integrating current loan programmes to assist technology-based ventures through the various stages of a firm's lifecycle. The government should also further develop equity programmes which could use public funding to leverage private capital in the context of the SGECRs. This would give practical venture experience to both public and private sector managers and assist in developing an equity investment culture and experience in Spain.

Box 2. Small firm loan programmes in Spain

Programa de Fomento de la Investigación Técnica **(PROFIT)** - Gives direct subsidies and makes small no-interest loans payable over 15 years to technology-based projects at the conceptual stage of development. These seed loans are aimed at developing ideas into workable business plans. PROFIT funded over 4 000 projects in 2002.

Nuevas Empresas Tecnológicas **(NEOTEC)** - Extends no-interest seed loans of up to EUR 300 000 to potential technology-based firms. The loans cannot exceed 70% of the project's budget and are to be paid back at a rate of 20% of cash flow once profits are realised. NEOTEC complements its loans by providing managerial advice and linking entrepreneurs to networks of universities, research centres, business schools, regional development agencies, incubators and similar entities.

Real Decreto 601/2002 – A result of the Ley 6/2000, this provides for financial support from the Ministry of Science and Technology (MCYT) in the form of interest-free loans to SCRs and SGECRs investing in government-approved projects and firms. To qualify, the firm must meet the European Commission's definition of a small firm and be less than two years old. It cannot be quoted and must not solicit more than EUR 100 000 in government financial support for a period of three years. The loans can be up to EUR 500 000 or 50% of total investment, which increases to EUR 1 million and 70% of total investment if the company is in an Objective 1 region (rural area in transition) under EC rules for allocation of structural funds. Maturing after seven years, the loan is to be repaid with a gain or loss proportional to the share of the investment in the current value of the firm.

These programmes for start-up firms are supplemented at the regional level in Spain, starting with the *Sociedades de Desarrollo Industrial* (SODIs) (**Box 3**). These are public industrial funds dedicated to regional development which were first created in the early 1970s and are still operating in their respective regions. Since they tend to make small investments in established firms in mature sectors, their effect as a stimulus to regional venture investment has been marginal. Focusing more on regional development and diversifying employment opportunities, the SODIs have been criticised as making investment decisions based on political rather than economic criteria. While the SODIs remain well placed to promote local venture capital activity, they would benefit from an independent management structure that could assure sound investment decisions. They should be encouraged to pool funds with private SCRs and SGECRS and to channel investments to earlier-stage firms in a wider range of sectors.

Box 3. The Sociedades de Desarrollo Industrial (SODIs)

Toward the end of the 1960s and beginning of the 1970s, regional economic disparity in Spain was reaching a point of crisis. The now defunct *Instituto Nacional de la Industria* was charged with creating programmes to help alleviate economic disparity through investment in regional industry. The result was the creation of the *Sociedades de Desarrollo Industrial (SODIs),* regional development institutions which invest a combination of local public and private (mostly regional savings institutions) funds into enterprises and whose management is selected by individual administrative councils. The first SODI was SODIGA created in Galicia in 1972, followed by SODIAN in Andalusia and SODICAN in Canarias in 1976, SODIEX in Extremadura in 1977, SODICAMAN in Castilla la Mancha and SODICAL in Castilla-León in 1981, and SODIAR in Aragón in 1983. Most SODIs continue to function in their respective regions with the aim of supporting the creation of new companies or expansion of existing companies. Funds under management range in size from under EUR 10 million to over EUR 50 million but, on average, yearly investments rarely exceed EUR 5 million.

One successful regional programme is the Catalan government's *Centre d'Innovació i Desenvolupament Empresaria* (CIDEM) (**Box 4**), which operates a number of schemes providing equity funding and managerial advice to start-ups. Although its impact is constrained by limited funds, CIDEM offsets this by offering a wide range of services needed by entrepreneurs and by partnering with other investors and funds, such as the SGECRs. An attempt is being made to create new SGECRs in Cataluña focused on early-stage venture investments, which may then develop a track record and can be used to solicit further funds from private investors.

Box 4. Centre d'Innovació i Desenvolupament Empresarial (CIDEM)

The *Centre d'Innovació i Desenvolupament Empresarial* (CIDEM) was created by the Department of Industry, Commerce and Tourism of the Government of Cataluña in 1985 to provide Catalan entrepreneurs with consultative and financial support. It functions as a "one-stop shop" for start-up businesses and potential investors offering practical assistance at all phases of early business development. CIDEM assists with feasibility studies, funding, project development and implementation and follow-up. Its funds and programmes include:

Trampolines Tecnológicos – Incubators based in five technical universities and business schools, which are modelled on similar programmes at MIT and Stanford University and focus on extracting technical "know how" from Catalan universities and providing funds and business advice in an effort to bring their output to market. Cidem also runs a number of business incubators primarily aimed at biotechnology firms.

Invertec – Invertec makes equity investments, limited to 10 years, of up to EUR 300 000 representing between 5% and 49% of total equity, in technology-based, seed-stage companies. The intent is to help firms created by the Trampolines Technologicos programme to raise seed funding by taking a minority stake. Invertec has EUR 6 million under management by CIDEM together with six universities and business schools.

Internova - A fund consisting of EUR 20 million provided by CIDEM and private sector investors which makes equity investments, limited to a 10-year period, of up to EUR 1 million, to technology-based start-ups. The minimum investment is EUR 300 000 and the maximum equity participation is 49%.

SGECRs - The CIDEM also invests in a number of other funds, some created by the Centre itself, but all managed by the independent fund management companies (SGECRs). Each fund focuses on a different stage of financing bearing in mind the progressive growth trajectory of firms.

Business angel networks

The magnitude of business angel activity in Spain is believed to be limited given the low level of deal flow, the generalised inexperience with early-stage venture investments, and the lack of incentives for direct investments by individuals in small firms. The Spanish Venture Capital Association (ASCRI), founded in 1986, has been active in lobbying for a more appropriate legal and fiscal framework for individual investors as well as venture companies and also organises conferences and networking events for actors in the venture market.

Spain's only business angel network is the *Xarxas d'Inversors Privats* (XIP) operated by CIDEM in the Catalan region. This network, which was launched in July 2002 and currently consists of 150 registered investors, brings together seven smaller networks, mostly from business schools and investment organisations. In addition to providing a meeting point for entrepreneurs and potential investors, XIP gives assistance with business valuation, due diligence and legal aspects of angel investment. CIDEM together with the local business school IESE of the University of Navarra offer specialised courses in venture investment for potential business angels. Aragon and other regions are attempting to create similar angels networks. The Spanish government recently passed a law, yet to be enacted, significantly streamlining the process of small business registration which should have a positive effect on the number of small firms seeking investment. Steps should be taken to create a web of business angel networks linked at the national level and also connected to existing regional investment programmes and technology incubators.

Second-tier stock markets

The *Nuevo Mercado,* a secondary stock market aimed at technology-based companies with high growth potential, was launched in Spain in April 2000. However, the optimism under which the *Nuevo Mercado* started was quickly muted by the decline in the NASDAQ and other secondary stock markets. In 2002, there were 14 companies on the *Nuevo Mercado* all of which were listed originally on other markets (**Table 2**). Listed companies are not required to show profits in the current year but must submit a report detailing business prospects and a forecast of potential results. A special market for Latin American companies (*Latibex*) was created in 1999. Trade is concentrated in a few sectors such as banking, telecommunications and energy and tends to involve larger rather than smaller companies.

Spain lacks the sizeable economy needed to support a buoyant market for initial public offerings (IPOs), a characteristic that has become evident on most secondary markets outside of the NASDAQ. The lack of exit alternatives for small firms presents an important barrier to the flourishing of the venture market in Spain. The buy-out market needs to be developed as well as opportunities for mergers and acquisitions. In addition, the potential benefits of participating in a European consolidation of secondary stock markets and further integration with Latin American markets should be assessed in order to achieve economies of scale in small firm listings and IPOs. Small specialty exchanges in countries such as Spain tend to lack liquidity and may not be financially viable in the long-run. A sizeable portion of Spain's venture capital is sourced from other countries and further integration into international financial markets and stock exchanges would support development of domestic start-ups and venture activity.

Table 2. Second-tier stock markets in OECD countries

Country (stock market)	Year of creation	Number of initial public offers (IPOs)				Number of quoted companies				Market capitalisation (% GDP)			
		1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
Sweden (O-List)	1988	..	..	24	9	150	228	240	235	28.3	24.0	23.3	18.5
United States (NASDAQ)	1971	485	397	63	40(1)	4 829	4 734	4 109	3 725(1)	56.5	36.9	28.9	16.5
Canada (Canadian Venture Exchange)(2)	1999	2 425	403	330	122	2 358	2 598	2 688	2 504	1.7	10.2	12.7	9.7
Korea (KOSDAQ)	1996	160	250	181	176	453	604	721	843	22.0	5.6	9.5	5.0
Norway (SMB List)	1992	3	7	7	3	78	77	79	79	4.2	1.8	1.5	1.2
United Kingdom (AIM)	1995	67	203	109	78	347	524	629	704	1.5	1.6	1.2	1.0
Ireland (ITEQ)	2000	---	..	..	..	---	7	8	8	---	3.6	1.7	0.7
Italy (Nuovo Mercato)	1999	6	32	5	0	6	40	45	45	0.6	2.2	1.2	0.6
Germany (Neuer Markt)(3)	1997	132	132	11	1	201	338	326	240	5.7	6.0	2.4	0.5
France (Nouveau marché)	1996	32	52	9	2	111	158	164	154	1.1	1.7	1.0	0.5
Switzerland (SWX New Market)	1999	6	11	1	0	6	17	15	9	..	3.0	0.9	0.2
Finland (NM List)	1999	..	..	..	..	..	17	16	15	..	0.7	0.3	0.2
Denmark (Dansk AMP)	2000	3	0	1	3	3	3	4	7	0.1	0.1	0.1	0.1
Spain (Nuevo Mercado)	2000	---	..	..	..	---	12	..	14	---	3.4	..	..
Japan (Mothers in Tokyo)	1999	2	27	7	8	2	29	..	..	0.2	0.1	..	..
Japan (Hercules in Osaka)	2000	---	..	43	..	---	..	32	..	..	..	0.3	..
Netherlands (EURO.NM Amsterdam)	1997	1	2	---	---	13	15	---	---	0.3	0.2	---	---
Belgium (EURO.NM Belgium)	1997	6	3	---	---	13	16	---	---	0.2	0.2	---	---
Europe (EASDAQ)	1996	..	..	---	---	56	62	---	---	---	---	---	---
NASDAQ Europe(5)	2001	---	---	..	..	---	---	49	43	---	---	---	---
Austria (Austrian Growth Market)(6)	1999	..	..	---	---	2	2	---	---	0.01	0.01	---	---

Notes;

(1) End of October.
(2) Data includes both high-growth firms' shares and shares of investment funds.
(3) The Neuer Markt segment will be discontinued, after a transition period, at the end of 2003.
(4) Previously NASDAQ Japan.
(5) In 2001, NASDAQ Europe acquired majority ownership in Easdaq.
(6) On April 2001, the two stocks in the AGM segment were transferred to the Specialist Segment of Wiener Börse.
Source: Compiled by the OECD Secretariat from national sources.

REFERENCES

European Commission (2002), “Benchmarking Business Angels”.

European Private Equity and Venture Capital Association (EVCA) (2002), *Yearbook 1999-2002*.

Martí Pellon, J. and M. Balboa Ramon (2002), “Characteristics of the Reputation of Private Equity Managers: Evidence in Spain”.

Martí, J. (2002*a*), *Oferta y Demanda de Capital Riesgo en España, 1999-2001*, Civitas, Madrid.

Martí, J. (2002*b*), “2002 First Semester Spanish Private Equity Report” from Internet web site: http://www.webcapitalriesgo.com.

Martí, J. (2002*c*), “Nuevo Programa Para Capitalización de Empresas de Base Tecnológica”, *Iniciativa emprendedora Deusto, 36.*

Spanish Venture Capital Association (ASCRI) (2003), *Informe 2003 Capital Riesgo y Private Equity*, Madrid.