



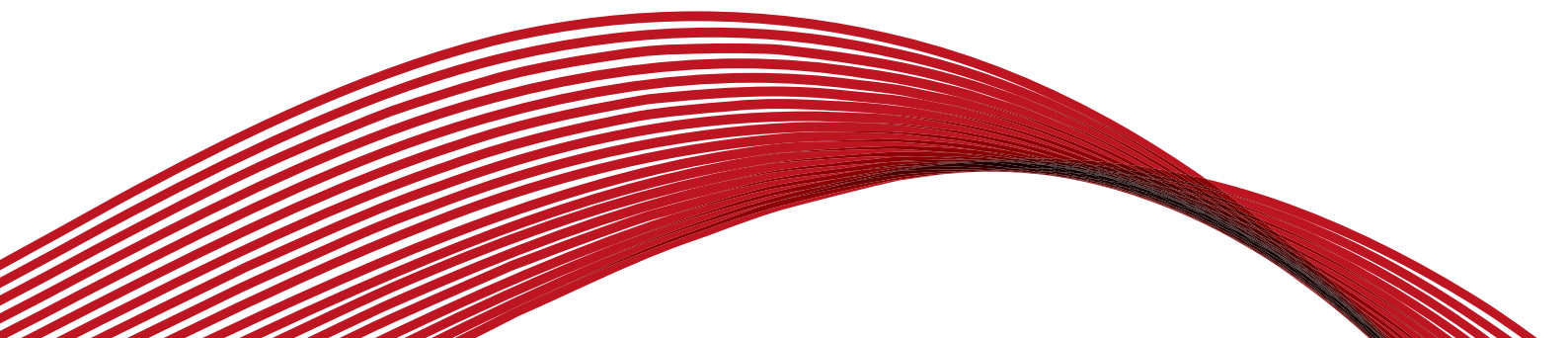
SPENDING REVIEW

STUDY. Executive summary

PUBLIC SECTOR FINANCIAL
INSTRUMENTS TO SUPPORT
PRODUCTIVE SECTORS OF THE
SPANISH ECONOMY



Independent Authority
for Fiscal Responsibility





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The mission of the Independent Authority for Fiscal Responsibility, AAI (AIReF) is to ensure strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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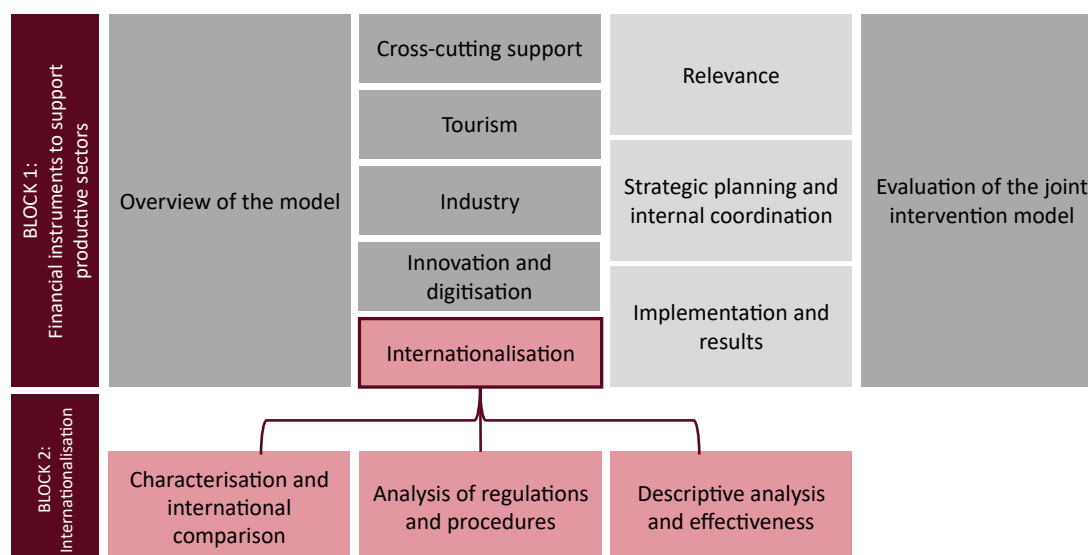
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EXECUTIVE SUMMARY

Public financial instruments are intervention tools that serve two functions: to act as a countercyclical instrument in times of credit restrictions and to address market failures of a structural nature, usually related to asymmetric information problems.

The study is based on two blocks of analysis. The first block covers the set of financial instruments to support the productive sectors, distinguishing cross-cutting support actions from more specific actions targeted at specific sectors (tourism and industry) or policy objectives (digitalisation, innovation and internationalisation). The aim is to determine whether there is a strategic framework of public support for business financing, to identify the institutions and financial instruments of the national and regional public sector, to analyse their theoretical justification (relevance), their strategic planning and internal coherence, the quantification and characterisation of their volume of activity and, lastly, the coherence of the system as a whole. The second block focuses exclusively on financial instruments aimed at supporting the internationalisation of companies, completing the analysis performed in the first block with a detailed characterisation of their activity from a comparative perspective with other similar countries, a study of the procedures and regulations of the instruments and an analysis of the effectiveness of their actions.

OUTLINE AND PILLARS OF THE EVALUATION



Source: Independent Authority for Fiscal Responsibility (AIReF).

The Spanish financial support system is a multi-agent model in which several agencies offer different instruments. This model, which potentially offers advantages in terms of specialisation, suffers from failures of coordination. To overcome this weakness, it is proposed that coordination should be strengthened by creating a working group to foster complementarity between the different instruments, an aggregate strategic plan should be drawn up for the system as a whole, and a common repository of information should be created. A multi-agency model also hinders the dissemination and communication of the set of official support instruments. It is therefore proposed that the visibility of the system should be strengthened by creating an information portal for the range of instruments on offer to make them easier to identify, similar to those identified in other countries.

At a sectoral level, there are problems of overlap between some tourism and industry instruments with cross-cutting financial support instruments and instruments to support digitalisation and innovation. Problems are also identified both in the management of these instruments and in coordination with the Autonomous Regions and Local Governments. It is proposed that the existing framework of instruments in these sectors should be streamlined and formal coordination mechanisms with the Autonomous Regions should be created.

In the sector of support for innovation and digitalisation, in which a high degree of sectoral specialisation has been identified, a disconnection of financial support is detected throughout the different phases of the business life cycle,

which stems from the multi-agency nature of the system. It is proposed that specific mechanisms be put in place to fill this gap and improve the traceability of innovative companies supported in the early stages.

In the field of internationalisation, there is a system that has different agents offering a diversified set of instruments aimed at the different needs that companies may have in their internationalisation process. In this area, there is good strategic planning due to the concentration of managers under the same management body (with the exception of the Instituto de Crédito Oficial, ICO). However, it has been found that smaller companies and companies with no export experience are underrepresented among the beneficiary companies. In addition, the second block of the evaluation, which further analyses internationalisation by means of a study of the procedures and regulations of the instruments and an analysis of their efficiency, reveals that in a multi-agent and specialised, but strategically coherent, model, there are some areas for improvement in the field of coordination, especially in the setting of clear, measurable and realistic targets.

In general, there is a lack of human resources specialised in financial instruments in the different public authorities analysed. In the case of the ICO, this limitation of resources is made up for through the banking intermediation system, which makes it possible to mobilise a significant volume of financial resources with the extensive network of financial institutions. However, this places a limitation on the oversight and discretionary nature of the use of public funds.

Finally, the study has identified a lack of evaluation across the board, which is manifested both in the absence of *ex-ante* evaluations to identify market failures and the relevance of the instruments created, the failure to define indicators to facilitate ongoing monitoring of the results by management centres, and the lack of *ex-post* evaluations by independent external agents.

The main findings identified from the joint intervention model and each family of instruments are summarised below, together with the proposals resulting from the evaluation.

FINDINGS AND PROPOSALS

1. BLOCK I: FINANCIAL INSTRUMENTS TO SUPPORT THE PRODUCTIVE SECTORS

1.1. OVERVIEW OF THE MODEL

FINDINGS	<p>Lack of visibility of the range of instruments available.</p> <ul style="list-style-type: none"> Spain has a model based on multiple service points that hinders the visibility of the range of instruments on offer and limits the scope of the intervention. Spanish companies show little awareness of the instruments available. 83% of the companies surveyed in the framework of this study are not aware of the financial instruments analysed and only about 4% know and have used them. This difficulty is particularly evident in SMEs, given that they have few specialised human resources. In our peer countries, there are portals that centralise information on different agents and instruments.
PROPOSALS	<ul style="list-style-type: none"> Create a financial portal to facilitate the dissemination of financial instruments that acts as a one-stop shop for training, advice and management for potential beneficiary companies.

1.2. EVALUATION OF REPAYABLE PUBLIC FINANCIAL INSTRUMENTS TO SUPPORT PRODUCTIVE SECTORS

CROSS-CUTTING SUPPORT

FINDINGS	<p>The mediation system has advantages and limitations.</p> <ul style="list-style-type: none"> • The mediation system has advantages in that, with few human resources, it allows large volumes of financing to be mobilised quickly throughout the productive sector, by taking advantage of the extensive network of offices of the mediating financial institutions. • However, this mechanism has a limit in the form of direct control since the granting of financing depends on the decision of a third party: the bank. Under normal conditions, this limitation is not very important, but in certain situations, in which financial institutions risk aversion increases, mediation may not work as the Central State Administration would wish. In these cases, the principal-agent problem that is at the heart of the mediation system becomes important and requires adequate mechanisms and incentives to be designed to restore the proper functioning of the system.
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TOURISM

FINDINGS	<p>Shortcomings in the functioning of FOMIT (since 2019, FOCIT).</p> <ul style="list-style-type: none"> • System based on a procedure regulated by the General Law on Subsidies with annual calls for applications. There is a lack of adequate coordination with the Autonomous Regions in an area that falls under their powers, coupled with insufficient specialised human resources. Suspension of use of the instrument, which has been inactive since 2012.
PROPOSALS	<p>A review of the operation of this instrument is proposed, including:</p> <ul style="list-style-type: none"> • The fund should be managed with adequate specialised human resources and it could be considered in the context of cross-cutting financial support for the productive sectors. • Establish a procedure of permanent calls for applications against the available funds (following the same model used by the FAIP, managed by SEPIDES) • Create appropriate coordination mechanisms with the Autonomous Regions that avoid conflicts of powers, for example through the approval of the requirements of the call for applications in the corresponding sectoral conference.

INDUSTRY

FINDINGS	<p>Existence of overlaps between industry and digitalisation support instruments.</p> <ul style="list-style-type: none"> • There are overlaps between the instruments to promote digitalisation by the General Secretariat for Industry and SMEs (Connected Industry 4.0 and RDI) and other instruments promoted by other entities such as the CDTI and ICO. • The management procedures for Connected Industry 4.0 and RDI are based on public calls for competitive tenders whose procedures are set out in accordance with the General Law on Subsidies, which has proven to be inefficient. • All this, together with the lack of specialised human resources, leads to a very low degree of execution.
PROPOSALS	<ul style="list-style-type: none"> • Reconsider the direct management of the Connective Industry 4.0 and RDI programmes by the Directorate General of Industry and Small and Medium-Sized Enterprises and consider a model of intermediation and financial management with specialised agents in this area.

INNOVATION AND DIGITALISATION

FINDINGS	<p>Lack of connection in innovation support between the different stages of a company's life cycle.</p> <ul style="list-style-type: none"> • Innovation support has its <i>raison d'être</i> in the life cycle of the innovative company and has a very complex financing ecosystem, where the transition between the early and late stages is the most difficult. • In the Spanish model, the different stages are covered by different entities and instruments: ENISA and CDTI finance innovation in the early stages and prioritise the technical aspect. ICO Axis operates on a larger scale for direct investments in equity, but the fund of funds model causes traceability to be lost. There is not enough connection between the CDTI and ENISA start-up support model and the ICO Axis venture capital fund system. • In the innovation support system, direct investment in capital has a much lower relative weight than financing granted through loans or mixed instruments (either participative loans or loans with a grant component).
PROPOSALS	<ul style="list-style-type: none"> • Adaptation of the available financial support through capital contributions by the public sector to companies to the financing ladder on which their development is structured in the life-cycle stage. This requires coordination between the agents involved (ICO Axis, CDTI-Innvierte and SEPIDES). It is proposed that monitoring be carried out of companies in which the funds are invested take direct or indirect holdings so as to ensure the traceability of the companies that have received official financial report and the outcome of the intervention.

FINDINGS	<p>Inadequate financing mechanism in ENISA.</p> <ul style="list-style-type: none"> • The funds available for financial instruments designed to make up for structural market failures have fallen due to the evolution of the economic cycle. • The allocated funds and financing of some financial instruments is linked to the General State Budget, which introduces administrative inefficiencies and conditions the degree of execution of the instrument to the budget cycle. • In particular, ENISA's activity is heavily conditioned by the budget cycle: It cannot permit financing until budgets are approved. This entails: <ul style="list-style-type: none"> • Long approval timelines and study duplication: operations are "pre-approved" and must be re-studied prior to approval. • The unavailability of credit in the Central State Administration in 2016 led to an adjustment in the use of the EBT line from a forecast of 20 million to an execution of 1.7 million. • Disinterest in the demand.
PROPOSALS	<ul style="list-style-type: none"> • Adapt ENISA's financing mechanism in order to isolate its activity from the impact of the budget cycle. This might entail a model based on a fund without legal personality.

INTERNATIONALISATION

FINDINGS	<p>Incomplete coordination in the field of internationalisation.</p> <ul style="list-style-type: none"> • Significant progress has been made in the coordination and joint participation of different agents in decision-making thanks to both implicit and explicit coordination mechanisms (Strategy for the Internationalisation of Spanish Companies and successive biennial action plans). However, key aspects remain to be developed, such as the setting up of a working group on financial instruments in the field of internationalisation.
PROPOSALS	<ul style="list-style-type: none"> • Launch the Financial Instruments Working Group in the field of official support for internationalisation, under the framework of inter-ministerial coordination proposals, as set out in the Strategy for the Internationalisation of Spanish Companies, in which joint strategic planning can be strengthened.

<p style="text-align: center;">FINDINGS</p>	<p>Lack of coordination in instrument planning.</p> <ul style="list-style-type: none"> • The different agencies draw up their strategic plans independently and it is usual practice for the financial instruments to be designed without taking into account the existing instruments of other agencies. • This lack of coordination in the planning of financial instruments means that there are: <ul style="list-style-type: none"> ◦ Sectoral objectives set out in the sector's strategy or action plan not covered by any financial instrument (effectiveness failure). ◦ Sectoral objectives set out in the centre's strategy or action plan covered by different instruments simultaneously, resulting in overlaps (efficiency failure). • There is no body to oversee the planning of instruments as a whole and verify their consistency with the rest of the economic policy.
<p style="text-align: center;">PROPOSALS</p>	<ul style="list-style-type: none"> • It is proposed that an overall medium-term strategic plan for financial instruments be drawn up. This should incorporate a comprehensive evaluation system, both for the plan's general and specific objectives and for each of the instruments included in it, as a key tool for coordinating the entire range of available financial instruments.
<p style="text-align: center;">FINDINGS</p>	<p>Absence of a common information repository.</p> <ul style="list-style-type: none"> • There is no common information repository for the different agencies managing financial instruments to support the productive sectors that bring together information on the financial instruments and beneficiary companies. • The absence of a common repository results in the following situations: <ul style="list-style-type: none"> ◦ Higher administrative costs for companies. ◦ Duplication and difficulties in monitoring and coordination by the public authorities. • A very significant part of the information required by the different agencies is common for them all. • In addition, the absence of a common repository makes it difficult to evaluate the instruments as a whole and to adapt the system to the needs of Spanish companies.
<p style="text-align: center;">PROPOSALS</p>	<ul style="list-style-type: none"> • It is proposed that a centralised repository of Central State Administration financial instrument transactions be created, furnished with information provided by the management agencies. The database developed for this evaluation that merges all transactions between 2010 and 2019 with the microdata of the Central Balance Sheet Data Office to be a starting point for the development of such a repository.

<p style="text-align: center;">FINDINGS</p>	<p>Deficit of vertical coordination mechanisms.</p> <ul style="list-style-type: none"> • In the area of financial instruments to support productive sectors, the Central State Administration and the Autonomous Regions do not use, except in some fields, formal mechanisms for vertical coordination of their actions. In some areas, the corresponding sectoral conference is used as a coordination mechanism, but in general no identification is made of instruments allowing complementarity. This issue seems relevant in view of the growing number of regional instruments. • There are individual initiatives that constitute good practices by different agencies in the search for this complementarity.
<p style="text-align: center;">PROPOSALS</p>	<ul style="list-style-type: none"> • It is proposed to promote the signing of collaboration agreements between State and regional agencies to optimise coordination between the two, taking as a reference good practices already existing at present.
<p style="text-align: center;">FINDINGS</p>	<p>Weaknesses in the evaluation area.</p> <ul style="list-style-type: none"> • The design and launch of the instruments is not based on an <i>ex-ante</i> evaluation that measures the financing gap and determines their allocated resources and duration. • No objectives, indicators and targets are set for the instruments to allow for a satisfactory evaluation of results and impact. • <i>Ex-post</i> evaluations are not systematised and those carried out are aimed at analysing results without a counterfactual approach. • The quantitative information available is limited to the monitoring of the returns on financing and the traceability of the effects of the intervention is lost.
<p style="text-align: center;">PROPOSALS</p>	<ul style="list-style-type: none"> • Regulate the requirement for setting best practices in evaluation throughout the life cycle of the financial instrument, with an <i>ex-ante</i> evaluation to identify market failures and the relevance of the instruments created. Conduct ongoing monitoring of the intermediate results by each management centre through the use of indicators and ensure that independent <i>ex-post</i> evaluations are conducted by external agents.

2. BLOCK II: FINANCIAL INSTRUMENTS FOR INTERNATIONALISATION

2.1. ANALYSIS OF REGULATIONS AND PROCEDURES

<p>FINDINGS</p>	<p>Excessive rigidity in the approval mechanisms of some instruments.</p> <ul style="list-style-type: none"> The level of control in official support instruments for internationalisation is heterogeneous. In particular, the efficiency and effectiveness of the instruments managed by FIEM and CESCE may have been limited due to excessive control associated with their procedures. However, improvements have been seen over recent years moving towards greater autonomy for the management agents based on their specialisation The lack of autonomy of these agents in terms of approval sometimes hinders the procedures for granting financing and the channel for receiving the applications for credit, as their approval needs to be elevated to bodies such as the Government Delegate Committee for Economic Affairs or the Council of Ministers.
<p>PROPOSALS</p>	<ul style="list-style-type: none"> Improve flexibility in the ability of the management agency to make decisions while maintaining its specialisation. It is proposed that the requirement for approval of operations by the Government Delegate Committee for Economic Affairs or the Council of Ministers be eliminated for instruments managed by CESCE and FIEM. In particular, operations in heavily indebted poor countries (HIPC) should be approved at a lower decision-making level on the basis of criteria set annually by the Government Delegate Committee for Economic Affairs.
<p>FINDINGS</p>	<p>Lack of definition of the operational objectives of the instruments by the management agents.</p> <ul style="list-style-type: none"> The agents and financial instruments to support internationalisation lack clear, measurable and realistic targets in sectoral planning (Strategy for the Internationalisation of Spanish Companies and the biannual action plans). While the level of autonomy is higher in the case of FIEX and FONPYME funds, the absence of clear objectives linked to economic policy priorities limits the number of operations by restricting the level of risk tolerated.
<p>PROPOSALS</p>	<ul style="list-style-type: none"> Set clear and measurable execution targets for the managers of the instruments in terms of number of operations, volume of financing, risk levels, sectors and types of company linked to the general aims of the internationalisation policy, as set out in the Strategy for the Internationalisation of the Spanish Economy and the action plans.

<p style="text-align: center;">FINDINGS</p>	<p>Shortfall in the provision of specialised human resources for the management agents of the instruments.</p> <ul style="list-style-type: none"> • There is a shortage of specialised human resources for practically all the management agents of the financial instruments to support internationalisation. In a direct fund management model, this is the main constraint on the volume of operations that can be carried out. In a multi-agent system, human resources must be specialised, which introduces additional rigidity in the management of human capital.
<p style="text-align: center;">PROPOSALS</p>	<ul style="list-style-type: none"> • Provide greater availability of human resources to the managing agents of financial instruments in the field of internationalisation that is in line with the workload and with the objectives of the intervention and the level of specialisation required.
<p style="text-align: center;">FINDINGS</p>	<p>Inadequate financing mechanism of the interest-rate risk hedging instrument (CARI).</p> <ul style="list-style-type: none"> • At present, the surpluses of the CARI system are deposited annually in the account of the Directorate-General of the Treasury in the Bank of Spain. Potential deficits would be covered by budgetary allocations. This subjects the managing agent to uncertainty regarding the approval of budgets and approved amounts and adds an unnecessary management layer.
<p style="text-align: center;">PROPOSALS</p>	<ul style="list-style-type: none"> • Streamline the financial management of CARI so that it is endowed with its surpluses and they can be used to finance cash deficits in the years in which they occur, replicating the measure taken in 2014 by which the Reserve Fund for the Risks of Internationalisation (FRRI) was created to solve the same problem that happened with export credit insurance.
<p style="text-align: center;">FINDINGS</p>	<p>Disconnection between the management agent and the financial agent.</p> <ul style="list-style-type: none"> • One difficulty that has been highlighted for this evaluation study is the lack of connection between the databases of the State Secretariat for Trade, the management agent of the FIEM and CARI instruments, and the ICO, its financial agent. This prevents, for example, the State Secretariat for Trade from having direct access to the corresponding information on companies and operations financed by the funds it manages.
<p style="text-align: center;">PROPOSALS</p>	<ul style="list-style-type: none"> • Create an IT gateway that allows the management agent to consult the records corresponding to the instruments that the ICO as a financial agent manages on behalf of the State Secretariat for Trade. Until this gateway is available, it is proposed that the ICO should send files with sufficient frequency with information on the operations carried out so as to allow the corresponding management agent to monitor them directly.

2.2. DESCRIPTIVE ANALYSIS AND EFFECTIVENESS OF INTERNATIONALISATION

FINDINGS	<p>Limited reach of the financial instruments to the SME segment and to companies without previous export experience.</p> <ul style="list-style-type: none"> The study of the data from all the financial agencies reveals that the companies that access official financial support for internationalisation are on average much larger than the mean and more than twice as large as the exporting companies that do not receive support. Furthermore, the vast majority of companies that receive support are companies that were previously exporters. Expanding the universe of exporting companies to SMEs and companies with no previous experience in internationalisation seems to be a pending challenge. The existing instruments are mainly used by larger companies, with the exception of the ICO's and, to a lesser extent, CESCE's second-floor facilities.
PROPOSALS	<ul style="list-style-type: none"> Promote a greater focus on SMEs among the existing instruments, fostering greater coordination of instruments aimed at SMEs, standardising requirements, minimising procedural costs for SMEs and considering the possibility of adapting certain instruments that are currently only used by large companies so that they can be more accessible to SMEs (for example, CARI).



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