7. VENTURE CAPITAL

Venture capital investments by sector

Key findings

- In 2016, in the United States, the ICT sector received more than half of the total venture capital investments (53.6%), followed by life sciences (20.7%). In Europe, the ICT sector attracted significant venture capital investments (44% of the total), followed by life sciences (27%).
- Between 2007 and 2016, the venture capital investment gap widened between the United States and Europe in all sectors.

Relevance

Venture capital is a form of equity financing particularly important for young companies with innovation and growth potential but untested business models and no track record; it replaces or complements traditional bank finance. Venture capital seeks to generate big returns on small initial investments and mostly in sectors with low capital requirements, such as in ICT or life sciences. Sectors with typically higher capital requirements such as real estate and mining attract a comparatively smaller amount of venture capital investments.

Definitions

Venture capital is a subset of private equity (i.e. equity capital provided to enterprises not quoted on a stock market) and refers to equity investments made to support the pre-launch, launch and early stage development phases of a business (Source: Invest Europe).

Comparability

There are no standard international definitions of either venture capital or venture capital investments by development stage. In addition the methodology for data collection differs across countries.

Data on venture capital are drawn mainly from national or regional venture capital associations that produce them, in some cases with the support of commercial data providers, except for Australia, where the Australian Bureau of Statistics collects and publishes statistics on venture capital.

Data for the United States include also venture capital investments done by other investors alongside venture capital firms, but exclude investment deals that are 100% financed by corporations, and/or business angels. Data for Europe includes only venture capital investments (seed, start-up and later stage) by formal fund managers including private equity funds making direct private equity investments, mezzanine private equity funds, co-investment funds or rescue/turnaround funds; investments by business angels, incubators, infrastructure funds, real estate funds, distress debt funds, primary funds-of-funds or secondary funds-of-funds are excluded; the investment amount only captures the equity amount that is invested by formal fund managers and not the value of the entire financing round. Growth capital or buyout investments in current or formerly venture capital-backed companies are also not included.

In the OECD Entrepreneurship Financing Database venture capital is made up of the sum of early stage (including pre-seed, seed, start-up and other early stage) and later stage venture capital. As there are no harmonised definitions of venture capital stages across venture capital associations and other data providers, original data have been re-aggregated to fit the OECD classification of venture capital by stages. Korea, New Zealand, the Russian Federation and South Africa do not provide breakdowns of venture capital by stage that would allow meaningful international comparisons.

Table C.3, Annex C, presents the correspondences between original data and OECD harmonised data for venture capital investments by sector.

Sources

OECD Entrepreneurship Financing Database, drawing from:

Further reading

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Figure 7.9. Venture capital investments in the United States, by sector
Percentage, 2016

Figure 7.10. Venture capital investments in Europe, by sector
Percentage, 2016

Figure 7.11. Venture capital investments by sector, selected European countries
Percentage, 2016

Figure 7.12. Venture capital investments by sector
Million US dollars