

1. RESPONDING TO THE ECONOMIC CRISIS

1.1. Venture capital in the economic crisis

Venture capital is a major source of funding for new technology-based firms. It plays a crucial role in promoting radical innovations and is one of the key determinants of entrepreneurship.

In 2008, the United States accounted for 49% of total venture capital investments in OECD countries. The United Kingdom was the only other country where this share exceeded 10% of the OECD total.

Denmark and Luxembourg have the highest intensity of venture capital investment, with just below 0.3% of their GDP. The intensity is also high in Finland (0.23%) and the United Kingdom (0.21%).

The Internet bubble in the early 2000s clearly showed that venture capital is very sensitive to economic downturns. The total amount of US venture capital investment dropped by about 42% in just one quarter at the beginning of 2001. By the end of first quarter of 2003, venture investment had decreased by a striking 85% since the first quarter of 2000.

At a time when access to bank credit and stock market financing is very tight, venture capital becomes rare as venture capitalists wait out the crisis. In the United States, for example, total venture investments started declining in early 2008. In the first quarter of 2009, they plunged 60% from a year earlier. The small increase in the second quarter of 2009 remains too timid to indicate an inversion of this trend.

Early stage and start-up and seed investments followed the same pattern, with decreases of 56% and 60%, respectively, over the same period.

The drop was particularly dramatic in the communication industries, where the decrease in venture investments started in the third quarter of 2007 and exceeded 80% by the end of the first quarter of 2009.

In information technologies and the health and biotechnology industries, the reduction of venture investment was in line with the overall decrease and equal to 59% and 55%, respectively.

Venture capital

Venture capital is provided by specialised financial firms acting as intermediaries between primary sources of finance (such as pension funds or banks) and firms (formal venture capital). It is also provided by so-called “business angels” (usually wealthy individuals experienced in business and finance who invest directly in firms).

The PricewaterhouseCoopers/National Venture Capital Association *MoneyTree™ Report* is a quarterly study of venture capital investment activity in the United States. It records cash for equity investments in US companies as the cash is actually received by the company (also called a *tranche*).

The development of a venture-backed company has three basic financing stages:

- Seed capital is provided to research, assess and develop an initial concept.
- Start-up financing is provided for product development and initial marketing.
- Expansion financing is provided for the growth and expansion of a company that is breaking even or trading profitably.

Source

OECD calculations, based on PricewaterhouseCoopers/National Venture Capital Association *MoneyTree™ Report*.

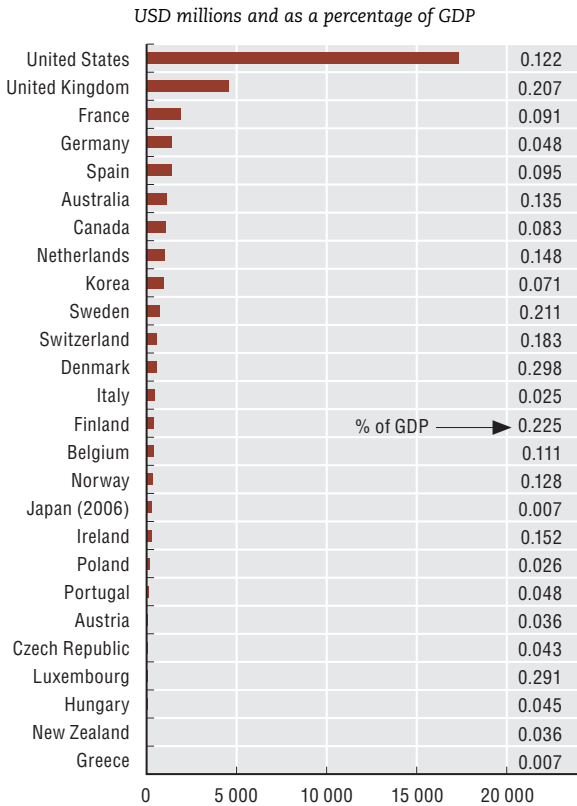
Going further

PricewaterhouseCoopers/National Venture Capital Association (2009), Second Quarter 2009 *MoneyTree™ Report*, www.pwcmoneytree.com/MTPublic/ns/index.jsp.

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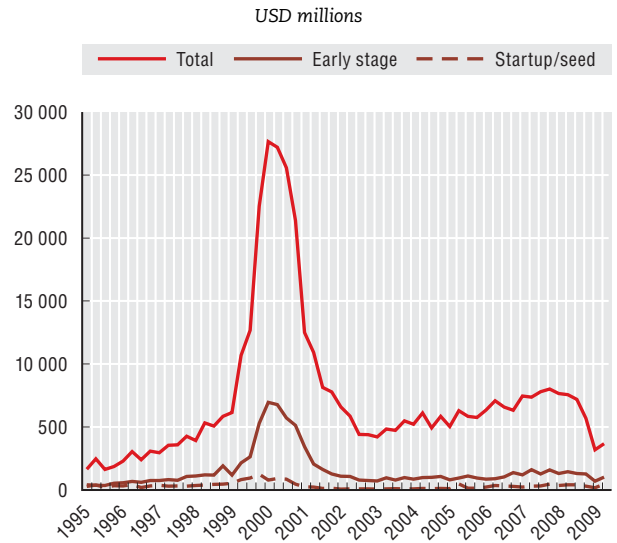
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Venture capital investment, 2008



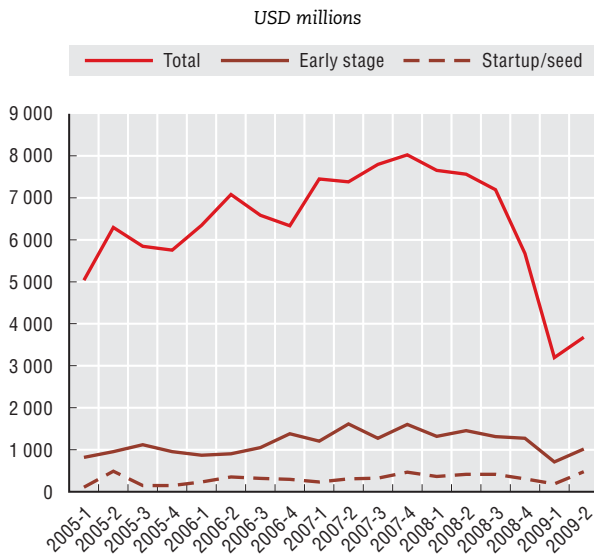
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US venture capital investment, by industry – historical trends



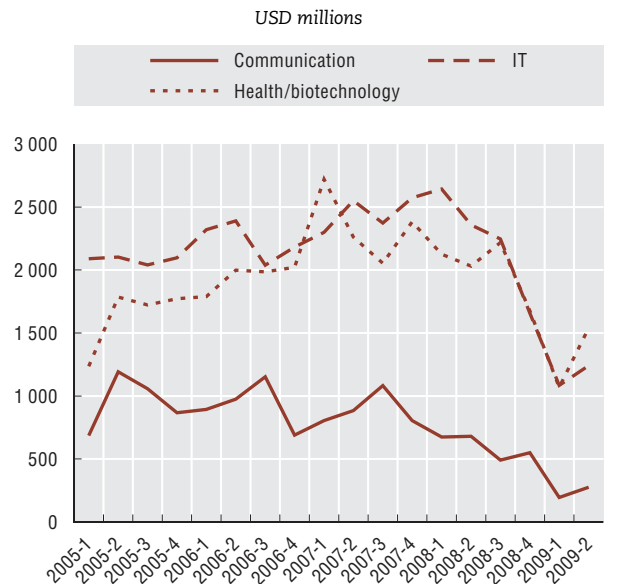
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US venture capital investment, by stage – latest quarters



StatLink <http://dx.doi.org/10.1787/741718508114>

US venture capital investment, by industry – latest quarters



StatLink <http://dx.doi.org/10.1787/741735517440>



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