***Private funding, whether in the form of debt or equity, plays a key role in fuelling innovation. However, significant amount of funding has dried up owing to the recent economic crisis, particularly for seed and start-up companies.***

**Long-term interest rates, 2008**

*Per cent per annum*


*Source:* OECD, Main Economic Indicators Database, October 2009.

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### DID YOU KNOW?

In 2009, US venture capital investment was USD 17.7 billion, while US business angels investment was USD 17.6 billion.

(NVCA/PwC, 2010; and Sohl 2010.)

New and innovative small firms can obtain both debt and equity financing. The cost of financing investment had been decreasing, but following the financial crisis access to finance has become particularly difficult for entrepreneurs and young firms.

For entrepreneurial firms, especially young, technology-based firms with high growth potential, venture capital is an important source of funding at the seed, start-up and growth phases. Venture capital differs significantly among countries and is very sensitive to market cycles in terms both of the amounts invested and the stages of investment. Under some conditions, venture capital funds may invest in the later stages, leaving gaps at the pre-seed and seed stages where profit expectations are less clear and risks are much higher.

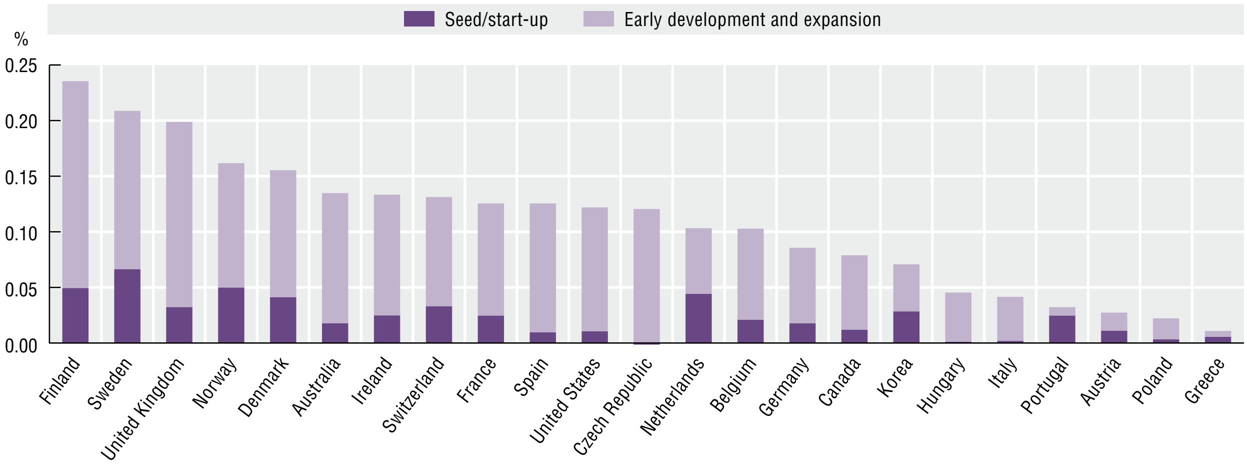
When entrepreneurs need other external sources of seed capital, business angels, often successful entrepreneurs or experienced business people, have become an increasingly important source of equity capital. Financing at this stage often comes informally from founders, friends and family; and formally from venture capital investors or business angels. Private-sector financing is becoming more organised. The United States has the most developed market but activity in Europe and other regions is growing.

### Definitions

*Debt financing* (*e.g.* loans from individuals, banks or other financial institutions; sale of bonds, notes or other debt instruments) involves the acquisition of resources with an obligation to repay. *Venture capital* is private equity provided by specialised firms acting as intermediaries between primary sources of finance (insurance, pension funds, banks, etc.) and private companies whose shares are not freely traded on any stock market. A *business angel* is a private investor who generally provides finance and business expertise to a company in return for an equity share in the firm. Some business angels form syndicates or networks in order to take on larger deals and spread risk.

**Venture capital investment, 2008**

*As a percentage of GDP*

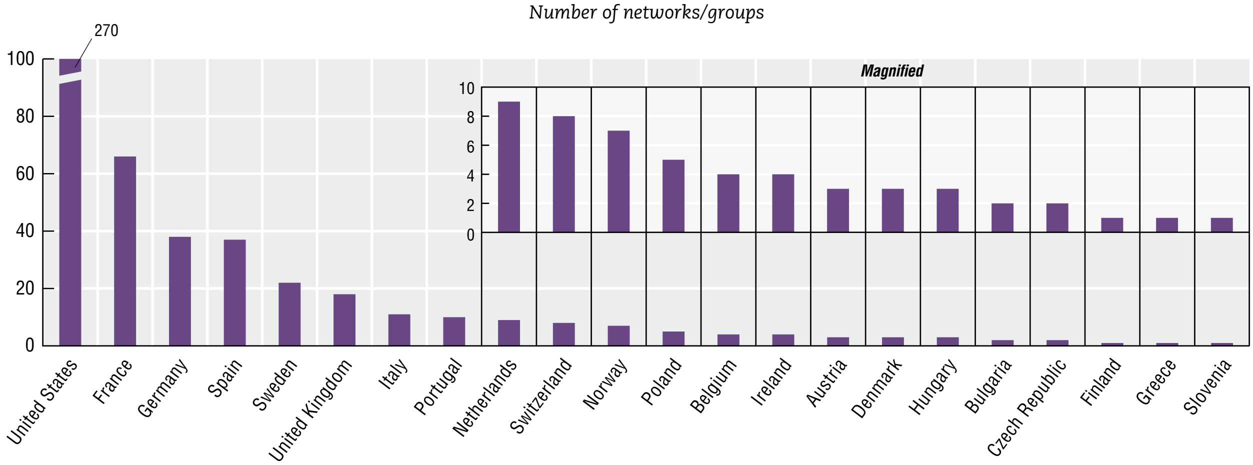



*Source:* OECD (2009a), *Measuring Entrepreneurship: A Collection of Indicators*, OECD, Paris, based on the OECD, Entrepreneurship Financing Database. See chapter notes.

StatLink http://dx.doi.org/10.1787/835656441446

**Business angels, 2007**

*Number of networks/groups*




*Source:* OECD (2009a), *Measuring Entrepreneurship: A Collection of Indicators*, OECD, Paris, based on the OECD, Entrepreneurship Financing Database. See chapter notes.

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## Measurability

National and regional venture capital associations collect data on venture capital from their members. Until recently, venture capital data were not fully comparable internationally, owing to differences in definitions and classification methods. However, given recent changes in methodology, data have become more comparable: inward and outward flows are treated in the same way across countries and the comparability of industry classifications has improved (OECD [2009a], *Measuring Entrepreneurship: A Collection of Indicators*).

National and regional angel capital associations are beginning to collect data on the informal angel investment sector. The US Angel Capital Association (ACA) and the European Business Angel Network (EBAN) work to expand the set of angel investment statistics beyond those currently available. Angel investment is growing in Asia and other regions, although data are not yet collected in a manner that allows for cross-country and regional comparisons.