

Additional Comments

Ecosystem of Financing Innovations

Masako Ueda

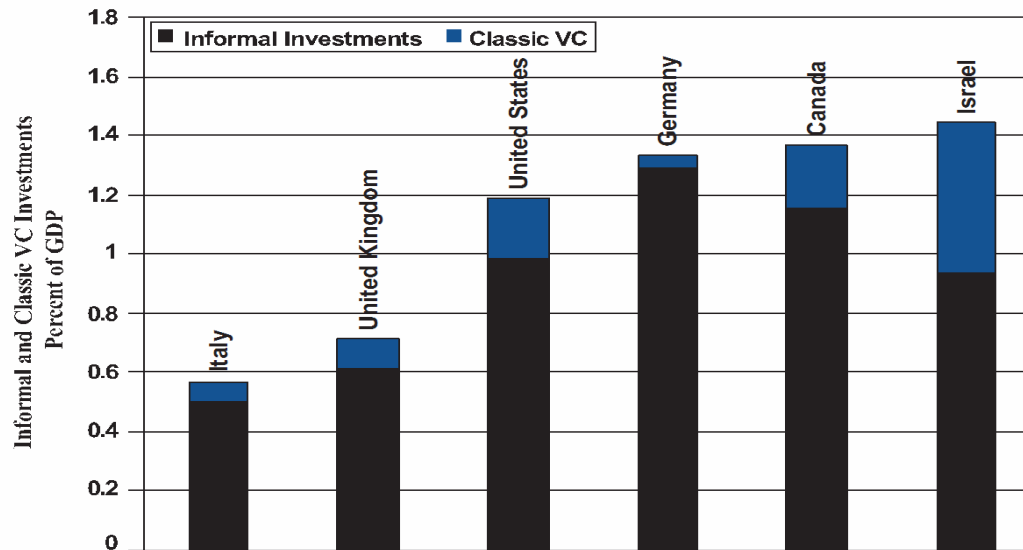
Economic Unimportance of VCs

- Fewer than one in 10,000 companies in the States receive their initial funding from VCs. (GEM Global 2005 Executive Report)
- Less than one percent of small firms in the States is ever financed through VCs. (1998 National Survey of Small Business Finance)
- VC investment is small relative to corporate R&D – at most 10% . (Hirukawa and Ueda, 2005)



Informal Capital versus VC

**FIGURE 17 - DOMESTIC INFORMAL AND CLASSIC VENTURE CAPITAL INVESTMENTS:
PERCENT OF GDP**



Classic venture capital comprises investments in seed, early, start-up, and expansion stage companies.

Global Entrepreneurship Monitor, 2003



Other Resources Needed for VC Friendly Environments

- Lawyers capable of drafting VC contracts.
- Established firms that buy VC-funded firms (ex. Cisco and Microsoft in the US)
- Technology cluster – Economy of scale and scope.
- Importance of high net worth individuals.



Summary

- US venture capitalists played an important role in creation of public firms in the last two decades.
- Nevertheless, other supporting mechanisms of entrepreneurship (informal capital, etc.) should not be ignored.

