

## Policies for Seed and Early Stage Financing

Recent work in the Directorate for Science, Technology and Industry has focused on the important role that young innovative firms play in economic growth and job creation. Financing is often one of the key success factors for these high growth firms. A new report from the OECD highlights findings from a recent questionnaire on seed and early stage firms across OECD member countries. These findings are outlined below along with further information about the publication.

### STI Policy Paper: “Polices for Seed and Early Stage Finance”

In 2012, the OECD sent a questionnaire on seed and early stage financing to the 34 OECD member countries, which was answered by 32 countries. The financing questionnaire sought to identify the set of policy interventions which OECD member countries have in place and how these have changed over time. The summary of the findings, which includes further research and findings from a series of OECD financing policy workshops, is available at <http://dx.doi.org/10.1787/5k3xqsf00j33-en>

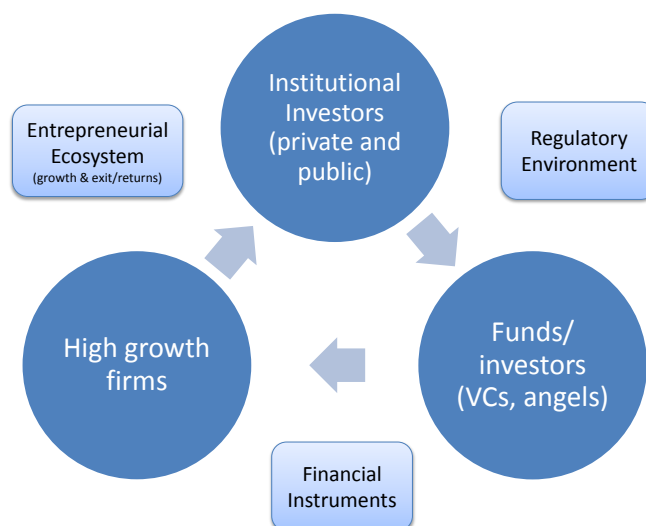
### Financing Challenges for Young Innovative Firms

Young innovative firms face many difficulties accessing seed and early stage finance and these challenges have increased over the past five years.

- Banks have been less willing than normal to provide loans to start-ups as a result of the financial crisis.
- Venture capital firms have become more risk adverse due to pressures on the industry and have focused on later stage investments.
- Angel investors have become more visible and active through groups, syndicates and networks but have also faced difficulties.

Financing for innovative start-ups is complex as different financing instruments are needed for various stages of the firm’s development. The chart below shows the equity financing cycle on which the OECD questionnaire was based.

Equity Financing Cycle



## What is the Role of Government?

Policy makers in a number of OECD countries have sought to address the prevailing seed and early stage financing gaps by intervening in multiple areas simultaneously.

### Supply side interventions

The 2012 OECD financing questionnaire results showed that supply side policy interventions have increased in the past five years in many OECD countries.

- The majority of OECD countries have had grants, loans and/or guarantee schemes in place for many years and support for these programmes has increased over the past five years.
- Some OECD countries have increased tax incentive programmes. These include front (investment) and back (capital gains) end incentives for investments in young firms.
- There has been a noted increase in the use of equity instruments, particularly in co-investments funds and fund-of-funds which seek to leverage private investment.

### Demand side interventions

The demand side is often overlooked in favour of supply side actions.

- Developing human capabilities and social capital is critical to success of early stage ventures.
- Initiatives to create a more entrepreneurial culture are also vital as in many countries the fear of failure is higher than perceived opportunities.

There has been growth in programmes such as incubators, accelerators, business angel networks and matchmaking services in many OECD countries.

- However, a gap was noted in the training and development of investors themselves, an important element of building the market.

### Addressing regulatory and administrative barriers

Regulatory and administrative barriers to seed and early stage investment can affect institutional investors, venture capital funds, angel investors and high growth firms.

- Exit markets play a critical role as well as bankruptcy regulations, labour market restrictions and other framework conditions.
- Securities legislations and increasing restrictions on institutions investors, particularly those on banks, pension funds and insurance companies, can be barriers to investment in seed and early stage companies.

## Need for Evaluation and Assessment of the Full Policy Mix

Despite the growth of supply side interventions, there is little evidence of the impact of these instruments and whether or not they crowd out private investors.

- Policy interventions should not be seen in isolation but as a set of interacting policies (supply side, demand side and framework conditions).
- Effective evaluation and periodic adjustment of the specific policy instruments as well as the full policy mix is needed.

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### For more information

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