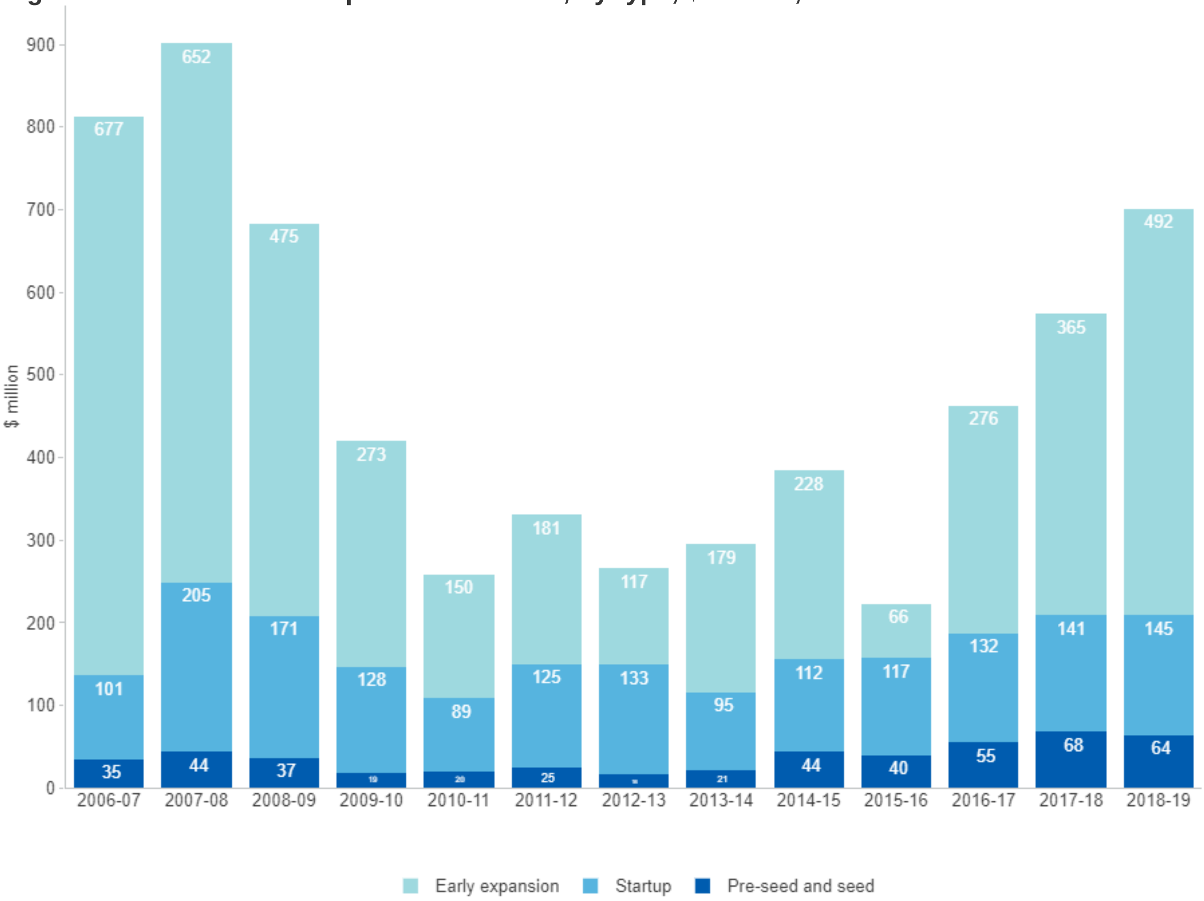
2.2.1 Value of venture capital investments

Venture capital (VC) plays an important role in financing the launch, early development and expansion of innovative, high-growth-potential companies. These companies may have difficulties accessing traditional sources of capital due to their higher risk profile. In any given year, roughly a quarter of young innovative Australian small and medium enterprises (SMEs) seek some form of external finance. Evidence suggests that the success rate of businesses applying for venture capital investment fell from 3 per cent in 2005–06 to just over 1 per cent in 2013–14.[1] The dollar value of venture capital investment has followed a similar pattern. It peaked in 2007–08 with a total of $901 million invested but subsequently declined to just $266 million in 2012–13. The main contributor to this decline was early expansion funding, which is the largest and most volatile of the three investment types. More recently, Australia's venture capital investment has been trending back up, reaching $701 million in 2018–19, with around 21 per cent of this going to startups.[2]

Figure: Value of venture capital investments, by type, $ million, latest 2018–19



[1] Alinejad M, Balaguer A and Hendrickson L (2015) *Financing innovative entrepreneurship*, Department of Industry, Innovation and Science, Office of the Chief Economist research paper 8/2015 (https://www.industry.gov.au/sites/default/files/June%202018/document/pdf/financing_innovative_entrepreneurship.pdf)

[2] ABS, *Venture Capital and Later Stage Private Equity*, Australia, Cat. No. 5678.0 (https://www.abs.gov.au/statistics/economy/finance/venture-capital-and-later-stage-private-equity-australia/latest-release)