

Young and innovative, seeking ... loan

Financing young companies which invest in R&D

Financing R&D activity presents particular challenges for young companies. The high cost associated with R&D projects often outweighs the funding available out of sales revenues or from the financial resources of founders and owners, and so external financing is frequently needed. From an economic policy viewpoint - and in the academic world as well - risk capital is considered the optimal form of financing for young, innovative companies. But the present analysis, based on data from the KfW/ZEW Start-up Panel, puts Venture Capital into its proper perspective. Empirical investigation shows that bank loans are the source of external finance most frequently used by young companies. This also applies to the 13 % of young companies who undertook their own research and development in 2007 and 2008.

Two important findings can be drawn from this analysis: it is essential that young, innovative companies which are active in R&D have access to loan finance. Ensuring this access even in a changing environment, represents a major challenge for economic policy. Entrepreneurs can play their part by maintaining a close relationship with their main bank, and thereby helping to reduce information asymmetries.