

PERSONEL INFORMATION

Name, Surname : Özcan Karahan

Date of Birth : June 21.1969

E-mail : karahan@dr.com

Master Study : Istanbul University Institute of Social Sciences.
Department of Economics (1990-1992):

Doctorate Study : Istanbul University Institute of Social Sciences.
Departmentt of Economics (1992-1998)

Occupation : Assistant Professor, Balıkesir University
Bandırma Faculty of Administrative and Economic Sciences
Bandırma – BALIKESİR / TURKEY

Science Interest : The process of knowledge production, diffusion of knowledge, knowledge as a production factor, knowledge as goods and services, information and communication technologies and knowledge economy, financial aspects of knowledge economy, policies towards improvements of knowledge economy, basic indicators of knowledge economy, competition policies in knowledge economy.

FINANCING THE “NEW ECONOMY”

We know that basic dynamic of new economy depends on new and different ideas.

However, we also know that you will struggle for funding if you have an idea that's new and different.

Then we should attach a special importance to financing aspect of new economy.

What is the new economy?

The notion of a “new economy” is closely tied to the effects of “new and different ideas” or “technical progress” on economic growth.

New Economy Firms generally based on high-tech investments and located in industries such as communications, biotechnology computing, electronics and medical/life sciences.

What are the distinguished features of technology-based investments, which make difficult their financing?

- High Risk Profile
(limited chance of success)
- High Degree of Uncertainty
(increasing informational asymmetries)
- Intensive Intangible Assets
(creating collateral problem)

What are the distinguished features of venture capital, which make easy technology-based investments' financing ?

- Active Investor
(increasing chance of success)
- Staging Investment (Invest incrementally)
(decreasing informational asymmetries)
- Equity Financing
(eliminating collateral problem)

Venture Capital is a significant phenomenon for new economy since it funds productive technology-based investment that could not be financed with other financing method.

- Between 2003 and 2005 in United States, average growth of employment at venture capital based companies is 4,1 % while total employment growth is only 1,3 %.
- Between 2000 and 2004 in Europe, average growth of employment at venture capital based companies is 5,4 %, while total employment growth is only 0,67 %.

“Quantity” and “Quality” of Venture Capital Sector in United States and Europe are important for the future of new economy

The term of “quantity” refers to “Venture Capital Fundraising”.
The term of “quality” refers to “Distribution of Venture Capital by Investment Stage” and “Distribution of Venture Capital by Sectors”.

VENTURE CAPITAL FUNDRAISING (Billion \$)

	1996- 2001 average	2002	2003	2004	2005	2006	2002- 2006 average
Europe	29,1	11,3	7,6	11,8	14,6	21,3	13.3
United States	41,5	21,2	19,2	21,0	27,0	30,2	23,7

Source: Own calculations based on EVCA Yearbooks and NVCA Annuals Reports.

What is striking about the above table is the insufficient growth of the venture capital industry in Europe while the venture capital industry is well established in the United States.

THE SHARE OF VENTURE CAPITAL IN EARLY STAGE FINANCING (%)

	1996- 2001 average	2002	2003	2004	2005	2006	2002- 2006 average
Europe	11,8	9,5	7,0	6,1	9,3	10,4	8,4
United States	29,8	20,8	19,5	20,4	28,0	34,1	24,5

Source: Own calculations based on EVCA Yearbooks and NVCA Annuals Reports.

American venture capitalist emphasize the creating new funds for “early stage” (seed” and “start-up) investment while European venture capitalist primarily invest to expand businesses.

European venture capital industry plays a less significant role than its United States’ counterpart in the provision of new business or innovation.

THE SHARE OF VENTURE CAPITAL IN HIGH-TECH SECTORS (%)

	1996- 2001 average	2002	2003	2004	2005	2006	2002- 2006 average
Europe	37,6	49,4	40,3	38,4	46,7	29,5	40.8
United States	95,6	91,1	87,3	94,0	92,0	93,4	91,5

Source: Own calculations based on EVCA Yearbooks and NVCA Annuals Reports.

Technology-based investments have been the leading recipients of United States' venture capital while majority of European venture capital investments have gone towards non high-tech industries.

In conclusion;

The market for venture capital in the United States is considerably better funded than the ones in Europe in terms of amount (quantity), investment stage and sectors (quality).

Therefore, policy-makers should focus on promoting of “quantity” and “quality” of venture capital in Europe in order to reach the level of new economy in United States