# Entrepreneurs face venture capital funding drought

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The number of US venture capital firms that raised new investment money sank to a 15-year low in the last fiscal quarter as a drought of funding threatened innovation around the world.

Approximately 1.56 billion dollars (US) was raised by a total of 17 venture capital firms in the third quarter of 2009, the smallest such showing since 1994, according to figures released Monday by Thomson Reuters and the National Venture Capital Association (NVCA).

The amount of money pumped into venture capital funds' coffers last quarter was the lowest since the first quarter of 2003 when 938 million dollars was raised, according to Reuters and the NVCA.

"The venture capital bubble has burst," said Adeo Ressi, founder of TheFunded.com online community devoted to rating entrepreneur funding sources.

"I consider this the first dark sign of really bad collapse coming in 2010. The system needs new money to fund new ideas or the world will face a breakdown in innovation by 2012."

The amount of new investment cash brought in by venture capital firms has sunk each quarter since the start of 2009, according to Reuters and the NVCA.

"Many limited partners are still determining their long term strategies in the wake of the past year's financial crisis and that slows the process down considerably," said NVCA president Mark Heesen.

The NVCA expects commitment of investment dollars to "remain modest" through the end of this year and begin a gradual increase in 2010.

Ressi painted a grimmer picture, saying that it is "nearly impossible" for venture capital funds to raise new investment cash and that reserves are dwindling.

Making the situation worse for entrepreneurs is that big investors such as universities and pension plans are bailing out of venture capital funds to get their hands on cash to cover debt or other obligations, according to Ressi.

For example, Stanford University is reportedly selling a billion dollars in investments including private equity positions to raise cash.

"Major institutions are dumping private equity positions, allowing smart investors to buy venture capital positions for pennies on the dollar," Ressi said, adding that partners in venture capital firms are selling stakes to get cash.

"So, potential new money into new VC (venture capital) funds can buy old VC positions on the cheap."

TheFunded.com listed 336 such firms as no longer making investments and said that 200 venture capitalists have left the business in the past year.

"Smart people see that the boat is sinking, and they try to get off first," Ressi said.

"Nobody wants to be one of 10,000 venture capitalists seeking a job in six months."

Entrepreneurs realize that capital is scarce and are resorting to self-funding or wooing "angel" investors.

"It's a really dire circumstance right now," Ressi told AFP. "Ultimately, innovation will suffer."

Symptoms being seen in US venture capital markets bode ill for the health of startups worldwide.

"The capital sources for venture firms are global, and they all tend to make the same mistakes and pursue the same strategies," Ressi said.

"The problem is the same almost everywhere in the world; no region's venture industry will be spared."

Investment dollars will still be found for significant technologies with strong potential, said David Charron, associate director at the Lester Center for Entrepreneurship and Innovation at the University of California, Berkeley.

"In some respects it's a better situation for entrepreneurs because the amount of competition is less," Charron told AFP.

"If you can get funding, it is a great time to start a company."

Charron agreed that the drop in Venture capital funds is a dark sign, but believes it will slow, not stop, the pace of innovation.

"Think of it like a tea kettle," Charron said. "If you turn the heat down on the kettle it doesn't whistle as loudly, but the water is still boiling."