

# Market failure analysis of the venture capital market in the Czech Republic

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**Abstract:** share of amount of VC (Venture Capital) investments on total PE (Private Equity) investments in the Czech Republic was only 3.2 % on average in 2007-2010, which is far below the European level. In 2008-2010, the venture capital investment to total PE investment ratio was 12.2 % in Europe, almost 4 times higher. Overall, the CEE (Central and Eastern Europe) PE/VC markets are much more buyout oriented than the rest of Europe. Particularly, early-stage venture capital financing is very low in the Czech Republic. Furthermore, business angels' networks do not adequately take the place of lacking early stage venture capital funds. The VC market in CEE, not only in the Czech Republic, concentrates on larger later-stage investments. PE/VC investing has not yet become a common investment method in the Czech Republic. Such funds are regarded as rarely used alternative financing sources that entrepreneurs seek out only after they are rejected at the bank. Selling a business is not a common goal of entrepreneurs. One of the reasons is that in the Czech Republic, the participation of pension funds and insurance companies as limited partners in PE/VC investing is significantly restricted by law. Another reason still limiting expansion in PE/VC investments in the Czech Republic is that entrepreneurs are not prepared to share the business with an investor and are often lacking in strategic management knowledge.

**Keywords:** venture capital, private equity, financial markets, seed capital, start-up capital, expansion capital

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