

Key actors for financing innovation

There are multiple types of investors, beyond family and friends, who can provide finance to innovative firms at different stages of the innovation and firm development process, if their internal resources are not sufficient. The main categories include:

- **Banks** (see [Banks](#) [1]): Innovative firms can also borrow funds from banks. However, banks typically require that firms have either collateralizable assets or sufficient scale/low risk profile. While some recent initiatives seek to make it easier for firms to use their intangible assets as collateral when raising bank funding, banks are typically not best suited financial intermediary to fund those innovation activities. However, they play a very important role in funding lower risk innovation.
- **Stock and bond markets** (see [Stock markets](#) [2]): Larger firms can raise funds on capital markets (bonds and stocks). There is a significant fixed cost associated with listing in the stock market, so this is not very feasible for smaller firms. Separate exchanges with less demanding requirements for smaller firms are emerging, but many lack enough liquidity. Similarly, some SMEs are now starting to issue “SME bonds”, obtaining debt finance directly from investors.
- **Public institutions:** Governments and development banks fund innovation activities using a variety of instruments, from supporting public research institutes and universities to providing match-funding to investors investing into early stage firms, just to name two examples.

This list is not comprehensive. Other types of actors play an important role in funding innovation in firms, such as foundations, which often fund R&D but also commercialization (see [Foundations](#) [3]), or alternative financial intermediaries, including providers of asset-backed finance or crowd-funding platforms.

Related Link: External sources for financing innovation

Internal sources for financing innovation

Financial market development

Financial market regulation

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