JRC WEBINAR ON ‘SCALE-UP GAP’ FINANCING

Government Venture Capital: a little polite apostacy …

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Moderated Discussion 1.4
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'WHAT QUESTIONS NEED TO BE FURTHER RESEARCHED?'

To paraphrase DONALD RUMSFELD:

“But there are also unknown knowns—the ones we don't know we know.”

- Alperovych et al (2017) identified 137 GVCs and 35 GLPs in 25 European countries*
- Google Scholar has 85,000 results for “government venture capital funds”
- There is an established international body of academic/policy/practitioner work on GVCs
- But GVC ‘learning’ is not always well disseminated across countries and time

* GVCs are defined as stand-alone government VC programs and GLPs include funds where the government is a significant investor (limited partner)
GOVERNMENT AND THE VENTURE CAPITAL INDUSTRY

VCs are expert, professional investors and negotiators ... they are not philanthropists

Co-investment (government/industry) fund arrangements/outcomes are complex

Government ‘inexperience’ can be dangerous and costly

- GVC performance has improved over time
- Several positive European & UK GVC co-investment schemes exist
- But private VC performance in R&D intensive, emerging technology sectors needing ‘patient capital’ less clear

“When you sup with the devil ... eat with a long spoon.” Geoffrey Chaucer, 1390
MARKET FAILURE?

Supply-side focused arguments predominate

But, sometimes a ‘market failure’ is exactly the opposite:

i.e. market agents doing exactly what they should … i.e. saying ‘no’.

If a ‘scale-up gap’ really exists while European unicorns continue to be capital constrained as VC finance grows:

- Are European and international VC fund managers and investors just incompetent?
- or is private VC inappropriate for some technology sectors outside ICT and Biotech?
EQUALITY OF REGIONAL PROVISION … OR MERITOCRACY?

- VC/Unicorns are highly regionalized in USA
- Majority of US states are ‘VC/Unicorn light’
- This spatial concentration is also evidenced in China
- … and in Europe

… So what scale-up model(s) is the EU seeking to follow across 27 member states?

Value of venture capital investment in the United States in 2020, by state (US$ million)

<table>
<thead>
<tr>
<th>State</th>
<th>Value (US$ million)</th>
</tr>
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<tbody>
<tr>
<td>California</td>
<td>84,189.3</td>
</tr>
<tr>
<td>New York</td>
<td>18,151.7</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>17,367.1</td>
</tr>
<tr>
<td>Washington</td>
<td>4,851.2</td>
</tr>
<tr>
<td>Texas</td>
<td>4,818</td>
</tr>
<tr>
<td>North Carolina</td>
<td>3,636.5</td>
</tr>
<tr>
<td>South Dakota</td>
<td>19.3</td>
</tr>
<tr>
<td>Alaska</td>
<td>16.2</td>
</tr>
<tr>
<td>Wyoming</td>
<td>9.2</td>
</tr>
<tr>
<td>North Dakota</td>
<td>6.5</td>
</tr>
<tr>
<td>West Virginia</td>
<td>0.9</td>
</tr>
<tr>
<td>Mississippi</td>
<td>0.4</td>
</tr>
</tbody>
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ex. Statistica, 2021
AND, FINALLY, WHAT REALLY IS EXCEPTIONAL ABOUT CALIFORNIA?

The skewed density of VC – and Unicorn growth - in the USA is an outcome of a set of enabling factors – built up over decades - supporting continued profitable investment

- Appropriate VC finance is necessary but not sufficient
- World-class Innovation & Entrepreneurship is also a consequence of successful ECOSYSTEMS