



CANADA'S VENTURE CAPITAL & PRIVATE EQUITY ASSOCIATION
ASSOCIATION CANADIENNE DU CAPITAL DE RISQUE ET D'INVESTISSEMENT

The Case for Government Involvement In the Venture Capital Industry

Gilles Duruflé

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The case for government intervention... ... and the pitfalls

The case

- **Economic impact of VC**
- **Positive externalities**
 - Risk of sub optimal supply
- **Virtuous circle and cumulative effects**

The pitfalls

- **ill designed programs**
 - Conflicting set of objectives
 - Counter productive constraints
 - Lack of proper skills
- **“Regulatory capture”**
 - Agency problems

“But it appears that if one looked at the returns from the early days of the U.S. venture industry, one would see a similar picture (negative returns)....

This pattern suggests that no matter how promising the returns of entrepreneurial activity ultimately are, in a venture market’s early years, low returns are likely”

Josh Lerner

“Boulevard of Broken Dreams...”

- **Very strong since the mid 90s**
- **Disappointing returns (negative) for the whole industry**
 - “in a venture market’s early years, low returns are likely...”
 - Pitfalls
- **Governments (and the industry) have learnt**
 - A new generation of interventions – switching to indirect
 - Tighter partnership with the private sector
- **A difficult context**
 - Returns are disappointing, even in SV and Boston’s I-95
 - Private sector LPs are turning their back on the asset class
- **There is still a strong case for government support**
- **Building on government support to transition towards a profitable and sustainable industry is the challenge we face**