

Why France's largest VC is government-owned

Timothy Motte is the founder of The Realistic Optimist, a weekly publication making sense of the globalised startup scene. In this piece, originally published by The Realistic Optimist he takes readers on a deep-dive into Bpifrance, the one-stop shop for French entrepreneurs.

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A century-long collaboration

In 1923, the French government set up the Crédit National Hotelier to help the country's tourism sector recover from WWI's pandemonium. Almost a century later in 2012, through the merger of various state-owned entities, the French government created Bpifrance to help French entrepreneurs revitalise the country's economy.

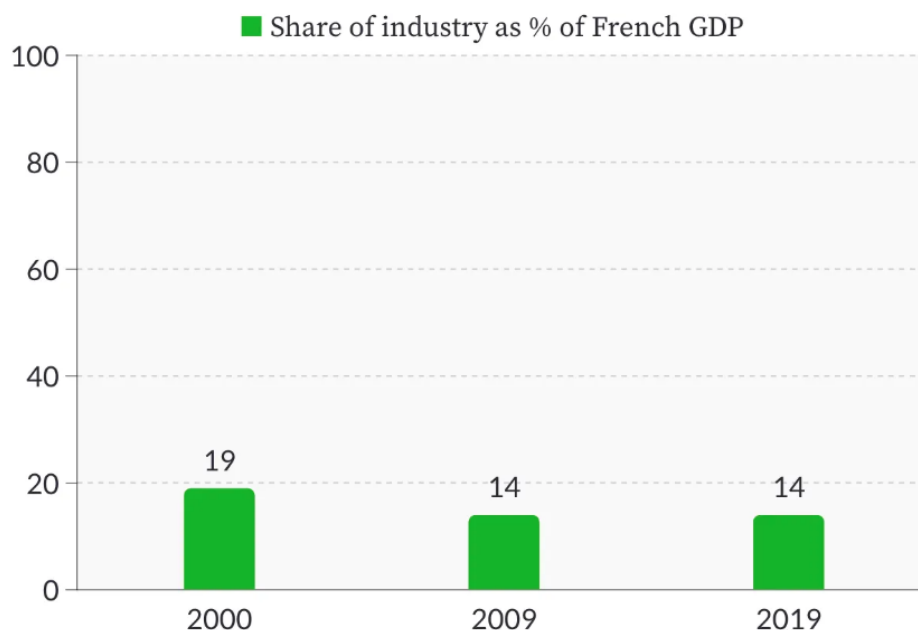
Bpifrance's formation wasn't a trivial matter. It came in response to a worrying observation surrounding France's deindustrialization. Epitomised by the "Rapport Gallois", French public authorities started waking up to the risks of an unproductive economy. The onus was put on boosting France's industry, whose decline jeopardized jobs and economic competitiveness.

"There can't be a strong economy without a strong

industry” - Rapport Gallois

Since its founding, Bpifrance has been led by the same man, Nicolas Dufourcq. The former telco executive seemed fit for the job. He has been one of the leading advocates against, and analysts of, France’s industrial decline. He even wrote a book about the topic.

To him, a tacit agreement between the French government and the French population, who both silently agreed that the industrial era was revoluted and uncool, led to its decline. He believes the wake-up call occurred when the country’s automobile industry started suffering in 2010.



Source: BNP Paribas

Dufourcq isn’t in the job to make friends. He has criticised sacrosanct French laws such as the 35-hour workweek, which he says unfairly hurt France’s SMEs. As a French saying goes, he doesn’t have “his tongue in

his pocket”.

During an audition before the French Senate, he was pressed for saying that “the French population is spoiled, and too often infected by the anti-capitalist virus”. Such statements might conjure images of the current French president, Emmanuel Macron, whose many qualities don’t include his pedagogue ways.

Shining the spotlight on Mister Dufourcq’s background and opinions helps to explain the way Bpifrance operates. The team is on an almost messianic mission to help French entrepreneurs, whether they be industrialists, startup founders, or hairdressers, become shining cogs of the French economy. Let’s see how they do so.

What Bpifrance does

At its most fundamental level, today’s protagonist is a bank, albeit a special one. Its two main shareholders are the French government and the Caisse des Dépôts, the country’s sovereign wealth fund. This shareholder structure enables Bpifrance to take riskier, longer bets on investments that attempt to serve the country long-term.

“As a public investment bank, Bpifrance can offer a variety of different financial tools while also positioning itself on riskier or more “domestic-focused” innovations that aren’t necessarily appealing to traditional VCs” - Realistic Optimist

Far from being an isolated case, such a particularity has led to the rise of sovereign wealth funds as leading startup financiers around the world, a

topic I wrote about [here](#).

Bpifrance accompanies and finances a plethora of different company types, from SMEs to large-scale industrial behemoths. For the sake of this article, and to stay relevant to this publication's main topic, we will focus on the different ways Bpifrance supports French startups in particular.

Bpifrance's financial involvement with French startups takes two distinct forms: non-dilutive financing, and traditional equity investing.

Non-dilutive forms of financing include grants, innovation competition prizes, tax cuts, and advantageous loans. On the investing side, Bpifrance invests in startups either directly through one of its many specialised funds or indirectly, by pouring money into French VCs as an LP.



Non-dilutive

Grants
Competition prizes
Tax cuts
Loan



Equity investing

Direct investing through Bpi
funds
Investment in funds as LP

Source: Eldorado



Source: Eldorado

Another, less measurable aspect of Bpifrance's activity involves building

the country's entrepreneurial culture. They want to make it desirable, attractive, and socially valued to be an entrepreneur. The bank seems unapologetic to pursue President Macron's much-mocked but so far relatively successful plan of becoming a "Startup Nation".

To induce such a cultural shift, Bpifrance is active on social media, and relentlessly organizes events and competitions around France. In doing so, it has effectively implanted its branding, its logo, and its ethos within the French startup ecosystem. Any French startup founder today knows about them, one way or another.

Approaching the bank has become *quasi-automatic* for ecosystem actors. And that was Bpifrance's goal. Its slogan, *servicing the future*, sets the tone for which direction the bank looks towards.

Numbers and impact

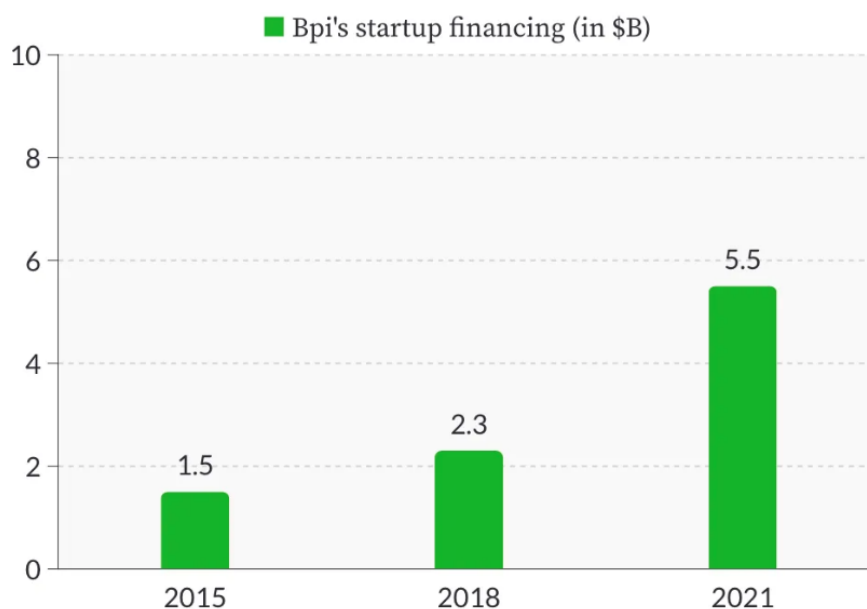
"Anchor" could be the word used to describe Bpifrance's impact on the ecosystem so far. The bank provides a reassuring presence to both founders and funders. Its ubiquity, and increasing track record in the ecosystem, are often enough to get private financiers to take a risk they wouldn't have taken alone.

"On average, 1 euro loaned by Bpifrance is accompanied by 3-4 euros loaned by other banks. On the investment side, 1 euro invested by Bpifrance is accompanied by 5-6 euros invested by private funds." - Bpifrance

Gauging Bpifrance's achievements is a two-part exercise. First, measure

its brunt, numerical participation in the ecosystem. Second, analyse the subsequent performance of French startups as a whole. We won't attempt to quantify the impact of Bpifrance's "culture-building" activities, not because they aren't impactful, but because they are trickier to compute.

Conclusions to be pulled from the first step are relatively straightforward: Bpifrance is injecting more and more money into the ecosystem. The bank's *funding* of French startups jumped from under \$1B in 2013, to over \$5B in 2021 (including non-dilutive tools).



Source: Bpifrance



"Financing" takes investment and other non-dilutive funding into account
(*source*)

Funding styles

Notable as well is Bpifrance's participation in "growth capital" funds, although the bank rarely leads in such rounds. One of the French

ecosystem's taboos is the lack of French VC firepower for big rounds, leading to founders struggling to raise, and if they do, often relying on foreign funds to fill up their coffers. Coincidentally or not, Bpifrance's arrival in 2012 seemed to have assuaged the issue to some extent.

“Funding rounds over \$20M went from only 3 in 2013 to over 100 in 2022” - Bpifrance

Less known but just as important is Bpifrance's early-stage fund, Digital Ventures, whose popularity has increased, buoyed by the fund's continuous liquidity over the years. Exits such as Pixpay and Cardiologs, and early investments into market leaders such as ManoMano confirm the fund's foresight.

Impact on the ecosystem

Quantifying the second step of our two-part exercise, measuring the ecosystem's overall performance, is also relatively straightforward. At least if we judge success by metrics. Over the past ten years, the average French VC's treasury has doubled, while the ecosystem created around 30 unicorns in 10 years, way ahead of Macron's already bullish “25 unicorns by 2025” objective.

More than just numerical success, it seems that the impulse Bpifrance gave the French ecosystem managed to “reshore” tech companies in key sectors. I can confidently state that the French population is more comfortable sharing its medical information with Doctolib and Alan, two French health unicorns, rather than with a fictional subsidiary of Kaiser Permanente, an American healthcare insurance giant.

The new fight will be to figure out how to get those French stalwarts to go

public in Europe, an ever-complicated matter due to the US's more liquid capital markets and higher understanding of the tech startups' business model. That's a problem Brazil has been *trying to solve*, from which Europeans could probably learn. Unsurprisingly, Macron is *on it*, too.

Are French startups welfare queens?

"Welfare queen", a subtly racist term popularised by US President Ronald Reagan, was used to describe mostly single mothers relying on government aid to live comfortable lives, without working. At the beginning of the article, I explained how approaching Bpifrance has become almost a given for a French startup founder.

Does that create a liability? Weak entrepreneurs, who can't survive without public money? Or even worse: chilly investors who aren't willing to take a risk without the state's support?

I guess it's all about balance. At an ecosystem's outset, the government is almost always needed in order to take on the risks no private investor is willing to take. That happened in the US where, ironically, Silicon Valley spends an obscene amount of time whining about the government and taxes, when the latter are both massively responsible for Silicon Valley's takeoff. I wrote about that *here*.

From my previous analysis of other startup ecosystems, public money's involvement becomes nefarious only in certain cases. What matters is the type of financing offered rather than the actual source of the money. An overreliance and continuous access to too many grants have the potential to create weak startups, hopping from competition to competition without ever building a viable product.

On the other hand, if the government actually invests in the ecosystem, either directly or through a fund of funds, there is an inevitable demand

for a return on investment. Underperforming companies thus won't remain accompanied forever, whereas they can survive longer in the grant world.

In Bpifrance's defense, their *weight* (in percentage) of the funds raised by French startups is decreasing, even though the nominal amounts invested increase. This seems like a healthy curb: the ecosystem strengthens, and Bpifrance takes more of a backseat to fund riskier projects or sectors that haven't achieved an inflection point yet. Climate-related projects come to mind.



List of French unicorns Bpifrance invested in through its "*Large Venture*" fund

HR challenges

As I circulated this article with former or current employees of Bpifrance, one key criticism came to light. As a public entity, Bpifrance's employees

do not receive carried interest on the deals that they invest in, a staple in the sector's private actors. This makes it difficult for the bank to retain exceptional talent.

While one might start their career at Bpifrance, the allure and sirens of private funds will soon come calling, and the former public employee seduced by the attractive remuneration packages offered by the likes of Eurazeo and ISAI, two leading French VCs.

A good use of public money?

Criticisms can be levered against Bpifrance. A collective of French entrepreneurs denounced that public money was being used to fund startups, which knowingly have abysmal success rates. They make the argument that taxpayer money is being *unwisely used* for projects with low chances of success.

That criticism seems to misunderstand the way startup financing works. What counts isn't the average rate of success of the startups you invest in, but the aggregate financial returns of those companies over 5-10 years. It doesn't matter if 49 out of the 50 of the startups you invested in failed if one of them achieves returns higher than the entirety of the money you initially put in.

For now, Bpifrance has reported positive financial returns, attaining a net \$1.5B gain in 2022 (for all Bpifrance activities, not only startup investing).

Others have an issue with the fact that Bpifrance mixes public and private. In the research sector for example, some posit that Bpifrance encourages publicly funded French university projects to become startups, or in other words, the property of private investors.

“Technological progress can be of interest. But it must be borne in mind that those who finance and provide these innovations have requirements in terms of profitability that come into total conflict with the public service, where there is no requirement for profitability or turnover. Market logic and public service logic cannot be reconciled.” - Fanny Vincent, lecturer in political science at Jean-Monnet-Saint-Étienne University

That public/private intermeshing also has some observers doubting whose interest Bpifrance really serves. While the bank was created in 2012, under the leadership of President Hollande who declared his greatest enemy to be the “finance sector”, Bpifrance’s leadership doesn’t seem to have inherited that grudge.

Bpifrance invests alongside the world’s biggest investors, who constitute the cogs of the so-called “finance sector”. While its ethos is set on countering deindustrialization, Bpifrance was *criticised* for its management of two French industrial projects, Arjowiggins and Verralia. In both cases, the bank was *scorned* for acting like a traditional private investor rather than a public one.

1.5B €

Net profit, 2022

50.3B €

Assets under management, as of end 2022



Bpifrance key financial figures end of 2022 ([source](#))

Conclusion

Bpifrance's impact on the French ecosystem can't be understated. More than the obviously helpful financial injections, the bank's public status passed the message that French public authorities were pushing in the ecosystem's direction. In a way, Bpifrance is the French startup ecosystem's lobbyist, with the interesting particularity of being part of the same government it lobbies.

From personal observation, the state's support for startups hasn't trickled down to the broader population. Maybe because of its English-sounding name, a questionable marketing choice given France's chauvinism, but the "Startup Nation" has not yet been convinced.

For the non-initiated, the sector might bring up images of overpaid, neo-bourgeois Parisians who aren't capable of explaining what they do without sprinkling incomprehensible English terms everywhere. It's a real shame, although not an unbridgeable divide. The sector has to be more inclusive, and diverse, and call out its own incoherences. Bpifrance is a pioneer in

solving that issue, as the entity is active throughout the country leveraging its multiple regional, localized offices.

In my opinion, the biggest risk is for the French ecosystem to replicate libertarian, Silicon Valley attitudes. Frankly, I doubt that could ever be the case, given how much the ecosystem owes to Bpifrance, a public entity paid for by the population's taxes. Let's try and keep it that way.

The Realistic Optimist is a weekly, paid publication making sense of the globalised startup scene. Read the publication's manifesto [here](#).

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