

*Framework Service Contract for the Procurement of Studies and other Supporting Services on Commission Impact Assessments and Evaluations  
Interim, final and ex-post evaluations of policies, programmes and other activities*

# **Evaluation of EU Member States' Business Angel Markets and Policies Final report**

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# Introduction

# 1

**This is the final report in respect of the Evaluation EU Member States' Business Angel Markets and Policies.**

## 1.1 - Summary of Assignment Aims

Business Angels play an important role in the economy, and in many countries constitute the largest source of external funding, after family and friends, in newly established ventures. Business Angels provide both financing and managerial experience, which increase the likelihood of the survival of start-up enterprises. But the fundamental nature of the Business Angel market is informal. Many Angels have a desire for anonymity, and are unwilling to reveal information about their investment activities. The resulting absence of reliable statistical data makes evidence-based policy making in this area difficult. Given the importance of informal investors for the creation and maintenance of an entrepreneurial economy, more data is needed from the angel investment market in order to make rational and well-grounded policy decisions.

The objective of this evaluation is to improve policy-making regarding SMEs' access to seed and early stage capital by increasing the knowledge of the characteristics of the Business Angels market and sharing EU Member States' best practices of policies and programmes supporting Business Angel financing.

The study considers both members and non-members of Business Angel networks (BANs). The terms of reference placed emphasis on including non-members of BANs – the “non-measured” market because relatively little is known about this market segment and yet it is probably very significant as a source of risk capital funding. However, it is recognised that this part of the market is difficult to access but most likely accounts for the majority of Business Angel activity.

The evaluation involves a review of Business Angels in eight Member States (Germany, France, Netherlands, Sweden, Italy, Spain, Poland, and UK). Data is extrapolated to provide estimates for the EU as a whole.

The research focuses on:

- Collection and consolidation of secondary data for 2010 from different appropriate sources (including national and international Business Angel organisations and networks, government organisation, etc.), estimation of the non-measurable market at EU level for 2010 and indication of possible changes;
- A brief overview of the key characteristics and results of programmes or policies aimed at increasing and supporting Business Angel investment in the selected Member States. The assessment of the Member State policies will include an assessment of the efficiency and effectiveness of policies having assessed their possible impact and their gaps and shortcomings - based on the information provided in the interviews and data collected for a specific country, to the extent that data is available.

## 1.2 - Evaluation questions

Detailed evaluation questions were set out in the terms of reference and are dealt with in the report as far as data permits. However, in some cases data is not available - for example, data on investment outcomes is not available for the non-measured market and is only available to a limited extent for the measured market. The evaluation questions are as follows:

# Introduction

# 1

## Relevance

1. What are the available data sources for the Business Angel market in EU Member States or regions?
2. What is the identified need for public action (e.g. financing gap, market failure) to support Business Angel financing and how have the programmes or policies of EU Member States been designed to meet this need?

## Effectiveness

3. How effective are different data-collection procedures? Do they allow for consolidation of data on cross-regional and cross-country level?
4. What are the main (examples listed below) characteristics of Business Angel financing in selected markets? Secondary data collection will depend on availability of sources. If possible, amounts should present industry (by country of investors) and market (by country of the companies receiving investments) figures:
  - Total investments (amount)
  - Number of deals (investments)
  - Number of companies receiving investment
  - Number of active investors (Business Angels)
  - Deal acceptance rates
  - Co-investments (number/%, amount, type – with financial institutions/syndicated investment deals)
  - Exits – type (trade sale, IPO, written off) (number, amounts)
  - Exits – rate of returns

*All above mentioned data, whenever possible and meaningful, should be broken down by:*

- Sectors (for example: IT/Software/Telecom, Healthcare/Biotech, Energy/Environment, Industry/Manufacturing, Retail, Media/Entertainment, Other) Stage of company development (seed, start-up, early expansion, growth/late expansion)
  - New/ follow-up investment
  - Geography (investment in home region, home country, EU country, outside EU) (number/%, amount)
5. What are the additional characteristics of the Business Angel market (if data are available)?
    - Women entrepreneurs receiving Business Angel financing (number/%, amount, acceptance rate)
    - Women Business Angel investors (number/%, amount, acceptance rate)
  6. What is the estimated volume of the total market (total investments) at EU Member State level for remaining EU countries (if data are available)?
  7. To what extent has the Business Angel market contributed to the SMEs' access to finance?
  8. How effective is Business Angel financing to bridge the equity gap in the seed and start-up phases of the SME development. What, if anything, could be done to render Business Angel financing more effective as a means to achieve these objectives?

# Introduction

# 1

## *Efficiency*

9. How can data sources and data-collection methodologies be improved to allow for comparability across regions and countries?
10. Which existing EU Member State support programmes or policies to facilitate the access to Business Angel finance for SMEs are the most efficient or inefficient? Are there significant differences between on line and physical programmes or those that operate on a cross border basis as opposed to a Single Member state?
11. What are the actual costs of operating the programmes and administrative burden to the SMEs or Business Angel (for reporting, etc.)?
12. How can the efficiency of the Business Angel programmes be improved? What are the best practices that could be applied in other EU countries?

## *Sustainability*

13. Are the identified data sources, data-collection and consolidation procedures suitable for observation of long-term trends in the Business Angel market?
14. Will the effects achieved by the support programmes last in the medium or long term?

## **1.3 - Structure of this report**

The final report is structured as follows:

- Section 2: Methodological issues in measuring the Business Angels market
- Section 3: Numbers of Business Angels
- Section 4: Investment by Business Angels
- Section 5: Public support for Angel Investment
- Section 6: Business Angels and SME Financing
- Section 7: Conclusions and Recommendations

Research on each of the eight member states covered in the study is set out in Annexes 1 to 8. In addition, we show the detailed data used for grossing up results to the whole of the EU27.

# Measuring the Business Angels Market 2

This section of the report considers the methodological issues involved in the measurement of the Business Angels market.

## 2.1 - What is a Business Angel?

There is no single settled definition of a Business Angel. DG Enterprise defines a Business Angel<sup>1</sup> as follows:

*“A knowledgeable private individual, usually with business experience, who directly invests part of his or her personal assets in new and growing unquoted businesses. Besides capital, Business Angels provide business management experience for the entrepreneur.”*

The definition used by EBAN, (the European Trade Association for Business Angels, Seed Funds and other early Stage market Players), is very much in line with the DG Enterprise definition but elaborates further on key characteristics of Business Angels.

### WHAT IS A BUSINESS ANGEL?

- An individual investor (qualified as defined by some national regulations).
- Invests directly (or through his/her personal holding) his/her own money.
- Is financially independent, i.e. a possible total loss of his/her Business Angel investments will not significantly change the economic situation of his/her assets.
- Invests predominantly in seed or start-up companies with no family relationships.
- Makes his/her own (final) investment decisions.
- Invests with a medium to long term set time-frame.
- Ready to provide, on top of his/her individual investment, follow-up strategic support to entrepreneurs from investment to exit.
- Respecting a code of ethics including rules for confidentiality and fairness of treatment (vis-à-vis entrepreneurs and other Business Angels), and compliance to anti-laundering.

Source: EBAN<sup>2</sup>

While the EBAN definition is more prescriptive, an important element is the explicit exclusion of friends and family from the definition.

There are good reasons for differentiating between friends and family and Business Angels. The main argument is that family-related investors are driven by fundamentally different motives, such as kinship, social obligation, and reciprocity, rather than just commercial factors. As a result, they exhibit different behavioural patterns. According to Avdeitchikova<sup>3</sup> *“...To include family-related investments as a part of the business angels market would add to the breadth of the scope of what is already a heterogeneous concept.”* A commonly cited definition is that proposed by Mason and Harrison who describe BAs as *“a high net worth individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business, for example, as an advisor or member*

<sup>1</sup> According to the list of definitions used by DG Enterprise accessed at [http://ec.europa.eu/enterprise/policies/finance/glossary/index\\_en.htm#b](http://ec.europa.eu/enterprise/policies/finance/glossary/index_en.htm#b)

<sup>2</sup> Based on the EBAN glossary accessed at <http://www.eban.org/resource-center/glossary>

<sup>3</sup> Sofia Avdeitchikova (2008): On the structure of the informal venture capital market in Sweden: developing investment roles, *Venture Capital: An International Journal of Entrepreneurial Finance*, 10:1, 55-85

# Measuring the Business Angels Market 2

of the board of directors.”<sup>4</sup> As will be seen later in this report, investment by friends and families in new businesses is much larger than investments by Business Angels – but that does not detract from the importance of the Business Angel asset class. The terms of reference for this study emphasised this point and said that *“Business Angels constitute the largest source of external funding, after family and friends, in newly established ventures.”*

There are, of course, problems of identification in deciding whether an individual falls into the definition of a Business Angel. Should the number of Business Angels include those who wish to invest, but have yet to find a suitable proposition? And should it include those who have previously invested, but not for a few years? And there may not be a clear distinction between friends and family and Business Angels. As the Italian Business Angel Network (IBAN) put it, there is a *“question about whether ‘a friend of a friend’ is a friend or a stranger”*.

In practice, as will be seen later in this report, most Business Angels act individually and are not members of syndicates or networks, and therefore their activities can only be seen when they make an investment. More data is available on the part of the Angel market that is organised, and for that part of the market it is possible to differentiate between Angels who have made investments and those who have not yet done so. To the extent that data availability permits, we have excluded investments by friends and family from our results in line with the EBAN and Mason definitions, and excluded from our estimates investors who do not provide strategic support or advice in addition to their investment.

## 2.2 - How Business Angels operate

According to research by EBAN, the typical profile of a Business Angel<sup>5</sup> is a male (some 3-5% in the measured market are females) aged between 35 and 65 with successful prior experience as an entrepreneur or a manager investing between €25,000 – €250,000 or the equivalent of 15% of their own funds in a single venture – typically a start-up firm – and supporting it with management advice and networking in business and company finance circles. Research in The Netherlands suggests that there is a generational difference between Business Angels<sup>6</sup>. Older and more experienced Business Angels find that the younger ones are still too inexperienced and need guidance; while the younger ones tend to be more involved in the management of firms they invest in – and think the older Business Angels get too involved in the businesses.

Generally speaking, angel investors make their investment decisions based on their experience in a particular sector and most often focus on companies within their local area. Having said that, in some Member States (e.g. Italy), the national Business Angel network is increasingly supportive of cross border ventures. Where Business Angel work in syndicates, risk can be spread further, thus increasing the ability to make cross border ventures.

Still, it should be appreciated that Business Angels are a heterogeneous group. For example, in relation to motives for investment financial gain and wealth creation tend to be the main motivations but there is also often the interest and satisfaction from creating successful new ventures or supporting local economic development. Similarly, there is variation in terms of the typical investment sector or the

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<sup>4</sup> Mason and Harrison, 2008

<sup>5</sup> EBAN (2009), EBAN Tool Kit - Introduction to business angels and business angels network activities in Europe

<sup>6</sup> Emerging Technology Research Europe (2012); Tornado Insider: Informal investment in Nederland, Agentschap NL, p.5

# Measuring the Business Angels Market 2

location of investment. More detailed information on the basis of data from the EBAN survey is provided in section 4.4 below.

Traditionally Business Angels have tended to prefer to invest alone, rather than as part of a network or a group<sup>7</sup>. However, participation in groups, syndicates and networks is also important. Angels can invest both individually and jointly with other angels or institutional investors in various forms (e.g. co-investment with seed funds) – as set out in section 2.3 below.

Many Angels invest in several companies in order to diversify risk and expecting that one or two will bring high returns and cover losses of the firms that do not survive. According to a survey of 158 UK-based angel investors in 2008, while 56% of investments failed to return capital, 9% generate more than 10 times the capital invested.

The typical Business Angel investment cycle includes the following stages:

1. The Business Angel becomes aware of the opportunity from his own sources or sometimes through formal channels (e.g. Business Angels Networks or entrepreneurship events)
2. The Business Angel conducts an initial screening to assess initial interest in the investment and whether it fits to his/her investment portfolio and area of knowledge/experience area (syndicates will carry out screening on a collective basis)
3. There is a meeting with entrepreneur, detailed evaluation of the business plan, review of references and market research.
4. Negotiate over valuation and level of participation with entrepreneur
5. Following investment, hands-on support in the form of management advice/mentoring and networking
6. The final stage includes the exit from the business by selling the shares, typically in the form of a trade sale and less often through an initial public offering. Most available studies suggest that Business Angels tend to hold their investments for a period of about 3 to 7 years. However, exit is still a problematic area for Business Angels and is also influenced by the prevailing economic conditions.

## 2.3 - How are Business Angels organised

The most common form of Business Angel is the individual who invests directly in a company through his or her own contacts. They act privately and generally prefer to maintain anonymity. As a result detailed statistical data on that **invisible part of the Business Angel market** is not readily available.

There are, however, other more **visible** ways of organisation through which Angels get in touch with companies. One such form is the **Business Angels networks (BANs)**. According to the EBAN a BAN is “... an organisation whose aim is to facilitate the matching of entrepreneurs (looking for venture capital) with business angels”<sup>8</sup>.

Typically a BAN might act as a recipient of requests for investment funds. Such proposals would then be vetted for quality first, or directly circulated to the BAN members. Introductions between entrepreneurs and investors may take place at network meetings, or directly. Normally, Business Angels will invest on their own account into the company concerned. Both investors and entrepreneurs may pay towards the cost of the network. BANs tend to concentrate on particular sectors or regions. They generally refrain

<sup>7</sup> OECD (2011), Financing High-Growth Firms - THE ROLE OF ANGEL INVESTORS

<sup>8</sup> [www.eban.org](http://www.eban.org)



# Measuring the Business Angels Market 2

from formally evaluating business plans or angels. Angels make their own individual investment decisions, and the BAN does not decide which investors will invest in a deal. BANs also often provide a number of added value services to both angels and entrepreneurs, such as preparing for investor/investment readiness, training and syndication opportunities.

**Syndicates of Business Angels** represent another form of organisation of Business Angels. According to EBAN syndicates are the result of “...the gathering of several business angels into an informal consortium for the purpose of creating a critical mass of funds above what each business angel could — or would be prepared to — invest. This term also applies to the pooling of competencies in order to offer more managerial skills than any individual business angel could display”.

Syndicates claim that one of their strengths is the ability to spread risks and fund further rounds of investment since investments are carried out by a number of Angels<sup>9</sup>. Usually the investor pays for the syndicate, and the syndicate will assess the potential investment for the Angel to make the final decision.

In many EU Member States there are also **National Federations, or National Networks** that represent a number of networks. At the European level, the European Trade Association for Business Angels, Seed Funds and other early Stage Market Players (EBAN) represents the interests of Business Angel and Business Angel Networks, seed funds and other entities involved in bridging the equity gap in Europe. EBAN was established with the collaboration of the European Commission in 1999 by a group of pioneer BANs in Europe and EURADA (European Association of Development Agencies). EBAN now has wide affiliation by national federations, networks, seed funds and individual angels in EU Member states as well as international connections. The World Business Angels Association (WBAA) provides a platform for the exchange of information about the development of the Business Angel market around the world, including Business Angel organisations in the USA, UK, China, India, Spain, Australia, Chile, Italy, UAE and France.

Another form of organisation is an **online angel and entrepreneur matching service**. The service may be provided by a network or syndicate, or a separate company. The potential investor will receive online details of companies looking for investments and will then contact the company, and will carry out his own due diligence. Typically, most sites that offer these services charge the entrepreneur a fee to register their investment proposals and are free for the angel investors.

A further source of Business Angel finance is provided by on line matching services reaching a large number of potential investors, including crowdfunding. There are an increasing number of websites offering such services. Crowdfunding faces significant legal issues in offering securities to the public generally. Little data is available on either amounts raised or outcomes, and we have not been able to include useful data in this report.

## 2.4 - Methodological issues in measuring the Business Angels Market

Given the different definitions of what constitutes a Business Angel and the types of Business Angel, as well as the differing forms of organisations and the desire of many Angels for anonymity, there are significant methodological challenges in measuring the Business Angels market. A recent OECD paper<sup>10</sup>

<sup>9</sup> See, for example <http://www.archangelsonline.com/>

<sup>10</sup> ‘Financing High Growth Firms: The Role of Angel Investors’, OECD, 2011. The report was produced by the High-Growth Financing Project of the OECD Science, Technology and Industry Directorate’s Committee for Industry,

## Measuring the Business Angels Market 2

concluded that, given the local nature of Business Angel investing, there is no homogeneous national angel market. Different definitions, ways of collecting data, etc., mean that aggregation at the national level is difficult. Nevertheless, as the OECD study argues: *‘While methods of estimating the full angel market size vary, it has been documented through many studies over the past decade that total angel investment is much greater than overall VC investment in the United States and as well as in some countries in Europe’*. We have also referred above to boundary problems in defining what a Business Angel is.

For the visible part of the market, the main data is that collected by Angel associations from Angel groups and networks organised in BANs or syndicates. These data only represent a fraction of the market termed the “visible” market (Harrison and Mason, 2010)<sup>11</sup>. According to the OECD study, in countries such as the United Kingdom, other “visible” market data can be collected through other methods such as angels participating in government tax incentives and/or co-investment schemes. However, the majority of angel investment is individual and that information is private and therefore extremely difficult to measure. This comprises the “invisible” portion of the market. As the OECD study indicates, the current methods for measuring the level of the invisible Business Angel activity are currently *“more art than science”*.

Broadly speaking, approaches taken to measuring unmeasured Business Angel populations and investment can be broken down into three categories:

- **Supply-side approaches:** studies which seek to estimate unmeasured Business Angel activity through information on the behaviour of visible Angels, such as through Business Angel association membership lists, surveys of known Angels, surveys of likely Business Angels such as company directors, venture capital network members and senior commercial bankers, and ‘capture-recapture’ sampling. (Wetzel, Fiet, Mason and Harrison)
- **Demand-side approaches:** studies that have sought to identify unmeasured Business Angel activity through companies in which they have invested. Methods include large scale business surveys, analysing company listings and equity issuance at national registers such as Companies House (UK), and adapting data from the Global Entrepreneurship Monitor. (Harr et. al., Mason and Harrison, Brettel, Farrell)
- **Third party/institutional indicators:** most notably they use data relating to the usage of tax-incentive and government-sponsored entrepreneurship funds and grants to estimate the size of Business Angel populations and level of investment, but also private loan arbitrators such as Zopa.com. (Robinson and Cottrell, Harrison and Don)

Supply-side approaches allow for initial estimates of the total market size and in particular informed estimates of the market by those familiar with local conditions. Demand-side approaches may well provide more accurate estimates of the total market size in the long run. However, demand-side approaches require large samples of companies and are much more demanding in terms of time and resources.

In Europe, the most detailed source of data is the EBAN annual survey which focuses on certain parts of the visible fraction of the market. The main issues are:

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Innovation and Entrepreneurship (CIIE). The project was supported by the Australian government with input provided by the member countries of the OECD represented in the CIIE.

<sup>11</sup> Harrison, R.T. & C.M. Mason (2010), “Annual Report on the Business Angel Market in the United Kingdom, 2008/09”,

# Measuring the Business Angels Market 2

- EBAN statistics currently provide the most comprehensive record of visible Business Angel activity available in Europe, and a series of metrics highly relevant to this study.
- However, because of the variation between Business Angels' activities in different countries, an EU-level analysis of the European Business Angels' market is not possible without more in-depth research in individual countries.
- Because of the data limitations, it is still necessary to use data from other sources to generate estimates of the activity of the total population of Business Angels in each country. Whilst the EBAN statistics contain detailed records of the activity of the Angels that they monitor, there is currently no indication of the broader economic ecosystem in which they are located.

## 2.5 - Methodological approach used in this study

This study has used a combination of desk research, data analysis and interviews with representatives of national network associations, a few individual Business Angels, national authorities/agencies responsible for designing or implementing policy in the area of SME finance and some academic experts. Most of the interviews took place in the context of the case studies (see below). The total interview programme covers the main stakeholders directly involved in the Business Angel market. The snowballing method of identifying experts on the basis of recommendations from initial interviewees was also followed in our attempt to expand the list of interviews.

However, it should be recognised that there is a certain bias towards the visible part of the Business Angels market – namely the part covered by BANs. Business Angels in the non-visible segment are particularly difficult to identify and there was neither time nor resources available for a comprehensive survey. The input in relation to that part of the market is based on the input from experts, the Business Angels Network Associations and other secondary sources.

The initial desk research aimed to review the relevant literature and to identify available sources of information related to Business Angels' activities. The initial review of the literature was also important in identifying issues related to the definition of the Business Angels market and determining the approach to be followed for the measurement of the market presented in section 2.3 above.

The second part of the study included in-depth research in eight larger EU Member States (Germany, France, Italy, the Netherlands, Italy, Poland, Spain, Sweden, UK).

The research in each of the Member States investigated focused on two main areas:

- Estimation of the size of the Business Angels' market – We conducted a detailed analysis of data from existing information sources including reports from the national Business Angels' associations, and academic studies – when available - and also analysis of the data provided in the 2009 and 2010 EBAN survey. The available data were in some cases complemented by estimates provided by representatives of the national Business Angels associations, government officials and other experts interviewed during the course of the study.
- Analysis of the Policy Framework – We conducted a review of the situation of start-ups and SMEs in terms of access to Business Angels' finance and the policy tools that, either directly or indirectly, have an impact on the Business Angels. This work was based on available reports and any interviews conducted. The objective was to go beyond a description of the tools and assess the efficiency, effectiveness and the main lessons learned. However, with very few exceptions, relevant information was not available. Most of the policy tools were introduced only very recently and there are no monitoring data available. When possible, the interviews with experts supported an

# Measuring the Business Angels Market 2

assessment of the relevance of the specific tools and some preliminary assessment of the success in terms of supporting the development of the Business Angels' market.

A detailed list of interviews is provided in Annex 10. A total of 37 interviews were carried out. In addition there were shorter discussions with other individuals. We also discussed the emerging findings of the study at the EBAN summer conference in May 2012, attended by several hundred delegates, and received suggestions which have been incorporated in this report. We also attended a conference of the German Business Angels Network.

## **Grossing up data from the sample to all EU27 countries**

In order to provide estimates for the total size of the EU27 Business Angels' market we relied on any available data but, most often, used the estimates provided in the eight cases studies and extrapolated on the basis of the share in the EU GDP or population. The eight countries in the sample represent 69% of EU27 GDP and 64% of the EU27 population. To gross up the estimates from the sample to the EU as a whole, we have used factors based on the ratios of the sample to the data for the EU as a whole. The more detailed country data used for these calculations are provided in Appendix 9.

**Table 2.1: Population and GDP, 2010**

	<b>GDP at market prices (million €)</b>	<b>Population</b>
<b>EU27</b>	12,260,495	501,104,164
<b>Sample countries</b>	8,463,917	318,595,732
<b>Sample as % of total</b>	69.0	63.6
<b>Grossing up factor</b>	1.45	1.57

Source : Eurostat

# Numbers of Business Angels

## 3

This section summarises data on the numbers of Business Angels.

### 3.1 - Introduction

In this section we estimate the number of Business Angels in the eight sample countries examined and for the EU 27 as a whole.

As indicated in the previous section, there is no single accurate method of measuring the number of Business Angels. Accordingly, in this section, we present four approaches which are:

- An estimate of the number of Business Angels in the visible market based on data collected by EBAN for the calendar year 2010 (some EBAN data for other countries is also shown);
- A wider estimate of the number of Business Angels in the visible market based on data collected at national level during our study;
- Estimates of the non-visible market as a proportion of the visible market;
- An estimate of the number of potential angels in the visible and non-visible markets based on survey data from the GEM project. Because of data limitations, this approach is likely to overestimate the number of active Business Angels.

### 3.2 - EBAN data on the visible market

A first important source of information in relation to the visible part of the Business Angels' market is the annual survey by EBAN.

This survey collects data on a wide range of indicators related to the activity of BANs across Europe. The responses are collected by the national associations that are members of EBAN and reported back to the EBAN<sup>12</sup>. However, the survey has a number of limitations including the fact that not all responses are complete and that there are differences from year to year in terms of the number of responses per country. Also, the level of participation varies greatly among countries (e.g. close to 100% in France to less than 30% in Germany or Spain) but also not all BANs are members of the national associations. This share varies again from country to country. Thus, the data from EBAN survey represent a low end estimate of the number of Business Angels in Europe.

On the basis of the data available for 2009 and 2010 the average network has a total of 70-75 angels registered although only around 50% are active, namely they have made at least one investment during the year of the survey<sup>13</sup>. For 2010, just over half (51.3%) the number of Angels made investments. In terms of the female participation, the survey data indicate that female Business Angels represent around 5% of the total number of Business Angels in the networks.

<sup>12</sup> CSES was given access to the aggregate results for each country as submitted by the national associations. In some cases the responses were also available at an individual BAN level.

<sup>13</sup> This definition of active Business Angel could be considered as rather strict. In other studies reviewed, active angels were considered to be those that had invested during the last three or five years.

# Numbers of Business Angels

## 3

**Table 3.1: Number of Business Angels in Europe based on data reported to EBAN**

	2009	2010
Number of Business Angels Networks reporting	196	174
Number of Business Angels	14,785	12,299
Number of Active Business Angels	6,111	6,302
Number of Female Business Angel investors	620	686

Source : 2010 EBAN statistics compendium

Table 3.2 provides a more detailed analysis of the networks in different countries. Besides the apparent differences in responses received, there are also differences in the average size of BANs (ranging from the extreme case of 215 members in the Netherlands to only 22 in the UK) and the share of active members (from 75% in France to 33% in the UK). Female participation is more consistent, as in all countries the share of female Business Angels in BANs in 2010 was less than 10%. Given the limitations of the data indicated earlier, it is clear that there is significant variation among Member States.

**Table 3.2: Characteristics of the Business Angels in BANs – National data in the basis EBAN survey 2010<sup>14</sup>**

	Number of BANs responding	Total number of Business Angels in network	Number of Business Angels per network	Number of active Business Angels	% of active Business Angels	Number of women Business Angels	% of female investors	Number of Business Angels investing in companies through the network	Average number of Business Angels per investment round in 2010
France	66	4,030	61.1	3,015	75%	375	9.3%	2,400	5
Italy	10	301	30.1	200	66%	7	2.3%	126	3
Germany <sup>14</sup>	13	407	31.3	218	54%	20	4.9%	60	1.9
Netherlands <sup>14</sup>	11	2375	215.9	1070	45%	30	1.3%	109	3
Poland	3	134	44.7	83	62%	12	9.0%	2	n/a
Spain	13	807	62.1	276	34%	18	2.2%	82	1
Sweden	5	135	27.0	57	42%	10	7.4%	26	1
UK	22	537	24.4	177	33%	30	5.6%	43	3

Source : EBAN surveys 2009 and 2010

### 3.3 - Other estimates of the visible market

Going beyond the data of the EBAN survey the research in each of the 8 Member States reviewed data from other studies, when available, and estimates provided by experts with experience of the market. These experts included representatives of the national BANs associations, academic or government officials working in the sector. In addition to that, we also made extrapolations from the data from the EBAN survey based on information on the total number of BANs operating. These estimates are summarised in Table 3.3 and are explained in greater detail in each of the national reports in the annexes.

<sup>14</sup> Data for Germany and the Netherlands are for 2009

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**Table 3.3: Overall estimate of the number of visible Business Angels, 2010**

	EBAN data	Estimated total	Comment
France	4,030	4,500 <sup>15</sup>	Data from national association
Italy	313	450-620	Data from national association
Germany	407 <sup>16</sup>	1,000-1,400	Extrapolation from EBAN data
Netherlands	2,375 <sup>16</sup>	4,470*	Data from national federation
Poland	134	200	Extrapolation from EBAN data
Spain	807	1,729	Data from national federation
Sweden	135	750-1,000	Extrapolation from EBAN data
UK	537	4,555**	Data from national federation
<b>Total</b>		<b>18,000 to 19,000</b>	
<b>Gross up factor</b>		1.57	
<b>EU 27 estimate</b>		<b>28,500 to 30,000</b>	

Sources : CSES research in each country, see annexes

\* – based on 2009 information provided by the Netherlands' national federation. 2010 data, not included in the EBAN analysis, showed much lower estimates, but probably incomplete

\*\* – figure excluding Scotland, based on BBAA data

In total, the number of Business Angels in the visible market in the eight countries examined is likely to be just 18,000-19,000. As described in section 2, the sample countries represent 63.6% of the EU27 population, so the total number of Business Angels in the visible market in the EU27 may be a little below 30,000. However, given that the eight countries examined are mostly countries where the Business Angels market is relatively developed, the total estimate should probably be lower, possibly closer to 25,000.

### 3.4 - Non visible market

Going beyond the visible market, our estimate of the non-visible Business Angels – those that are not members of BANs- has been based on two approaches:

- Estimations on the basis of the visible market in combination with data from other studies identified at national level and the opinion of experts;
- Estimations on the basis of data available from the annual Global Entrepreneurship Monitor survey.

<sup>15</sup> Includes data on the non measured market

<sup>16</sup> Data for 2009

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### 3.4.1 - Estimates based on data from the visible market

The country teams attempted to estimate the size of the non-measured market as compared to the visible market. These estimates were based on available reports and other studies at the national level as well as estimates provided by experts with experience in the national Business Angels market.

A summary of the findings for each market is provided in the table below.

#### Text box 3.1: Comments on the size of the non-measured market

**France** - On the supply side of the market, France Angels estimates the number of Angels not part of networks to be between 2,000 and 4,000, however, this is only a rough guess on the part of France Angels. The Conseil d'analyse stratégique estimates that there are potentially 350,000 individuals in France with sufficient financial resources to invest €100,000 in a company's equity without exposing themselves to that risk by over 5%.

**Germany** - The most often cited study of ZEW in 2007, based on information on first round investments received only by high-tech start-ups in the period 2001-2005, indicates a total number of around 2,700-3,400 active Business Angels in Germany. Another estimation based on data from financed exits indicated a total of around 5,200-5,400<sup>17</sup>. The BANs association (BAND) suggested that the total number of Business Angel investors is in the range of 5,000-10,000.

**Italy** - According to IBAN, the total number of Business Angels in Italy is in the region of 500. On the basis of the data for the visible part (450) provided earlier, suggests that invisible market is very small. This number, if accurate, deviates greatly from the numbers from most other European countries where the invisible share of the Business Angel market usually represents more than 50%, and very often up to 90% of the total.

**Netherlands** - There is no formal research conducted. The interviews conducted suggested that the invisible market may be 7 times the visible market, namely close to 30,000.

**Poland** - Research with regards to non-visible market in Poland has not been yet conducted in Poland. It is therefore difficult to estimate what share of the market is non-visible. However, as it was pointed out in interviews from the total amount of investments made in Poland, around 5-10% goes through Business Angels networks and it is possible that slightly lower percentage of Business Angels could be operating outside the networks (in the non-visible market). However, the investors working outside Polish networks are usually more experienced and they use their own contacts to receive interesting projects offers. Despite a smaller number of those investors, they still make more investments than those in the networks.

**Spain** - According to the Spanish representative in the Board of Directors of EBAN, the invisible part of the Business Angel market is most probably around 20 or 25 times greater than the visible or formal Business Angel market, thus up to 43,300 (1,729 x 25). Overall, and taking into account both sources, the non-visible market could be between 34,600 and 67,700 individuals in 2010. His estimates suggest that, compared with other countries, the invisible Business Angel market is relatively large in Spain in relation to the measured/visible part. This is quite possible, given the business culture in Spain.

**Sweden** - The first study of Business Angels in Sweden carried out in 2004 developed a database of Business Angels including members of Business Angels Networks, investors in companies registered in

<sup>17</sup> EIF(2011), Business Angels in Germany EIF's initiative to support the non-institutional financing market, EIF Research & Market Analysis, Working Paper 2011/11



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the Swedish Patent and Registration Office and through information in articles and journals. It concluded with a total of 894 Business Angels. The above number represents the lowest estimate since some individual investors should be expected to be missed by this approach. It should also be expected to be biased towards members of BANs as this was the first and easier source of information.

A different approach was followed in the study conducted by Sofia Avdeitchikova<sup>18</sup> in 2004 based on a survey of a random sample of the population. From a total of 24,166 responses, around 861 individuals claimed making informal venture capital investments<sup>19</sup> in the last 5 years. Further analysis of a smaller number of them (401) led to a total of 298 (69.3%) identified as actual informal investors. Extrapolating the results from the sample the author estimated that the number of informal investments in Sweden was between 27,800 and 32,600 annually and the number of businesses financed around 7,500 per year. In our interview with the author it was suggested that the data available indicate that the number of Business Angels in 2004 was 5,000 and that this number must have slightly increased since. Finally, the Swedish Venture Capital Associations estimates that there are 3,000 to 5,000 angels in Sweden.

**United Kingdom** – The annual report on the Business Angel market in the UK<sup>20</sup> reiterates a previous estimate of the ratio of the visible to the non visible market. In the absence of any evidence-based estimates of the ratio of the visible to the invisible angel market we applied last year the estimate of 20% used in the 1999 estimates of the scale of the market, indicating a total of 25000 Business Angels in the UK. (Mason and Harrison, 2000).

The table below summarises the data obtained from each country. Grossing up the country data to the total EU27, we estimate a total number of Business Angels - including both the visible and non-visible segments, between 170,000 and 240,000.

**Table 3.4: Estimate of the total number of Business Angels (visible and invisible market)**

	Total number of Business Angels	Share of visible Business Angel in total
France	8,000	70%
Italy	500	100%
Germany	5,000 to 10,000	10 – 25%
Netherlands	30,000	14%
Poland	500	50%
Spain	34,600 to 67,700	4% - 5%
Sweden	3,000 to 5,000	na
UK	25,000	20%
<b>Total</b>	<b>110,000 – 150,000</b>	
<b>Gross up factor</b>	1.57	
<b>EU 27 estimate</b>	<b>170,000 – 240,000</b>	

Source : CSES research in countries, see annexes for details

<sup>18</sup> Sofia Avdeitchikova (2008): On the structure of the informal venture capital market in Sweden: developing investment roles, *Venture Capital: An International Journal of Entrepreneurial Finance*, 10:1, 55-85

<sup>19</sup> The definition used was : individuals that had, within the previous five years, made non-collateral investments in unquoted companies to which they did not have any family connections,

<sup>20</sup> Annual Report on the Business Angel market in the UK: 2009/10, Mason & Harrison

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### 3.4.2 - Estimates of the Business Angels market based on GEM survey data

The data of the annual Global Entrepreneurship Monitor<sup>21</sup> survey provide the basis for an alternative approach in estimating the number of Business Angels in the EU27.

One of the data sets collected by GEM teams is the informal investor rate, namely the percentage of working age (18-64) population who have personally provided funds for a new business, started by someone else, in the past three years. Not all of these informal investors will be Business Angels and many are friends or family of the person starting the business. However, in some cases the national GEM teams have also asked respondents to indicate whether the person starting the business is known to the investor, so an estimate of investors in strangers businesses can be obtained. This provides for a closer approximation to the Business Angels definition even if not all the criteria of the Business Angels' definition are met. For example, the investors may not be involved in any form in the running of the business as is required by the definition. Thus, an estimate based on GEM data provides a high-end estimate of the total Business Angels numbers.

Estimates of the informal investor rates are available for most countries in the sample for some years. These are shown in the table below, together with similar data for the United States for comparative purposes.

As can be seen, in almost all years the informal investor rate in United States is higher than the equivalent rate in the countries in the sample in Europe. Using the data for the years 2009 to 2011, the average informal investor rate for the eight countries is 2.9%.

**Table 3.5: Informal Investors Rate : Percentage of 18-64 population who have personally provided funds for a new business, started by someone else, in the past three years**

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
France	1.8	1.2	0.7	4.9	3.6	4.7	5.6	3.8	3.8	3.2	4.6
Germany	3.2	3.4	2.7	2.7	1.8	1.7	-	1.8	1.5	3.6	-
Italy	1.4	1.4	1.5	3	2.3	1.6	3	2.1	1.8	3	-
Netherlands	1.5	1.8	1.3	1.3	2	1.1	2.3	1.7	1.8	3.4	3.7
Poland	2.4	0.6	-	3.9	-	-	-	-	-	-	3.1
Spain	3	3.1	3.5	2.5	2.5	2.8	3.2	2.8	3	3.3	3.6
Sweden	2.6	2.8	2.3	2.4	2.3	2.6	3.7	-	-	6.6	8.7
United Kingdom	2.6	1.7	1.6	1.4	1.7	1.6	1.4	1.7	1.1	3.2	2.5
United States of America	5.5	5	4.9	4.3	4	6	4.9	5.2	4.1	6	4.8

Source : GEM project

The survey also provides some data on the rate of informal investors who finance strangers businesses, as opposed to friends and family. Data are available for only some countries. Where it is not available we have used an estimate from the previous GEM surveys. The combination of these two indicators

<sup>21</sup> <http://www.gemconsortium.org/>

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leads to an estimate for potential Business Angels - individuals of working age that have invested in a stranger's business in the past three years - between 0.14% and 0.81%. On the basis of working population data from Eurostat we estimate that there are 663,000 such investors in the sample countries and about 1.04 million for the EU 27 as a whole.

The table that follows shows the underlying data.

**Table 3.6: Estimate of the potential total number of business angels on the basis of GEM survey data**

Country	Informal investors (% of working population)	% of informal investors who financed strangers' business	% potential angels	Working population (1000s)	Number of Informal investors (1000s)	Number of potential business angels (1000s)
France	3.9	7.0	0.273	41,922	1,635	114
Germany	2.3	7.0	0.24	53,908	1,240	129
Italy	2.3	5.0	0.24	39,644	912	95
Netherlands	2.7	18.8	0.5	11,122	300	56
Poland	3.1	7.0	0.33	27,213	844	90
Spain	3.2	7.2	0.23	31,365	1,004	72
Sweden	7.7	7.0	0.81	6,099	470	49
United Kingdom	2.1	6.4	0.14	41,000	861	57
<b>Total</b>				<b>252,272</b>	<b>7,265</b>	<b>663</b>
Gross up factor					1.57	1.57
<b>EU27 estimate</b>					<b>11,406</b>	<b>1,041</b>

Source: Analysis of GEM data by CSES

It should be noted that these estimates provide a high estimate of the number of potential Business Angels in Europe. For example, there is no certainty that all the potential Business Angels actually provide advice to the companies they invest in.

A comparison with available estimates for the United States' market suggests that this is, most probably, an overestimate of the number of Business Angels in Europe. There are some 850 active Business Angels per million population in the US while the data for EU27 presented above suggests a number of potential Business Angels of around 1,749 per million population. Given that the informal investor rate in Europe (2.9%) is, according to the GEM data, around 60% of the similar rate in the United States (5.0%), the number of Business Angels in Europe should also, most likely, be less than in the US. Thus, if we assume that the number of Business Angels per million in the EU is 60% of that US rate, we arrive at a rate of 513 Business Angels per million population, corresponding to a total of 256,000 Business Angels for the EU27. This result is of a similar order of magnitude to the result provided in the previous section.

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### 3.5 - Summary

On the basis of data collected from a range of sources the size of the visible Business Angels market should be around 28,000-30,000 Business Angels, of whom about half are active.

This estimate does not include Business Angels who are not members of networks (invisible market). Estimates based on the data obtained in the eight countries where fieldwork was carried out for this study suggest that the total number of Business Angels in the EU is of the order of 170,000 to 240,000. In addition, the analysis of available data from the Global Entrepreneurship Monitor indicates a total of up to 1.1 million people who invested in strangers companies in the EU in the last three years. However, not all of the above provide advice to companies and will fall within the definition of Business Angels. If we adjust the estimates on the basis of comparison with U.S. data, we arrive at an estimate of approximately 250,000 Business Angels in the EU27.

We can conclude that the total Business Angel market is likely to be perhaps seven times the size of the visible market.

# Investment by Business Angels

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This section of our report includes an estimate of the investment carried out by Business Angels in 2010. We provide data for the visible part of the market, and where possible other data for the non-visible part.

### 4.1 - Introduction

This section provides data and estimates on the size of the Business Angels market and the value of the investments. It also considers the size of deals, the breakdown of investments by sector, stage of investments in the firms' development path and level of co-investment. The data are based primarily on EBAN surveys of the visible market, supplemented, where available, by other sources and estimates.

### 4.2 - EBAN data on the visible market

The following two tables (4.1 and 4.2) provide an overall picture of visible Business Angel activity based on the 2010 EBAN survey and, in the case of Germany and the Netherlands<sup>22</sup>, the 2009 survey. Data for some other countries are shown in table 4.2 below but in the case of Austria, Belgium, Finland, Greece and Slovenia they are based on responses from only one network.

There is a great variation in the total value of investments with France representing more than 25% of the total of the visible market and Italy, Germany and UK between 8-13%. However, these numbers are a reflection of the different response rate to the EBAN survey among different countries and are not necessarily representative of the share of the different countries in the total EU Business Angels market.

The average size of the deal is in the range of €100,000 - 200,000 for most countries. The average investment per Business Angel, tends to vary much more, starting from as low as €18,000 to over €150,000. However, we should note here that the calculation of the average (mean) value on the basis of the EBAN data is problematic as it can be easily affected by a small number of large-size deals. According to our research the frequency distribution of investment size is skewed towards lower values. In such cases, the median or the mode values (central or most frequent) are more appropriate when referring to the typical Business Angel investment. However, the calculation of the median or the mode require data on the value of individual deals completed and are not available. Table 4.3 below provides the mean and the median value of the average values by BANs as reported in 2009 and 2010 and shows that the median value for the average investment is around €50,000.

<sup>22</sup> A small amount of Netherlands 2010 data was also received

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**Table 4.1: Business Angel Investment value in sampled EU countries – Data from EBAN networks**

	Number of BAN that responded	Value of investments by angels in BANs(€s)	Average amount of the deal (€s)	Average amount per investor (€s)
France	66	62,500,000	177,000	18,000
Germany <sup>23</sup>	10	20,005,000	191,000	111,400
Italy	13	33,300,000	145,000	45,500
Netherlands <sup>23</sup>	11	25,320,000	365,000	140,000
Poland	3	na	na	na
Spain	13	8,162,000	182,197	137,000
Sweden	5	3,020,000	91,850	65,500
UK	22	18,090,556	142,500	25,000

Source : EBAN 2009 and 2010 survey data

**Table 4.2: Business Angel Investment value in other EU countries – Data from EBAN networks**

	Number of BAN that responded	Value of investments by angels (€s)	Average amount of the deal (€s)	Average amount per investor (€s)
Austria	1	542,500	136,000	n/a
Belgium	1	3,101,000	107,000	75,000
Finland	1	2,922,000	139,000	50,000
Greece	1	n/a	n/a	n/a
Ireland	2	5,950,000	225,500	65,250
Portugal	14	2,060,000	121,000	43,000
Slovenia	1	n/a	n/a	n/a

Source : EBAN 2010 survey data

**Table 4.3: Mean and median values of investment per deal and per Business Angels on the basis of EBAN survey data**

	Average amount invested per deal		Average amount invested per angel	
	2010	2009	2010	2009
<b>Mean</b>	€ 114,513	€ 160,078	€ 90,969	€ 64,976
<b>Median<sup>24</sup></b>	€ 121,176	€ 150,000	€ 50,000	€ 50,000

Source: EBAN survey 2009 and 2010

<sup>23</sup> Data for Germany and the Netherlands come from the EBAN 2009 survey based on 13 and 11 responses. The 2010 survey is based only on 3 responses for Germany and at its initial stage no data for the Netherlands.

<sup>24</sup> This median is the median of the returns made by individual syndicates or networks. Data is not available at deal level

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Additional data from some of the countries examined indicate that the average size of investments per Business Angel may be even smaller:

- In **Sweden** in the case of the informal market, one study<sup>25</sup> found that total investments are, in 92% of the cases, less than €100k with average individual investments as low as €6k;
- According to a recent EIF report<sup>26</sup>, in **Germany** the amounts invested per individual investee company vary significantly but often amounts between €50k and €100k are mentioned as average. However, during the financial crisis these amounts went down significantly;
- In **Scotland**, where most Angel investment is carried out by syndicates rather than a network, one of the largest syndicates suggested a minimum investment per Angel of £10,000 (€12,000). The general policy followed is as follows: *“If the total investment is less than £100,000, the core investor group are likely to cover the investment themselves. If the total investment exceeds £100,000 then all syndicate members will be offered the opportunity to invest on the same basis as the core investor group. Minimum investment level for each non-core investor is likely to be £10,000”*.

Data on changes in the average investment by Business Angels over time are also quite limited. One source is the German Business Angels panel that covers the period 2002-2011. The data provided concern the total level of investment per angel on a quarterly basis. Chart 4.1 presents the data aggregated on an annual basis. It clearly shows a decline in the total amount invested over the last 3 years and the significant difference with the second dot-com bubble period around 2004. Similar data are not available in other countries but information provided during the interviews in some countries supported the view of declining trend. In relation to the average deal size, data from IBAN in Italy suggested that the average investment has declined from €183,000 in 2007 to €145,000 in 2010. A similar trends was not evident in Spain where, according to available data<sup>27</sup>, the average size of investment remained above €200,000 in period 2005-2009.

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<sup>25</sup> Sofia Avdeitchikova (2008): On the structure of the informal venture capital market in Sweden: developing investment roles, *Venture Capital: An International Journal of Entrepreneurial Finance*, 10:1, 55-85

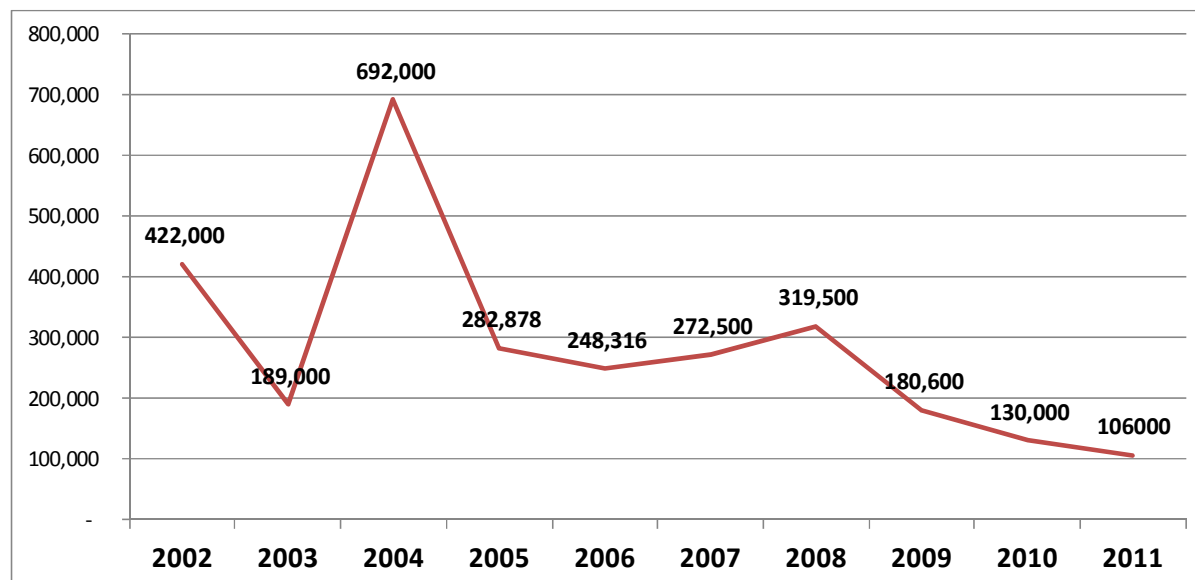
<sup>26</sup> EIF(2011), *Business Angels in Germany* EIF's initiative to support the non-institutional financing market, EIF Research & Market Analysis, Working Paper 2011/11

<sup>27</sup> Data from Cotec in Spain suggest that average size of a deal in 2005 was around €205,000, in 2008 €270,000 and in 2009 220,000.

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Chart 4.1 – Evolution of the total annual investment per business angel over the period 2002-2011, Germany



Source: VDI Business Angels panel<sup>28</sup>

Additional data collected by the research team on the visible market and extrapolation from the EBAN survey for the total number of BANs provide for a more complete view of the total value of the market.

**Table 4.4: Business Angel Investment value in 2010 (€s) - Visible market segment only**

	Based on EBAN data (€s)	Based on all networks where available (€s)
France	62,500,000	157,000,000
Germany	19,600,000 <sup>29</sup>	55,000,000
Italy	33,300,000	33,300,000
Netherlands	7,400,000	na
Poland	na	na
Spain	8,162,000	28,300,000
Sweden	3,020,000	21,000,000 - 30,000,000
UK	18,090,000	18,090,000 <sup>30</sup>
<b>Total</b>	<b>152,000,000</b>	
Gross up factor	1.45	
<b>EU 27 estimate</b>	<b>220,000,000</b>	<b>660,000,000</b>

Source : based on EBAN data and CSES research

<sup>28</sup> [http://www.vdi-nachrichten.com/aktuell/technikfinanzen/redaktion\\_00000134/ba-panel/cache.aspx](http://www.vdi-nachrichten.com/aktuell/technikfinanzen/redaktion_00000134/ba-panel/cache.aspx)

<sup>29</sup> based on 2009 data

<sup>30</sup> based on a rate of €1.2 per £



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For countries where additional data was available, the size of the whole visible market appears to be about three times the size of the market covered by those networks reporting to EBAN. On this basis, the visible part of the business angels market in Europe in 2010 would appear to be of the order of €660 million.

In relation to the non-visible part of the market no relevant data were identified. The previous section of our report suggested that the non-visible market is perhaps seven times greater than the visible market. Assuming that size of investments in the invisible market are of the same size as in the non visible segment, then total investment in the whole EU27 market might have been of the order of €4 to €5 billion in 2010.

It should still be appreciated that there are serious limitations in the quality of this data. Limitations include:

- A difficulty in ascertaining whether trends shown in data are reflective of the wider population;
- Complications in evaluating what percentage of Business Angel association are members of EBAN/national associations and, since the data is largely anonymous, which associations have provided data;
- Significant differences in the level of data provided for each country.

In comparison with the US, the data provided by the Center for Venture Research at the University of New Hampshire<sup>31</sup> suggest that the US business angel investor market in 2010 reached a total volume of \$20.1 billion (€16 bn), four times greater than our estimate for the market in the EU27. A total of 61,900 entrepreneurial ventures received angel funding in 2010, an increase of 8.2% over 2009. The number of active investors in 2010 was 265,400 individuals, a small growth of 2.3% from 2009.

### 4.4 - Market analysis

Besides data on the number of business angels and the size of the market, the EBAN survey provides additional information in relation to the operation of the BANs including the number of business deals and firms supported, the breakdown of investments by sector, location and by the stage in the firms' life cycle. It also includes information on the level of co-investment. Similar data are, with few exceptions, not available for the non-visible wider market<sup>32</sup>.

#### *Quantity of Business Angel investment through EBAN affiliated networks in 2010*

Table 4.5 presents statistics on the total activity of BAN members in 2010 including the number of business plans received, number of deals and number of new businesses financed by Business Angels through each network and the number of new and follow-on rounds of investment. The figures help gauge the level of Business Angel activity in each country but there are wide discrepancies in the level of reporting in (e.g. Germany vs. France) that make any interpretation of the figures or extrapolation to a broader population problematic.

<sup>31</sup> Jeffrey Sohl (2011), "The Angel Investor Market in 2010: A Market on the Rebound", Center for Venture Research

<sup>32</sup> Given that for all other countries the responses to the EBAN survey came from 1 or 2 BANs only and have many gaps and missing values we preferred to focus on the 8 countries examined in more detail

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**Table 4.5: Business Angel Investments through BANs in 2010 – Key statistics on the basis of EBAN survey for selected EU Member States** <sup>33</sup>

	Number of BAN that responded	Number of business plans submitted (successfully presented) to Business Angels	Number of deals made through the network	Number of new companies financed	Number of follow-on rounds
France	66	339	331	220	2
Germany	10	212	14	9	3
Italy	13	1,346	222	154	7
Netherlands	11	442	109	6	3
Poland	3	61	2	2	0
Spain	13	594	58	38	2
Sweden	5	98	25	17	5
UK	22	115	127	40	4

Source: EBAN 2010 and 2009

### *BAN members' Investment by sector*

Table 4.6 below presents a sector breakdown of the total number of deals that took place through the BANs. The tables clearly show that, while there are significant discrepancies between the amount invested in different sectors between countries, the ICT, Biotech and Healthcare sectors constitute the largest categories of investment, most often representing more than 50% of the total number of deals. In the case of Italy, the finance and business services sector was quite important among IBANs members (22% of deals) together with the creative industries and environment and clean technologies sectors. In the Netherlands, social and sustainable investments and retail and distribution also had important shares (over 10% of the deals in 2010).

**Table 4.6: Share of Business Angels' investment by sector - Data from EBAN survey on selected EU Member States (% of deals)**

	FR	DE <sup>34</sup>	IT	NL	PL	ES	SE	UK
ICT	40	38.3	13	17.5	100	33	26	26
Mobile (incl. software and service applications)	7	11.1	5	10.3	0	2	13	1
Creative Industries	2	7.5	10	0.9	0	14	2	6
Biotech and Life sciences	14	5.7	7	2.1	0	10	13	24
Health Care/Medical technology	8	5.5	10	16.2	0	3	31	11
Social and Sustainable Investments	4	n/a	0	12.3	0	1	0	0
Energy	8	11.3	0	4.5	0	3	4	3
Environment and Clean technologies	9		9	0.0	0	10	11	6

<sup>33</sup> Data for Germany and the Netherlands are from 2009

<sup>34</sup> Data for Germany and the Netherlands are based on the 2009 survey

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Retail and Distribution	0	4.6	8	12.3	0	3	0	1
Finance and Business Services	0	1.9	22	5.3	0	1	0	0
Logistics and transportation	0	n/a	0	n/a	0	3	0	0
Manufacturing	0	6	7	n/a	0	13	0	19
Other	9	7.7	8	n/a	0	4	0	3

Source: EBAN

### Geographical distribution of BAN members investments

Table 4.7 provides an indication of the location of the ventures where network affiliated Business Angels in each country choose to invest. The data show that, with the exception of German Business Angels, the vast majority of investment takes place in the same country or region where the networks are located. This is very much in line with the conclusions of a number of studies that have also found that most business angels invest in firms within geographical proximity (Mansson and Landstrom, 2006<sup>35</sup> and Avdeitchikova, 2007<sup>36</sup> in Sweden, Wallisch, 2009 in Germany).

**Table 4.7: Business Angels' investment by location of recipient firms - Data from EBAN survey on selected EU Member States (% of deals)**

	In the region where the Network is located	In the same country, but not in the same region	Cross-border in Europe	Outside of Europe	Not known
France	84	15	0	2	2
Germany	50	13	38	0	0
Italy	70	5	11	4	4
Netherlands	35	54	-	11	
Poland	0	100	0	0	0
Spain	95	5	0	1	1
Sweden	0	0	0	0	0
UK	73	23	3	1	0

Source: EBAN survey, 2010 (Data for Germany and the Netherlands are from the 2009 survey)

### Stage in the business' Life Cycle of Business Angels' investment

The data from the EBAN survey presented in Table 4.8 reveal that in most countries Business Angels focus on the Seed and Early Stage/Start-Up level. Having said that, the expansion stage appears to be attractive for a sizeable number of Business Angels (15-20% of deals), at least in the case of Germany, Italy, Sweden and the UK.

<sup>35</sup> Nils Månsson & Hans Landström (2006): Business angels in a changing economy: The case of Sweden, *Venture Capital: An International Journal of Entrepreneurial Finance*, 8:4, 281-301

<sup>36</sup> Sofia Avdeitchikova (2009): False expectations: Reconsidering the role of informal venture capital in closing the regional equity gap, *Entrepreneurship & Regional Development: An International Journal*, 21:2, 99-130

# Investment by Business Angels

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**Table 4.8: Business Life Cycle Stage of Investment in selected EU Member States - Data from EBAN survey**

	Pre-seed	Seed	Early stage and start-up	Expansion	Pre-IPO	Buy-out and turnaround	Other
France	0.00	0.00	100.00	0.00	0.00	0.00	0.00
Germany <sup>37</sup>	14.20	30.40	31.8	22.8	0.00	0.80	0.00
Italy	0.00	36.57	21.71	20.71	0.00	0.00	11.00
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	40.00	30.00	30.00	0.00	0.00	0.00	0.00
Spain	3.08	40.31	48.92	7.69	0.00	0.00	0.00
Sweden	0.00	8.75	73.75	17.50	0.00	0.00	0.00
UK	0.00	7.13	71.58	19.35	1.94	0.00	0.00

Source: EBAN survey 2010 and 2009

### *Level of co-investment between business angels and other bodies*

The EBAN survey also provides also some indications on the level of co-investment that takes place. The total amount of additional investment in SMEs that were supported by the networks – including angel finance but also co-investment with other funds, syndicated deals, VCs and other investors- is in many countries more than double (up to 10 times greater in Sweden) the amount invested by the angels in the networks.

**Table 4.9: Co-investment in SMEs supported by BANs in selected EU Member States<sup>38</sup>**

	Number of complete responses by BANs	Total value of investments by angels in BANs(€s)	Total value of investment on SMEs supported by BANs (including co-investment) (€s)
France	66	62,500,000	125,000,000
Germany <sup>39</sup>	10	20,005,000	24,305,000
Italy	11	34,720,000	122,300,000
Netherlands <sup>23</sup>	11	18,020,000	24,450,000
Poland	3	na	na
Spain	11	5,700,000	7,200,000
Sweden	5	3,020,000	30,600,000
UK	22	18,090,556	57,170,000

Source: EBAN survey

<sup>37</sup> Data for Germany are from 2009

<sup>38</sup> The numbers in the second column – investment by angels in BANs – do not always coincide with that in tables 4.1 and 4.3 since some of them are based on a smaller number of responses. In a number of occasions BANs did not provide data related to the third column – the total level of investments, including co-investment.

<sup>39</sup> Data for Germany and the Netherlands come from the EBAN 2009 survey based on 13 and 11 responses. The 2010 survey is based only on 3 responses for Germany and at its initial stage no data for the Netherlands.

# Investment by Business Angels

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Concerning the main types of co-investors, the survey data from EBAN are rather inconsistent but, from what is available, we can conclude that in most cases it is either other angels - inside or outside the specific network – and early stage funds that are the main co-investors. In the case of Sweden institutional investors also appear to have a very important role, such as the government led ALMI Invest scheme in Sweden that requires 50% co-investment and has attracted a significant number of Business Angels. Other co-investors include, in The Netherlands the Technostarter Funds, in Scotland the Scottish Seed Fund and the Scottish Co-Investment Fund and in Italy the Fondo Rotativo per le nuove imprese innovative della Camera di Commercio di Pisa. Venture Capital funds are also indicated as co-investors for a smaller, but still sizeable, number of deals (around 10%).

**Table 4.10: Level of Business Angels Co-investment in selected EU Member States - (% of total number of deals completed through BANs in 2010)**

	with Business Angel inside the network	with Business Angel outside of the network	with an early stage fund	with a venture capital fund	with a family office	with institutional investors	with other investors
France	49.2	24.6	26.1	0.00	0.00	0.00	0.00
Germany <sup>40</sup>	26.3	16.3	31.3	13.8	3.8	8.8	0.00
Italy <sup>41</sup>							
Netherlands							
Poland	50.00	33.00	0.00	0.00	0.00	0.00	17.00
Spain <sup>41</sup>	29.23	5.38	0.00	10.38	0.00	1.92	0.00
Sweden	13.3	23.3	10.00	13.3	0.00	26.7	0.00
UK <sup>41</sup>	95.24	6.02	3.90	0.90	17.78	0.59	57.00

Source : EBAN survey

## 4.5 - Summary

The main conclusions of this section are:

- On the basis of the data from EBAN and other sources the total value of the visible segment of the Business Angel market in Europe in 2010 would appear to be of the order of €660 million;
- Data on the non-visible segment of the market – namely the part that takes place outside BANs – are very limited. On the basis of various sources we can estimate that is probably around seven times greater than the visible market, bringing the whole size of the Business Angel' market in Europe in 2010 to a total of €4-5 billion and no more than 25% of the size of the United States' market;
- Broadly speaking, Business Angel investments tend to concentrate on ventures in ICT (where there are often lower capital requirements), Biotech and the Healthcare sectors;

<sup>40</sup> Data for Germany and Poland are from the 2009 survey

<sup>41</sup> Data for Italy, Spain and the UK did not add up to 100% either because of missing values or possibly because of wrong interpretation of the survey question. They are presented here only for reasons of completeness.

# *Investment by Business Angels*

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- The majority of funding takes place at the Seed and Early Stage/Start-Up level although in a number of countries Business Angels are also involved in expansion stage finance which is typically a stage that attracts Venture Capital;
- Business Angels tend to support ventures that are in relative geographical proximity with prime focus on the regional level;
- Business Angels are increasingly using syndicates to structure their investments.

Business Angel investments through BANs appears to attract additional investment, the amount of which ranges greatly among BANs in different countries. Other Business Angels are the most common co-investors but other early stage funds, institutional investors (including government schemes) and VC are also co-investing with Business Angels.

# Public help for Angel Investment

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In this section of the report we provide a brief review of characteristics of existing public policies in relation to Business Angels and of the existing evidence concerning the effectiveness of public support.

### 5.1 - Introduction

This section examines the available evidence about the outcome of public policy tools supporting Business Angels. The development of policy tools to support the angels' market is part of the broader policy for supporting entrepreneurship and new firm creation, ultimately leading to economic development and employment creation. In that respect, the development of a climate where investors are willing to invest in start-up businesses is clearly an important objective.

Much of the available information was reviewed in a recent OECD review of Business Angel policies in Europe<sup>42</sup>. In addition, a small number of academic papers and a few formal evaluations of public programmes in some EU countries (Sweden, UK) have also been used in this report. One reason for the rather limited evaluation work is that most policy interventions in the angel market have been rather recent, starting in the early 1990's in the United Kingdom and the late 1990s in the other parts of Western Europe (Mason, 2009) and, more recently, other regions around the world.

The main policy tools examined in the evaluation studies identified include:

- Support for the creation and operation of Business Angels networks;
- Tax incentives or tax relief schemes;
- Co-financing schemes.

The most common questions considered in these studies focus on scheme level outcomes, i.e. the performance of the scheme as a whole in achieving new investment by Business Angels and in creating employment, and the added-value for Business Angels and entrepreneurs. Firm level issues, i.e. the performance of the firms supported, are also sometimes considered.

The following paragraphs summarise the key conclusions of the studies identified. These are also summarised in table 5.1 at the end of this section. However, we first place public support for Business Angels in the context of the effectiveness of business angel investing as a whole.

### 5.2 - Effectiveness of business angel investments

Before considering the effectiveness of the various policy tools a first important consideration is the return of the Business Angel investment for the investor, the entrepreneurs and the governments that support Business Angels.

There are mixed views on the outcome of business angel investment from the point of view of the investor. While there are many well-publicised success stories from individual investments, data on the outcome for investors of a portfolio of angel investments is not readily available. Given the lack of market data and the long maturity period of investments, this is unsurprising. Studies such as those of Scott Shane(2008)<sup>43</sup> suggest that the returns to Angels' investments are generally low. However, working in groups tends to be more effective and some of the earlier Angel syndicates have returned

<sup>42</sup> OECD (2011), Financing High-Growth Firms: The Role of Angel Investors, OECD Publishing.

<http://dx.doi.org/10.1787/9789264118782-en>

<sup>43</sup> Scott Shane (2008), Fool's Gold? The Truth Behind Angel Investing in America, 2008 ISBN13: 9780195331080

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significant amounts of capital to investors. It is not unusual for just a few highly successful investments to emerge from many with low or negative returns.

From the point of view of the entrepreneur, besides the provisions of capital, the non-financial assistance to the businesses in which Business Angels invest can be critical. The non-financial assistance is particularly important in the earliest development stages where the management team is incomplete or inexperienced. Business Angels may work on developing the firm's business plan, offer advice and contacts and improve the profile of the firms through their own reputation (EIF, 2011). In a recent survey of Business Angel-supported firms by the KfW (2010)<sup>44</sup>, contacts and Business Angels' know-how were considered more important than the provision of finance.

From the government point of view there is some evidence on the effectiveness of the support to Business Angels in terms of returns on public investment. Estimates by a syndicate in Scotland<sup>45</sup> point out that the increased flow of personal tax and social security contributions from a new small business and the resulting reduced expenditure by government mean that tax relief on new investments is often recovered in less than one year. In Ireland<sup>46</sup>, Angel investments of €12m in 2011 created 344 jobs, equivalent to an annual investment of €35,000 per job. Tax relief on such an investment will be recovered in a short period. A similar study in Portugal showed that, because of the delay in granting tax relief, angel investing was always cash positive for the government. Essentially, the savings resulting from the benefits of new jobs are much greater than the level of government support.

### 5.3 - Support to Angel Associations, Networks and Groups

Turning to the public policy tools available, a measure introduced in some countries has focused on the promotion of BANs. Such networks support matching of ventures with Business Angels. They also can provide consulting services to ventures to make them investment-ready. In some countries (e.g. Germany, Spain, Sweden) government has also financially supported the formation of national angels' associations or federations of networks, in order to contribute to the development of the angel market in a given country by raising awareness about angel investment, collecting relevant data, providing training and promoting the interests of Business Angels in the public policy sphere. In Spain there is an initiative to provide certification for BANs in return for funding and good record keeping.

Some countries have sought to develop the Business Angel market by encouraging syndicates. Examples include the Netherlands through the Technostarter Funds, and Scotland through LINC. According to the OECD study cited earlier, the initial support from the EU and national governments actually led to a dramatic increase in the number of BANs in Europe. However, the eventual success and the investment activity of these BANs varies. The study of Collewaert *et al.* (2010)<sup>47</sup> in Belgium showed that BANs have contributed to the identification of 82% of the deals of visible angel investors and that they play an important role in bringing together angels. However, it also found that sometimes the best investment opportunities are channelled to the better known angel investors that do not necessarily need or want

<sup>44</sup> KfW Bankengruppe (2010), Beteiligungsmarkt nach der Krise : Optimistischer Ausblick Aber Angebotslücke beim Wachstums capital wird grosser (in German)

<sup>45</sup> Based on a discussion with the largest Scottish syndicate, Archangel

<sup>46</sup> Halo Business Angel Network (HBAN), April 2012



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to co-invest through a BAN. Similar conclusions were reached in a study by a well established BAN in Germany.

The studies reviewed in the OECD report cited earlier also refer to the costs for the operation of these networks. Government support for the BANs in the early years of operation is critical but in the long term the BAN need to be self-sustainable. This relies on the capacity of the organisations to fill a real need in the market and their performance to be measured against measurable targets. The studies of Aernoudt et al (2007) and Knyphausen-Aufsess and Westphal (2008) indicate that Business Angels are often sceptical on the added-value provided by networks and raise doubts on their viability in the absence of public support.

A further form of support is to encourage the development of syndicates of investors. LINC Scotland, for example, has a remit to promote new Business Angel syndicates and receives some government financing to support this objective

It should be appreciated that support focused on BANs refers only to the visible section of the market which represents the minor part of the market. As a result, the promotion of BANs can only have a limited direct effect on the Business Angels market. However, the activities of most BANs and national associations focusing on investment readiness or the promotion of Business Angels interest, and interest in Business Angels can also have positive indirect effects.

### 5.4 - Tax incentives

Another form of support for Business Angels adopted in a number of countries is the introduction of tax incentive schemes, such as tax breaks or tax shields. In comparison to the focused support for BANs, such form of support can have an impact on the whole of the Business Angels' market, including the unmeasured part of the market.

Among the eight countries examined in this study, seven of them have either introduced in the past or are planning/considering some form of tax scheme aiming to support investment in small or new firms directly aiming at Business Angels. Poland is the only exception.

Examples of tax incentives in the countries examined include the UK Enterprise Investment Scheme (EIS), which has been in place since 1995 and is the most often cited example. The OECD study indicates that the evaluation of the programme showed that 80% of investors surveyed by NESTA<sup>48</sup> had used the Enterprise Investment Scheme (EIS) at least once and another study (Wiltbank, 2009) found that that 24% of investments would not have been made without EIS. Other studies of the EIS also confirmed its additionality in terms of the amount invested and a positive impact on the companies in which they invested (Mason, 2009). There is currently a proposal to enhance the EIS referred to above with a scheme specifically targeted at Business Angels, the Seed Enterprise Investment Scheme (SEIS)<sup>49</sup>.

In other countries – e.g. Sweden and Netherlands - the tax deduction schemes introduced were terminated and were generally considered as not successful in attracting Business Angels interest while the experience from the recently introduced schemes in Spain and Italy is insufficient to draw conclusions from as yet. In Germany, a survey of Business Angels indicated that, while not irrelevant, tax relief was not considered as important for more than half of respondents but there are diverging views expressed on this issue by representatives of Business Angels in other countries examined (e.g. Spain).

<sup>48</sup> National Endowment for Science and Technology

<sup>49</sup> For details see <http://www.hmrc.gov.uk/seedeis/index.htm>

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In the case of France, the *Avantage Madelin* provides a tax credit of 25% (up to a maximum of €40,000) for any investment in a SME provided the equity is kept for more than five years. In 2007, the *loi TEPA* (*Loi en faveur du travail, de l'emploi et du pouvoir d'achat*) was adopted concerning tax-payers subjected to the Solidarity tax on wealth (ISF – *Impôt sur la fortune*) providing a tax break of 75% of any investment in SMEs up to a maximum of €50,000. This break was reduced to 50% in 2010. However, in the case of the French tax scheme the feedback provided by the Business Angels is that the main issue was the rather limited capacity to target Business Angels exclusively and that it has been used for all types of financial investments, including limiting inheritance tax. The French schemes have also suffered from the frequent changes that have made them complicated and less attractive.

In sum, the effectiveness and success of tax schemes aiming to support Business Angels seems to vary greatly. They require careful design, monitoring, evaluation and targeted adjustments to ensure the intended results are achieved.

### 5.5 - Co-investment funds

Co-investment schemes have been set up with the objective of encouraging the development of the Business Angel market and the early stage venture capital market. They help fill a finance gap by providing extra capacity at these stages. This type of direct financing of an entrepreneurial firm usually takes the form of loans or equity, with the public sector's contribution usually matching the financing provided by the Business Angel *pari passu*. Some programmes focus exclusively on angel investors while others include a broader range of investors such as venture capitalists.

As noted in the OECD study, a significant amount of time in planning (and, in many cases, securing all the necessary approvals) is often necessary before such funds are launched. In terms of effectiveness, the evaluation of the Scottish Co-Investment Fund (SCF) - the most commonly cited example - showed that the SCF had a critical role in the raising of capital for over half of the investee companies. 78% of them considered that the fund was vital to their survival (Harrison, 2009) and there were positive economic impacts in terms of turnover, gross value added and employment.

The OECD report refers also to the Technostarters Seed Facility in the Netherlands. The evaluation conducted concluded that the scheme functioned well and helped boost funding for early-stage technology firms.

A similar scheme has also been developed in Sweden with funding from the Structural Funds (ERDF). A number of regional venture capital funds were created across a number of regions and were mostly run by local subsidiaries of a publicly controlled financial institution (ALMI). While they did not focus exclusively on Business Angels, more than 50% of the co-investors have been Business Angels and the input received during the fieldwork is that the presence of public support and the process of selection had a positive role in attracting Business Angels<sup>50</sup>. A survey of entrepreneurs in Spain on similar co-investment schemes also indicated a positive view of the role of such co-investment schemes (59% think it can help “a lot” or “somewhat”).

According to the OECD report co-investment schemes can be an important driver in building, growing and professionalising the angel market as they provide a more structured investment process and the pre-existence of angel groups is considered a key success factor of the co-investment funds. However,

<sup>50</sup> Tllivaxverket (2011), Mid-term evaluation of regional venture capital funds implementation and lessons learnt, [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/evalsed/evaluations/sweden/files/1111\\_sweden\\_venture\\_eval\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/evaluations/sweden/files/1111_sweden_venture_eval_en.pdf)

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an exception was the case of the co-investment fund established by the Danish Investment Fund in 2007, Vaekstfonden, where the OECD study points to the limited attention given to the Fund by the Danish Venture Capital and Private Equity Association (DVCA) that was responsible for its promotion but was also running a parallel scheme for VCs. While the VC scheme had a success in the venture capital segment of the market the angel co-investment fund, Partner Capital, was not successful as there were too few angels making too few investments.

**Table 5.1: Summary of selected reviews of assessments of public support measures for Business Angels**

No	Tool examined	Study name	Information on the tool	Main conclusions
1	Business angels networks	Rudy Aernoudt, Amparo San José & Juan Roure (2007) <sup>51</sup>	European Commission three year horizon call for proposal (in 1998) offering support for the creation of business angel networks, feasibility studies on their establishment and dissemination actions.	<ul style="list-style-type: none"> <li>- In 2006 there were 282 networks in Europe, of which 101 (36%) were UK-based.</li> <li>- The main benefit was the demonstration of the potential of business angel investment and raising awareness.</li> <li>- Very few of the networks financed became self-supporting. Most of the subsidies granted, had to be extended otherwise the network's activity would cease.</li> </ul>
2	Business angels networks	Dodo Zu Knyphausen-Aufseß & Rouven Westphal (2008)	Northern Bavarian Business Angels Network in Germany.	Strong doubts on the viability of BANs, no real recognition of the value added of the services provided and the demand from Business Angels, potential distortion of market toward young ventures that would not be otherwise supported
3	Business angels networks	Veroniek Collewaert, Sophie Manigart & Rudy Aernoudt (2010) <sup>52</sup>	The first Belgian BAN, Vlerick BAN, was subsidised by the Flemish government in 1999. Three other BANs were subsequently founded and subsidized. Together, they were the only BANs	<p>The companies contributed to economic development and growth. The 55 BAN-backed companies together added €73.2 million in value from the year of Business Angel participation onwards. Each euro of government subsidy on Flemish BANs generated an estimated €85.39 in value added.</p> <p>The BAN-backed companies in the sample paid €547k in taxes in a five-year period</p>

<sup>51</sup> Rudy Aernoudt, Amparo San José & Juan Roure (2007): Executive forum: Public support for the business angel market in Europe – a critical review, *Venture Capital: An International Journal of Entrepreneurial Finance*, 9:1, 71-84

<sup>52</sup> Veroniek Collewaert, Sophie Manigart & Rudy Aernoudt (2010): Assessment of Government Funding of Business Angel Networks in Flanders, *Regional Studies*, 44:1, 119-130

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No	Tool examined	Study name	Information on the tool	Main conclusions
			operating in Flanders until 2004 (after which they all merged) and all operated in the same way, through investor forums.	<p>starting from the year of the Business Angel participation. Each euro of government money spent on the BANs generated a direct return of €1.03 in taxes.</p> <p>Employee growth was significantly higher in BAN-backed companies than in non-Business Angel-backed companies but comparable with that in companies that received Business Angel financing through another channel.</p> <p>Each BAN-backed company created 1.84 jobs on average over the observation period</p> <p>It is hard to assess whether the supported companies create value in the long-term. In the short-term, they seem to destroy value, but there is an upward trend in value adding and profitability in the last years of the analysis.</p> <p>BAN-backed companies create significantly less value than similar non-backed firms</p> <p>BANs reduce information and financing problems of entrepreneurial companies. Entrepreneurs and Business Angels stated that they would not have known each other without BANs. The programme increased the supply of funds to entrepreneurial companies, rather than crowding out the private sector.</p>
4	Tax measures	NESTA	United Kingdom Enterprise Investment Scheme (EIS) tax investment scheme , in place since 1995. Following a review, the taxation relief available to investors in EIS schemes was increased to up to 30% on the amount	<p>NESTA study showed that 80% of investors surveyed used the Enterprise Investment Scheme (EIS) at least once and 57% of investments made use of EIS.</p> <p>Investors indicated that 24% of investments would not have been made without EIS (Wiltbank, 2009).</p> <p>Earlier evaluations were also positive and suggested significant additionality in terms of the amount of money invested (over 50%) as well as a positive impact on the</p>

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No	Tool examined	Study name	Information on the tool	Main conclusions
			invested.	companies in which they invested (Mason, 2009).
5	Tax measures	OECD	France: ISF scheme – deduction on wealth tax	ISF attracted many financial investors instead of the targeted angel investors
6	Tax measures	Rudy Aernoudt, Amparo San José & Juan Roure (2007)	Enterprise Investment Scheme (EIS) providing a 20% tax relief on the amount invested	EIS scheme is considered to be successful in attracting a critical mass of investments to the target segment (Mason and Harrison, 1999; Boyns et al., 2003).  It was not proved whether this programme has raised additional investment or whether some of the deals would not have been closed without the tax advantages granted.
7	Guarantee of Business Angels Investments	Rudy Aernoudt, Amparo San José & Juan Roure (2007)	Netherlands guarantee scheme from 1995-2000	The scheme was abolished after an evaluation revealed that the scheme was not considered good value for public money.
8	Guarantee of Business Angels Investments		Flanders guarantee scheme (1996-2005)	The scheme was abolished based on an evaluation showing all the 75 deals applying to the scheme would have been closed without the guarantee support
9	Co-investment funds	Rudy Aernoudt, Amparo San José & Juan Roure (2007)	Belgium: initiative of the Participation Fund. Grants subordinated loan of €125,000 if matched by finance from a business angel.	The average deal brought to the programme was similar to the average deal closed through Belgian networks.  The programme provides more capital to the investee companies than is invested by Business Angels.  Characteristics (size, sector) of the deal, conversion rate, role of the Business Angels are not affected by the scheme.
10	Co-investment	Tllivaxverket	Sweden Regional venture capital funds	The main contribution is the sharing of the risk, expertise, through due diligence

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No	Tool examined	Study name	Information on the tool	Main conclusions
	funds	(2011) <sup>53</sup>	with the support of Structural funds– investment provided on the basis of matching from private sector – including Business Angels.	<p>conducted and the simplification and standardisation of contractual procedures.</p> <p>The cooperation with the venture capital funds increased their knowledge, skills and ability to implement investments (71% of respondents), extend their network (66%) and their knowledge about investment opportunities in the region (around 52%).</p> <p>The initiative has so far led to an increased volume of investment for around half of respondents. 45% of co-investors said they would probably not have implemented the investment and 10% that they probably would have implemented a smaller investment.</p>
11	Co-investment funds	Hayton and Gen (see also CSES study)	<p>Scottish Co-Investment Fund (UK) - Funding coming from public sources and the ERDF, total £44.6 million.</p> <p>Complement investments by various types of investors including Business Angels. .</p>	<p>A Scottish Enterprise evaluation showed that over half of SCF investee companies felt their chances of raising capital would not have been possible without SCF and 78% stated that the fund was vital to their survival (Harrison, 2009).</p> <p>SCF has had a positive economic impact on the companies they have supported in terms of turnover, gross value added and employment.</p>
12	Co-investment funds	OECD	<p>The Technostarters Seed Facility</p> <p>The facility matches funds from both venture capital firms and angel syndicates.</p>	<p>The funds helped boost funding for early-stage technology firms.</p> <p>The key success factor was the three phase payback scheme, which provides earlier payback to the private investors and potentially higher reward if the companies perform well.</p>

<sup>53</sup> Tllivaxverket (2011), Mid-term evaluation of regional venture capital funds implementation and lessons learnt

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### 5.6 - Summary

The review of the evidence on public policy schemes supporting Business Angels suggests a rather mixed picture. Each of the various types of public policy tool has its own advantages and disadvantages and a combination of tools may be needed in many cases.

On the one hand there is evidence of positive contribution of tax or other co-investment schemes in terms of the returns to the investment for government – directly or indirectly. There is also a generally supportive assessment made of the support of BANs in terms of raising awareness and also, in some cases, bringing together investors and linking them with firms. On the other hand, the evidence is, however, not as clear in terms of their viability, the added value of most of their services and their capacity to reach the whole of the Business Angels' market. Tax incentives can reach the broader market but can become too wide in their scope, being used for other types of investments and possibly providing limited value for money. Co-investment schemes seem to be effective in stimulating the Business Angels market. However, such schemes require a significant level of resources for proper planning and management from the public sector side.

In sum, the practicalities of public intervention reflect the problems of dealing with the market failures in question: high search costs, high transaction costs, and insufficient economies of scale which have also constrained the entry of private sector institutions into this market.

# Business Angels and SME financing 6

This section considers Business Angel funding in the context of SME funding as a whole, and assesses other issues in the terms of reference including the need for public action and exits and rates of return. Finally, we summarise issues of data availability

## 6.1 – Business Angels in the context of SME financing

Most SMEs are financed through bank loans. Equity financing forms a smaller (but still important) tranche of financing. DG Enterprise's access to finance survey asked companies what type of external financing they would most prefer to realise their growth ambitions. Only 6.3% of companies with less than 10 employees would prefer equity capital, with loans being the preferred source.

**Table 6.1: Preferred sources of finance**

	1-9 employees	10-49 employees	50-249 employees	>250 employees
Bank loan	60.1	66.2	64.5	56.5
Loan from other sources	14.9	14.2	12.5	18.2
Equity investment	6.3	6.7	7.5	9.1
Subordinated loans, participation loans etc	3.2	2.7	3.4	3.7
Other	6.2	4.5	6.2	4.6
No answer	2.6	2.2	2.1	3
DK/NA	6.9	3.5	3.8	4.9

Source : DG Enterprise SMEs' Access to Finance Survey 2011<sup>54</sup>

Equity capital is of course available from Business Angels and from other sources, in particular venture capital funds. This report has suggested that visible market investment by Business Angels in Europe might be of the order of €660 million and the total market, including the non-visible market might be between €4bn and €5bn. The total venture capital market in Europe, according to EVCA, is €43 billion for 2010, ten times the size of Angel investment. However, only a small part of the venture capital market is in the start-up and seed areas.

An analysis of the venture capital market in Europe by stage of investment is shown by EVCA as follows

**Table 6.2: Investments by stage in the venture capital market**

	2010	2011
	€billion	
Buyout	29.5	34.1
Replacement capital	1.7	0.9
Rescue/turnaround	0.5	0.4
Growth capital	6.4	5.1
Later stage venture capital	1.8	1.7
Start up	1.8	1.8

<sup>54</sup> accessed at [http://ec.europa.eu/enterprise/policies/finance/files/smes\\_demb.xls](http://ec.europa.eu/enterprise/policies/finance/files/smes_demb.xls)



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Seed	0.1	0.2
Total	41.8	44.2

Source :EVCA yearbook 2012

If we compare the total of start-up and seed capital investments identified in the EVCA year book, we find total investments of €1.9 billion in 2010. This is more than the visible Business Angel market (€0.66 billion), but less than the total Business Angel market of between €4 billion and €5 billion. At the start up and seed part of the market, Business Angels appear to be the major source of risk capital. Venture capital is the major source at later stages.

## 6.2 – The funding gap and the need for action

We can now consider whether the supply of early-stage or start-up risk capital from all sources is adequate or whether there is a funding gap that needs to be filled. This subject has been extensively debated and virtually all studies point to the existence of a funding gap at some levels of investment – broadly from the point at which “friends and family” are unable to finance a business, to the point at which venture capital or other sources of finance become available. Most public bodies, not least the Commission, have had action plans to help increase the supply of risk capital to SMEs and indeed this study is part of the work envisaged in the Commission’s Communication “An action plan to improve access to finance for SMEs”<sup>55</sup>. And the EIB changed the focus of its €5m Risk capital mandate to allow it to allocate risk capital to new market areas such as Business Angel co-investments, impact investing and technology transfer.

The extent to which there has been public support for Business Angels as a source for funding of SMEs has been related to two main factors: the extent to which such a funding gap has been perceived to exist by the Member State in question and the extent to which the appropriate public sector organisation (i.e. ministry of government department) has been aware of the potential of Business Angels to help meet such a gap where it exists and has had the tools – legal and financial – to intervene, or had the will to create such tools.

Thus, for example, in the case of Sweden the view of the authorities has generally been that SMEs are relatively well-served by the regulated market and the existing financial support institutions, so that separate intervention on behalf of Business Angels is not a major policy priority. On the other hand, in Germany there is seen to be considerable potential for Business Angels, and in France they are also well supported, working closely with organisations such as Oseo, the CDE and FSI. In Spain they are also seen as offering considerable potential and it is understood that legislation is being prepared to support them. In Poland, while recognised as important and able to make an important contribution to SME financing, there is also a good deal of attention being paid to creating the correct framework conditions for their development. In Scotland, Business Angels are being leveraged as a tool for economic development finance through the development of syndicates.

Also, as indicated earlier in this report, studies in the UK found that there is an “equity gap affecting SMEs seeking between €300,000 to €6m of equity finance. There are also cyclical issues relating to the supply and demand of finance”. It was felt that very few venture capitalists invest below €6m million. Below the level of €300,000 friends and family, grants and Business Angels are the key

<sup>55</sup> Com 2011 870 final 7 Dec 2011

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sources. The response was the provision of new public support in the form of the Seed Enterprise Investment Scheme providing enhanced tax breaks to all Business Angel investors.

In summary, the main policy choices are either to support all Business Angels by the provision of tax breaks, or to support Angel networks or syndicates to enhance the flow of information, reduce transaction costs and increase transaction volumes. The support to networks or syndicates is usually relatively small in amount but it reaches only the visible part of the Angel market.

Having said that, the low share of projects brought to networks that are actually funded (some 3-5%) suggests that either there is still a good deal of scope for expansion of Business Angel activities, or the quality of projects brought to the market is not very high and the funding gap may not be as large as is thought.

## 6.3 – Exits by Business Angels

Exit strategies tend to be an area of concern in all Member States where we undertook more in-depth research. Most studies suggest that Business Angels hold their investments for about 4 to 7, or 3 to 5 years. Exits are also strongly influenced by prevailing economic and financial conditions. In Italy, there were substantially less exits reported in 2011 than in 2010 and this appears to be due to inability to find acceptable purchasers in the prevailing financial environment.

Among the various exit options, the least prevalent tend to be IPOs, followed by exit due to closing the business. Most exits are through trade sales and buy-backs.

Firm data on returns to Business Angels is not often available and EBAN is sponsoring a long term research project in this area. A recent study in the UK provides useful data as follows

*The most likely outcome in any one angel investment is failure, but 'winning' investments are very attractive. Fifty six per cent of the exits failed to return capital, while 9 per cent generate more than ten times the capital. Because the 44 per cent of investments that generate positive exits win at a larger multiple than the costs of the negative exits, the overall return to business angel investing in the UK is 2.2 times the invested capital. These 9 per cent large investment exits produced nearly 80 per cent of all the positive cash flows. Given the holding period of just under four years, this is approximately a 22 per cent gross internal Rate of Return (IRR).<sup>56</sup>*

Angel investment is capable of providing good returns, but the risks are substantial.

## 6.4 – Data availability

As with all previous studies, this study has found a lack of available information on the Business Angel market and the behaviour of Angels. Even on the visible market, data is not consistent or complete. And data on the non-visible part of the market (the large majority of Business Angels) is very limited.

The extent to which data and research studies exists on the Business Angel market in different Member States varies considerably. Thus in Sweden and Germany there have been several studies, both of an academic nature and by public sector organisations, whereas in other countries there has been relatively little, as in the case of Italy, where there have been no studies on Business Angels by the government. However, one key factor in common with these studies has been that they have not been

<sup>56</sup> Robert E. Wiltbank ( ), "Siding With The Angels", Research study of NESTA , Data from the British Business Angels Association and their members

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systematic with varying definitions and methodologies adopted for measuring the visible and non-visible parts of the market. This makes their results difficult to compare and consolidate into an overall picture, whether of the visible or the invisible market.

We indicated earlier in this report that there are in principle three main types of data that could be obtained:

- Top down surveys of BANs and potentially of known Business Angels. There is no doubt that this approach is capable of providing detailed information of the activities of those surveyed, but the approach will always provide a partial picture of the market with no certainty that the results can be extrapolated to the market as a whole;
- Large scale surveys of investors, such as the GEM data analysed in this report. Such large scale surveys are capable of giving a picture of the whole market, but since Business Angels are likely to be a small number of the group samples, the approach cannot give a detailed picture of their work. Large sample sizes are needed to have confidence in the results;
- Analysis of universal tax incentives. Whilst this approach is capable of producing useful information in those countries that have such tax schemes, it may not always be possible to know more than the basic details of the investment.

Concluding, none of the approaches provides a perfect solution. Possibly the most appropriate approach would be a large scale survey of investors with a follow-up focusing on those that fit the definition of Business Angels. However, given the substantial resources required in the short term the most practical approach would be to develop and enhance the three partial solutions shown above while ensuring that common definitions are used to enhance consistency and comparability of results.

### 6.5 – Summary

Looking at the role of Business Angels in the SME early-stage capital market, there were total investments by venture capital organisations of €1.9 billion in 2010. This is greater than the visible Business Angel market (€0.66 billion), but less than the total Business Angel market that is estimated between €4 billion and €5 billion. At the start up and seed part of the market, Business Angels appear to be the major source of risk capital while Venture capital is the major source at later stages.

There is continuing evidence from many studies of a funding gap. In summary, the policy choices are either to support all Business Angels by the provision of tax breaks or to support BANs or syndicates to enhance the flow of information, reduce transaction costs and increase deal volumes (both by increased successes from existing volumes and by attracting in new Business Angels, Virgin and Latent investors). The support to networks or syndicates is usually relatively small in amount – but of course reaches only the visible part of the Angel market.

Among the various exit options, the available data suggest that most common exits are through trade sales and buy-backs. The sought-after IPOs are the least prevalent, followed by exits due to the closing of the business.

There are, in principle, three main types of data that could be obtained:

- top down surveys of Business Angel networks;
- large scale surveys of investors;
- analysis of universal tax incentives.

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None of these three approaches provides a perfect solution for measuring the Business Angel market. The best approach would be a combination of a large scale survey of investors in general with a follow-up of targeting on Business Angels. But in the short term the practical approach is to develop and enhance the three partial solutions shown above.

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This section of our report analyses the evaluation questions set out in the terms of reference, and then presents recommendations

## 7.1 – Introduction

This section of our report analyses the evaluation questions set out in the terms of reference and presents points for further action. The evaluation questions are addressed in the same order as contained in the terms of reference. We have included a brief summary of findings and analysis of the question, where data is available. There is of course additional substantial data within the main body of the report.

## 7.2 Relevance

Two matters are considered under the topic of relevance: the sources of data and public action.

What are the available data sources for the Business Angel market in EU Member States or regions?

There is a wide range of **available data sources** but they are of variable quality. In respect of the visible part of the market, the main data sources include data collected by EBAN from national associations and national BANs and data collected within countries including individual studies referred to in this report. Data on the non visible part of the market is sparse. The GEM reports (referred to again later in this section) provide a basis for estimating the number informal investors, some of whom will be Business Angels. There have also been efforts to estimate the potential number of Angels, based on the number of individuals that meet the wealth criteria that would enable them to act as Business Angels (for example in France by the Conseil d'analyse stratégique). However, the data presents a very partial and fragmented picture.

Underlying the data collected: both actual and imputed, is a **layer of complexity** that has not been fully addressed, surrounding the definition and typology of Business Angels. It is difficult for the data to distinguish between Business Angels and other informal investors such as friends and family. There are also different motivations for Business Angels. There is relatively little information about the potential supply of Business Angels (except in France) and the factors influencing supply.

What is the identified need for public action (e.g. financing gap, market failure) to support Business Angel financing and how have the programmes or policies of EU Member States been designed to meet this need?

It has been well-established in many other studies that there is a **funding gap** for firms at the seed or early stage. Firms largely rely on informal sources of capital and are too small to attract venture capital or some forms of bank funding. This is particularly the case as in recent years venture capitalists have been increasing their minimum thresholds, while banks have withdrawn even further from seed and start-up funding.

Business Angels can meet funding requirements from as low as several thousand Euros. Where Business Angels act in syndicates, or as co-investors, they can contribute to funding packages of 1-2 million Euros when. So they can play a role in meeting this funding gap.

Data collected by the BANs also suggest that only a very low percentage of projects presented to Bans are eventually backed - maybe even as low as 3-5%, sometimes less. The issue is, how many of the

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rejected projects could have been backed if more Business Angels existed, or were those projects just not of sufficient quality to be backed? Our view is that more projects could find backers if more Business Angels existed. So, to the extent that Business Angels can meet this finance gap there is a rationale to support them, and possibly also to encourage an increase in supply of Business Angels through policy measures if possible to do so.

Given the relatively small size of many deals, the main **market failures** are search costs and transaction costs which deter investors and those needing investment.

It does appear that the **policies** used to support Business Angels target these market failures. Tax incentives should increase the profitability of participating in the market from the supply side. Co-investment initiatives lead to shared transaction costs, uncertainties and risks (the public sector assumes part of these). Support for BANs and syndicates can lead to expanding supply and demand to those who have yet entered the market, reduced search and reduced transaction costs. Each of the three main policy approaches has a place, and can play a role, but their effectiveness will depend on how they are implemented – outcomes are not be “automatic”. At present it not possible to say which of the three policy approaches are the most effective either, due to importance of how they are implemented. In some Member States tax measures have been done away with and supplanted by support for co-financing and BANs, in others tax measures are in the process of being implemented. In other parts BANs are being discontinued as they do not bring additionality.

## 7.3 – Effectiveness

*How effective are different data-collection procedures? Do they allow for consolidation of data on cross-regional and cross-country level?*

The annual survey of Business Angels by EBAN provides the most consistent source of data on Business Angels in Europe. It is based on common indicators and common definitions that provide a wealth of information on the characteristics of the networks that respond to the survey, and is capable of being analysed across regions and member states.

However, the survey covers only that part of the visible market that chooses to respond to the survey. The survey is sent to national federations and each year there is a different response rate both by country and within countries from different BANs. So the survey results are not wholly consistent from year to year. More importantly, a bottom-up survey of this nature cannot obtain data on the non-visible segment which, our analysis suggests, is many times larger. So the EBAN survey, whilst providing much interesting data, cannot be a comprehensive indicator of the market.

Alternative sources of information on the whole of the market can come from mass surveys of investors, or from mass company surveys or data on tax schemes or other support schemes

A mass survey of investors is carried out by the GEM survey. This survey has a number of key advantages. It covers all EU countries and is based on a common approach and definitions. Thus, it can be used in order to get some top-end estimates of the overall Business Angel market, including the non-visible segments. However the GEM survey does not explicitly focus on measuring the Business Angels' population. As such, it does not always have good data on whether friends and family make investments, and there is also no coverage of the important aspect of the involvement of investors in the management of the firms. As a result, the GEM survey data can be used for making initial top-end

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estimations and identifying trends but in this form cannot provide a complete basis for measuring the Business Angel market.

Similarly, the approach used in France to estimate the potential supply of Business Angels by looking at the number of individuals with sufficient wealth in a sufficiently liquid form to enable them to be Business Angels is promising, but does not appear to have been replicated in other Member States. We did not find any mass surveys of companies across all member states that provided useful data. Those surveys that were available provided some financing data, but there is a limited requirement for SMEs to publish finance data and accordingly this route may not be a helpful one to follow

Finally, the limited experience from data from tax schemes suggests that, in practice, they often attract a broader range of investors than just Business Angels and do not provide a solid basis for measuring the Business Angel market. Given the different characteristics of the schemes across the EU Member States, any comparison and consolidation is problematic.

## *What are the main characteristics of the Business Angel financing in selected markets?*

This report has included data on the characteristics of Business Angel financing and a short summary is presented here. In total, the number of Business Angels in the visible market – namely the members of BANs - in the eight countries examined is likely to be 18,000-19,000. For the total EU27 it is estimated that the total number of Business Angels in networks and syndicates may be between 25,000 and 30,000. However, the EBAN data also suggest that only around 50% are active, namely that they have made at least one investment during the year of the survey.

For the total market – visible and invisible - the total number of Business Angels in the EU27 is estimated between 170,000 and 240,000, using a top down approach.

The data from EBAN suggests that the average size of investments per firm is generally in the range of €100,000-200,000 in most countries. However, the investment per Business Angel tends to vary much more, starting from as low as €18,000 to over €150,000. The median value is around €50,000. Of course, in most cases Business Angels co-invest either with other Business Angels - the most common - but also with early stage funds, institutional investors (including government schemes) and VCs. Data from Germany and Italy indicate a decline in the average size of investment per individual Business Angel and there were indications of similar trends in some other countries.

Firms in the ICT, Biotech and Healthcare sectors attract the most investments from Business Angels and represent more than 50% of the total number of deals in the visible market in most countries. Other sectors include finance and business services, creative industries, environment and clean technologies with varying weight in the different countries.

In terms of the location of the firms, the vast majority of Business Angels invest in firms in the region or the country where they are located. Cross-border investments are uncommon but appear to be attracting more interest, especially for syndicates, as a way of spreading risk. This result is unsurprising given the need to provide management support, while improved technology and transport infrastructures can increase the geographic scope of operations.

As expected, Business Angels focus primarily on the initial stages of the firm's life cycle - Seed and Early Stage/Start-Up level - typically more than 75% of the total number of investments. In some countries - Germany, Italy, Sweden and the UK - the data indicate a sizeable share of investments at the later expansion stage.

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The data from BANs suggest that female participation represents no more than 10%, and probably more in the region of 3-5% of the total number of Angel investors.

We estimate the visible segment of the Business Angels market in Europe in 2010 to have invested around €660 million. For the total market – both visible and non-visible - the rough estimations possible indicate that total investment in the whole EU27 market in 2010 might be of the order of €4 to €5 billion.

*To what extent has the Business Angel market contributed to the SMEs' access to finance?*

Equity finance is used by no more than 6.3% of firms with less than 10 employees. More traditional bank loans remain the key source of finance for SMEs. However, this varies by sectors – mainly technology intensive sectors - where firms most often seek equity finance and Business Angels assume a more important role. Different sectors also have different capital intensities – software tends to need less than medical technology, for example.

If we compare the total of start-up and seed capital investments identified in the EVCA year book, we find total investments of €1.9 billion in 2010. This is more than the visible Business Angel market (€0.66 billion), but less than the total Business Angel market of between €4 to €5 billion. At the start- up and seed stages, Business Angels appear to be the key source of risk capital while venture capital is the major source at later stages.

*How effective is Business Angel financing to bridge the equity gap in the seed and start-up phases of the SME development? What, if anything, could be done to render Business Angel financing more effective as a means to achieve these objectives?*

As argued above, Business Angels appear to be a major source of risk capital at seed and start-up phases of SME development. Venture capital is the major source at later stages.

Business Angels financing appears to be able to address only partly the equity gap faced by firms in the seed and start-up phases. The information available indicates significant variation in its role and effectiveness among Member States, with the UK market appearing more effective than in other countries.

The high level of demand for Business Angel financing as evidenced by the number of funding requests submitted to various BANs, suggests that there is scope to increase the contribution of funding by Business Angels to seed and start-up projects, assuming they are of sufficient quality. So an increase in the number of Business Angels might help to expand this market.

The question of the effectiveness, of Business Angel funding is complex. In the first place, it requires a better understanding of the degree of effectiveness, and the causes of effectiveness than we have been able to identify from the current literature. Secondly, there is still a learning process going on as the Business Angels that are emerging in the current market are relatively new market players and the institutions surrounding them – in particular the BANs (including their associated lawyers, accountants and consultants) and co-investment funds (including public sector managers), are also learning.

The main part of the Business Angel market is informal and it is important that regulation, although well-intended, does not impede this part of the market. Public support programmes, described more fully below, can also help.

At the same time, it should be emphasised that the financial support is only one aspect of the Business Angels added value. Data from Germany, Spain and Sweden suggest that the management support and knowledge that comes with Business Angel investment is often considered even more important.



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## 7.4 – Efficiency

*How can data sources and data-collection methodologies be improved to allow for comparability across regions and countries?*

None of the current approaches provides a perfect solution to measuring the Business Angel market. Possibly the most appropriate approach would be a large scale survey of investors with a follow-up focusing on those that fit the definition of Business Angels. However, given the substantial resources required, *in the short to medium term the most practical approach would be to develop and enhance the existing solutions* shown above while ensuring that common definitions are used to enhance consistency and comparability of results.

In summary, the main data collection methodologies have the following advantages and disadvantages:

- Top down surveys of BANs and potentially of known Business Angels. There is no doubt that this approach is capable of providing detailed information of the activities of those surveyed, but the approach will always provide a partial picture of the market with no certainty that the results can be extrapolated to the market as a whole;
- Large scale surveys of investors, such as the GEM data analysed in this report. Such large scale surveys are capable of giving a picture of the whole market, but since BAs are likely to be a small number of the group samples, the approach cannot give a detailed picture of their work. Large sample sizes are needed to have confidence in the results;
- Estimates based on the potential number of individuals with sufficient wealth, educational levels, experience and willingness to become involved in companies as Business Angels. To calculate/estimate the wealth of individuals in a given Member State and even for all 27 Member States may be possible, but the assumptions required to filter that group arrived at down to the core group of individuals that could be Business Angels may require some quite brave assumptions, which will influence the robustness of the findings;
- Records of Member States where registration is currently, or will in the future, be required to work as a Business Angel (or BAN) in order to benefit from tax advantages or other forms of public sector support could be useful, but it is unlikely that all member States will adopt such systems;
- Analysis of universal tax incentives. Whilst this approach is capable of producing useful information in those countries that have such tax schemes, it may not always be possible to know more than the basic details of the investment which means it may be uncertain if it qualifies as a Business Angel investment.

Some national BAN and BAN members interviewed have expressed a desire to work towards a more widely accepted and comparable approach to measurement of Business Angels in the EU, so there is a willingness to work towards such solutions and an appreciation of the value of having such data. It may be worth suggesting to the industry to develop a solution, maybe based on a conference dealing with the subject.

*Which existing EU Member State support programmes or policies to facilitate the access to Business Angel finance for SMEs are the most efficient or inefficient? Are there significant differences between online and physical programmes or those that operate on a cross-border basis as opposed to a Single Member state?*

The main public policy tools examined in the evaluation studies identified include:

- Support for the creation and operation of BANs;

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- Tax incentives or tax relief schemes;
- Co-investment schemes.

Each of the various types of public policy tool has its own advantages and disadvantages and a combination of tools may be needed in many cases.

Support for the creation and operation of BANs and syndicates can take the form of helping improve the investment climate, providing finance to start up networks or syndicates and helping with running costs. Most assessments have been generally supportive of support of BANs in terms of raising awareness and also bringing together investors and linking them with firms. However, some have been discontinued as they did not provide additionality, and in some Member States they are dependent on public support for their continued operations. In addition, support of this nature only reaches the visible market.

There is evidence of some positive contribution of tax or other co-investment schemes in terms of the returns to the investment for government – directly or indirectly – but again this depends on the specific system, how it is designed and operates. Tax incentives can reach the broader market but can become too wide in their scope and the cost of implementing and operating the system also needs to be set off against its benefits, when looking at it from a wider point of view. Unless they are carefully designed they may be used for schemes designed to minimise tax liabilities.

Co-investment schemes seem to be effective in stimulating the Business Angel market. However, such schemes require a significant level of management resources from the public sector side, and significant investment funding. While there have been some positive evaluations of such schemes, it is too early to be certain about the financial returns of co-investment schemes and not possible to make generalisations in this respect.

*What are the actual costs of operating the programmes and administrative burden to the SMEs or Business Angels (for reporting, etc)?*

There is very limited data on the costs of administering programmes to support Business Angels

The administrative cost of designing, managing and funding a BAN, or even several, can be kept relatively low, involving a few individuals at most, and budgetary provision within a ministry or agency's operational planning.

Designing and operating tax schemes tends to be onerous in terms of the fact that tax codes have to be developed (passed in parliament), promulgated, administered, adhered to by taxpayers, policed, enforced, and even to change or abolish them requires resources. Benefits would have to be significant to be able to offset these set-up, operational and termination (if appropriate) costs.

The administrative costs of co-investment schemes can also be substantial, but there are some that could be operated on a less resource-intensive basis, such as the Technostarter Funds, for example, as compared to those established within institutions such as SCF and Oseo.

However, the crucial factor is to evaluate the relationship between inputs and outputs of the various approaches and, in this area, very little has been published that can be used to compare approaches within the three main policy streams (e.g. one co-investment fund with another, or one tax system with another), or between them.

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*How can the efficiency of the Business Angel programmes be improved? What are the best practices that could be applied in other EU countries?*

It will be appreciated that the main part of the Business Angels market is informal and receives no support other than the schemes offering tax relief. So, aside from these general tax-based schemes, the main part of the market receives no support.

To improve the efficiency of Business Angel programmes they should be designed around the following axes:

- Raising awareness of the role and nature of Business Angels with both potential Business Angels and those that have a demand for finance;
- Assist the development of new syndicates and BANs;
- Ensure that there are mechanisms to prepare projects for investor readiness.

The principles underlying the design of programmes should be:

- To increasing knowledge about the nature and existence of Business Angels (address market failures in knowledge);
- Reduction in search costs for willing buyers and sellers;
- Reducing transaction costs;
- Creating a more informed environment so as to reduce risks and uncertainties;
- To increase the quantity of activity and transactions so as to engender economies of scale that could draw investment into creating and supporting appropriate economic institutions.

In summary, whichever of the main policy choices are selected, whether to support all Business Angels by the provision of tax breaks, or to support Angel networks or syndicates, or to encourage co-investment, the above-mentioned guidelines should be adopted and built into the programmes to improve their efficiency.

## 7.5 – Sustainability

*Are the identified data sources, data-collection and consolidation procedures suitable for observation of long-term trends in the Business Angel market?*

The available data sources are problematic – if not insufficient - when trying to identify long terms in the Business Angels market. It is like estimating the size of an iceberg based on its tip: it is possible but some assumptions will have to be made. The information concerning the invisible segment is both limited in terms of relevant studies and data collection. This is not the case for the visible segment through BANs but in most countries it represents only a small share of the market. The EBAN survey data do offer a basis for identifying long term trends, primarily in relation to aspects of the level of investment, the role of co-investment, the sectors and stages preferred. But of course they offer information only on the visible market.

For this reason, it is suggested that existing data collection procedures be continued, and continually improved to create more comparability, consistency and completeness. However, these should be supplemented with a series, or well-designed programme, of specific studies aimed at complementing and meeting gaps in existing knowledge which are quite fundamental to the whole notion and support of Business Angels. For example, methodologically robust studies on the long-term profitability of Business Angel investment on pan-European scale is lacking. Because of the informal nature of the

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market, data is scarce. EBAN is carrying out work to look at the long term profitability of the visible market – but of course this does not cover the main part of the market.

*Will the effects achieved by the support programmes last in the medium or long term?*

Again, this issue needs to be considered in the context that most of the Business Angels market is informal, and not covered by support programmes.

Some programmes to encourage the **formation of syndicates or networks** appear to offer sustainable results, as discussed in this report, but others less so and are closed down. Equally, **measures aiming to improve investment capacity**, including co-investment schemes, offer the prospect of sustainability but it is still too early to analyse the financial results and the overall effectiveness of many of those programmes. Programmes differ between themselves and, where some might be successful, others may not be so. As yet, not a great deal of assessment has taken place in this relatively new area. Similarly, the information from the various **tax schemes** suggests that only the UK Enterprise Investment Scheme managed to have a long-lasting effect, and these relate more to capacity-creating than major increases in employment or turnover but in other countries (e.g. France, Sweden) the experience has been rather negative, either due to limited interest or problematic design and implementation. The overall picture does not seem to indicate long-lasting effects in most countries. It is not possible to say much for the more recently introduced tax schemes (Spain, Italy) or other schemes that are still in the pipeline, and it is not clear what costs have been included in assessing the viability of schemes.

In the short term, effective support for Business Angels may provide quick returns to governments if they result in new private investment and the creation of new jobs. Support schemes, including capacity-building schemes and Co-investment schemes, have a role to play in this regard. Direct support for networks and syndicates can also be helpful in building capacity. Tax breaks for Business Angels can reach the whole of the market, including the unmeasured, unlike other schemes.

However, support of Business Angels is not a “quick win” scenario: programmes take time to design and implement, and with Business Angels investing for between 3-5 years in a project before exiting, the evaluation of the programme, depending on its aims, is likely to require time series data for quite a long period that may make evaluation difficult, especially if there are major financial crises, or changes in ownership, or other major corporate events in the intervening period. This is true for all three policy types.

## 7.6 – Recommendations

Recommendations for further action based on the findings of this report include those referring to data collection procedures, issues for public policy, and the support of Business Angels.

### *Data collection procedures – visible market*

The existing EBAN survey offers the best data on the visible market and is the only practicable way of obtaining in-depth data on the activities of those Business Angels who choose to make data available. However, the survey cannot provide a comprehensive picture of the whole market because so much of the market is hidden. To improve the coverage of the visible market it would be useful to:

- Simplify the survey, focusing on a small number of key indicators (so as to increase compliance) based on consistent definitions, that will help monitor the developments of the BAN market and to give priority on ensuring a wide level of coverage of BANs and the capture of consistent data from year to year;

# Conclusions and Recommendations 7

- supplement the survey with a well-designed research programme aimed at filling gaps in knowledge about the Business Angels market, and also to deal with highly relevant specific issues such as the effectiveness of Business Angels as such, and Business Angels support.
- ensure the use of common definitions and the tracking of the same core indicators in order to increase comparability across the EU.

## *Data collection procedures – non measured market*

- The most promising source of data on the Business Angels market as a whole appears to be large-scale surveys of individual investors. However, such surveys are expensive and demanding in terms of the sample sizes needed in order to ensure a representative result. As a result, an EU-wide study that would ensure comprehensive and consistent data would be difficult to realise. A possible alternative, in coordination with the GEM is to introduce some additional questions more directly related to Business Angels targeting entrepreneurs and investors. It is unlikely, however, that such surveys can serve to provide in-depth detailed information covering the whole market, formal and informal.

## *Public policy*

- Given the possible contribution of Business Angels as a source of finance for both mainstream and technology-intensive early stage and new companies, public policy must take into consideration the needs of Business Angels when new legislation or regulations are introduced. For example, securities regulations that limit the sale of securities to the public need to be drawn up in such a way as to not inhibit legitimate Business Angels activity. There is a need to protect the informal nature of the market.

## *Public support for Business Angels*

- Public support measures that directly provide risk capital to start-up and early-stage business should be designed in a way to attract investment by Business Angels, complementing their role and making use of the non-financial aspect of their involvement including management expertise and networking. Public support for BANs or syndicates could possibly focus on developing new syndicates or BANs and, depending on the national context, the national associations.

# National Reports : France

## 1

This annex contains a summary of data obtained in respect of the activities of Business Angels in France.

### 1 - Introduction: Overview of the French Business Angel market

The main source of data on the Business Angel market in France is France Angels, the national federation of Business Angel networks. France Angels federates 81 networks and over 4,000 angels. However, as in other countries, the non-visible part of the market is more difficult to assess. Based on discussions with actors in the field, it is possible to assess the number of non-visible angels to be roughly the same as that of those who are part of the 81 networks that are part of France Angels. Overall, this would take the total active Business Angels – visible and invisible – to 8,000. However, it is believed that the average size of investment is higher and fewer angels participate in any given deal. This is also due to the very high number of visible Business Angels involved in any given deal.

Also of more interest is the demand for Business Angels by SMEs for which some data are available. The popularity of Business Angels as a means of financing SMEs has increased between 2007 and 2010 and is expected to grow even more to 2013 and beyond.

Finally, Business Angels in France are quite well supported by public authorities as part of an holistic approach adopted which includes public organisations such as Oséo, the CDC and the FSI (Fonds Stratégique d'Investissement) and supplemented by (possibly less efficient) private schemes such as Alternet.

### 2 – Data on the Business Angels market

This section summarises key market data on the visible and non-visible market for investment by Business Angels

#### 2.1 Visible market

There is substantial information concerning the visible side of the Business Angel market in France. The national association - France Angels - publishes annual figures on the number of networks, Business Angels and investments by its members. According to France Angels' figures, as of 31 March 2011, there were 85 BANs<sup>57</sup> in France with around 4,000 Business Angels as members. In 2010, 320 companies had been financed by Business Angels, with €40 million invested within the networks. 75% of those investments were "first round" investments. Of those companies financed, 70% had a turnover of less than €500,000 at the time the investment was made and two thirds of those operate in three sectors: ICT, clean technologies and medical technologies<sup>58</sup>.

France Angels is currently (March 2012) compiling the figures for 2011. While those figures are not available, there are currently around 4,000 active Business Angels members of networks in 85 networks and 42 investment holdings. The number of investments is expected to rise to around 360, the amount invested increased by around 30%. Early indications also point to an oversubscription rate of over 20:1.

The main national BANs can be divided into those with a specific type of sector focus, type of Business Angel (e.g. alumni of specific tertiary education institutions (Grandes Ecoles, Business schools etc), and regional focus. The main sectoral angels networks include Alidev Angels (Agrofood), Cleantech Business

<sup>57</sup> The data presented is for 2010 at which point there were 81 BAN active and reporting.

<sup>58</sup> France Angels, Activite: Les chiffres clés, 2010

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Angels (environment), ForInvest (forestry), IT Angels and Seedforsoft (ICT), Angels santé (health) and Sport Business Angels (sports). Alumni networks include Arts et Métiers Business Angels, Dauphine Business Angels, EDHEC Business Angels, ENSAED Business Angels, GEN Angels and XMP Business Angels. Distribution of regional networks reflects the economic importance of each region, with for instance 14 networks in Ile-de-France and only one in regions such as Limousin or Champagne-Ardenne.

The data presented in this section has been provided by EBAN but are the same as the data compiled by France Angels. Both the umbrella organisation and the French Ministry of Finance are planning to set up certification schemes to ensure a level of harmonisation between the networks. It is estimated that there are a similar number of angels outside the networks as inside (4,000).

**Table 1: Main data on French Business Angels Networks (2010)**

Indicator	EBAN data (81 BANs)
Number of networks	81
Number of members (investors)	4,030
- Of which, number of active Business Angels	3,015
Average number of investors per network	50
Total number of women Business Angels (% of total)	9.3%
Number of angel investors recruited during 2009	13
Number of women investors recruited during 2009	1
Number of angels who have left the networks	6
Average number of angels per investment round in 2009	14

Source: EBAN, CSES

According to EBAN (using data from France Angels), €62.5 million were invested by Angels in 2010 – double that figure if ones includes co-investors. Based on the assumption that the value of non-visible Business Angel deals are equivalent to that of registered ones at €177 000,

**Table 2: Angel investment, 2010, totals**

Indicator	EBAN data (81 BANs)	Total (estimate)
Total amount invested by angels	62.5 million	157 million <sup>59</sup>
Average amount of the deal	177,000	N/A
Average amount per angel investor	18,000	N/A
Total amount invested – including co-investors	125 million	N/A

Source :EBAN

According to EBAN data, 220 companies received investments from networks affiliated to France Angels, an estimated 39% of all Business Angel companies invested in by Business Angels according to our estimates detailed in the following section.

<sup>59</sup> Based on an estimated average amount invested of €177,000

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**Table 3: Angel investment, 2010, numbers of companies**

Indicator	EBAN data (81 BANs)	Total (estimate)
Number of business plans received		1 190
Number of business plans submitted to angels	331	
Number of new companies financed	220	533
Number of follow-on rounds	2	

Source: EBAN, CSES

Unsurprisingly, the sector most benefiting from Business Angel investment is ICT, followed by Biotech and Medtech. Together, these three sectors account for three quarters of visible Business Angel activity in the country.

**Table 4: Sectors in which Business Angels are involved (2010)**

Sector	% share of investments
ICT	40
Biotech	14
Cleantech	9
Energy	8
Medtech	8
Mobile	7
Social and sustainable investments	4
Creative industries	2
Other	9

Source: EBAN

## 2.2 - Non visible market

As in most other countries, it is very difficult to assess the exact extent of the non-visible market for Business Angels. On the supply side of the market, France Angels estimates the number of Angels not part of networks to be between 2,000 and 4,000, indicating a total number of French Business Angels between 6,000 and 8,000. However, this is only a rough estimate. The Conseil d'analyse stratégique estimates that there are potentially 350,000 individuals in France with sufficient financial resources to invest €100,000 in a company's equity without exposing themselves to more than 5% risk. While this figure can be seen as the total supply capacity of Business Angels in France, it must be noted that within this group, there are large discrepancies as some Business Angels have a far larger investment capacity than others.

A study commissioned by the Ministry of research in 2007<sup>60</sup> provides a basic typology of Business Angels. "Occasional" Business Angels following trends, usually investing a maximum of €50,000 in one or two companies; the "Aware" Business Angel invests in groups of 2 or 3 angels for an average of €100,000 to €250,000, and they tend to be the structuring members and leaders of networks and represent around 15-20% of the market. Finally, the "experienced" Business Angels tend to have a more developed financial capability. They are often also involved in venture capital and typically invest between €150,000 and €500,000. This last category tends not to participate in networks. This typology

<sup>60</sup> Ernst & Young BAS (2007), Étude sur le financement des jeunes entreprises technologiques par les Business Angels en France, rapport final remis au ministère de l'Enseignement supérieur et de la Recherche



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underlines the difficulty in assessing the non-visible market as, while the number of “experienced” Business Angel might be relatively small, the total values they represent can be disproportionate and the support they can bring at key stages in the development of a company more structured and have more influence.

One approach is to count the number of recipients of tax breaks received by Business Angels (see section 4). However, this also includes “love money” and investments by family and friends that are not considered Business Angels according to the definition used in this study. This analysis has never been attempted.

Another approach is to focus on demand and estimate the number of companies seeking investment from Business Angels. In 2011, the French statistical office (INSEE) conducted a survey on access to finance for SMEs with more than 10 employees. This survey received over 78,000 responses, but the number of respondents mentioning Bas was marginal. This may have been expected as Business Angels tend to fund seed/ early stage start-ups who may not employ that many people. In 2010, only 0.29% (229) of all respondents seeking access to finance did so by seeking the help of Business Angels, of which 45% secured an investment. There is a steady increase in the share of companies seeking investment through Business Angels between from 0.07% in 2007 to 0.29% in 2010, with 1.26% or respondents stating that they would do so in the future.

This sample does not allow for statistically sound extrapolations but it can be used to develop scenarios for estimating the size of the market. Based on the most recent statistics on the number of enterprises in France, high, medium and low estimates on the demand for Business Angels in France can be made. These are presented in the table below.

**Table 5: Demand for Business Angels in France 2007 – 2013 (number of SMEs seeking finance support from Business Angels)**

	2007	2010	2011-2013 (expected)
<b>Low estimate</b>	133	549	795
<b>High estimate</b>	442	1 830	2,651
<b>Medium estimate</b>	288	1 190	1,723

Source: INSEE, CSES calculations

The low estimate is based on figures representing all companies with less than 500 employees, while the high estimate only includes firms between 9 and 500 employees. The mean estimate is the average of the two and accounts for the fact that many of the smaller firms are small shops or restaurants who may not seek investment from Business Angels.

### 2.3 Exits and exit strategies

Business Angels as recognised group are relatively new to France. In 2004 there were only 4 or 5 active networks. Consequently, it is too early to assess the exit strategies. One Angel interviewed in the process of this study mentioned that out of 20 investments made, only 2 had a positive outcome, with a third one in the process becoming one.

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The most successful exit strategy for Business Angel would be an IPO. However, the performance and perceptions of the capital markets existing in France, Alternext and Euronext C are mixed<sup>61</sup>. As of October 2011, only 434 SMEs and mid-caps were listed in either of the two stock markets<sup>62</sup>. Listed SMEs and mid-caps only account for 0.3% of the total of SMEs and mid-caps in France with over 10 employees. More importantly, this number has not really evolved since 2008 when 394 companies were listed.

**Table 6: Number of SMEs and mid-caps listed in dedicated French stock markets (by year)**

	2008	2009	2010	2011
Euronext C <sup>63</sup>	289	353	305	279
Alternext	105	102	133	155
<b>Total</b>	<b>394</b>	<b>455</b>	<b>438</b>	<b>434</b>

Source: Rapport sur le financement des pme-eti par le marché financier

Over the past three years, €1.5 billion was invested by the capital markets in SMEs and mid-caps. The average capital financing stood at €20 million for companies being listed and €31 million for financial operations. More detailed data are available for 2010, with a total of 438 SMEs and midcaps listed (including 133 on Alternext). Overall, the average capitalisation per company stands at €47 million; slightly lower for Alternext with €32 million.

**Table 7: Capitalisation of SMEs and mid-caps – 2010 (amounts in € million)**

	Number of companies	Capitalisation	Average capitalisation	Capital exchanged	Average capital exchanged by company
Euronext C	305	16 300	53	4 000	13
Alternext	133	4 300	32	1 100	8
<b>Total</b>	<b>438</b>	<b>20 600</b>	<b>47</b>	<b>5 100</b>	<b>12</b>

Source: Rapport sur le financement des pme-eti par le marché financier

The take-up by SMEs of opportunities in the financial markets has been relatively low since 2005. A study by the Banque de France<sup>64</sup> provides some interesting insights on the outcome of the capitalisation of SMEs in financial markets. By looking at companies with some historical data, the study shows that out of the 88 SMEs listed in 2005, 27% evolved into mid-caps (with the remaining 73% staying SMEs).

<sup>61</sup> Euronext provides two opportunities for SMEs and mid-caps to be listed. Alternext is aimed principally at SMEs although mid-caps are also included. Eurolist which includes Euronext A, B and C mainly lists mid-caps, although SMEs are also listed on Euronext C

<sup>62</sup> The *Rapport sur le financement des pme-eti par le marché financier* deals with both SMEs and Mid caps and distinguishes between three Euronex classifications (Euronext B – market cap between €150 million and €1.5 billion, Euronext C – market cap of €150 million and Alternext ). For this section Euronext B companies have been disregarded as they only concern mid-caps.

<sup>63</sup> Market cap € 150 million

<sup>64</sup> Banque de France DGAFF – Entreprise cotés sur les marchés à faible capitalisation créées en 2005, March 2010

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This is to compare with a control group for which only 18% of SMEs in 2005 evolved into mid-caps by 2008.

## 2.4 Other characteristics of the French Business Angel market

The average investment per Business Angel is relatively low, at €16 000 per Angel. Because of this the number of Business Angels involved per project stands at 14 (as opposed to 2.5 in the UK for instance). This can create a problem as a large number of Angels investing in one company might have different views as to how to develop the business.

The distribution of regional networks reflects the economic importance of each region, with, for instance, 14 networks in Ile-de-France and only one in regions such as Limousin or Champagne-Ardenne. This is reflected in the number of companies receiving investment from Business Angels. In 2011, 40% of companies invested in were located in Ile-de-France, followed by Rhone-Alpes (12%), Languedoc-Roussillon (10%) and PACA (7%)<sup>65</sup>.

Overall, 9.3% of all Business Angels were women in 2010. This is nearly double the figure for most other Member States where data have been provided.

Another characteristic of the French Business Angel market is the importance of alumni networks. Most Business Angels involved in networks will also be involved in other local or regional activities, such as with the Chamber of Commerce and Industry.

## 3 - SME access to finance

This section examines the contribution of the Business Angel market to the SMEs' access to finance and the effectiveness of Business Angel financing in bridging the equity gap in the seed and start-up phases of the SME development.

### 3.1 Overview

The number of SMEs having sought access to finance has increased by 8.5% between 2007 and 2010, and is expected to further increase by 10.8% to 61.7% by 2013.

**Figure 1: Share of SMEs having sought access to finance**



<sup>65</sup> France Angels 2012

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Source: Insee

According to the SBA fact sheet for 2010, 19% of SMEs were denied access to credit in 2009, 17% indicated a deterioration in access to public guaranteed and 30 indicated that there had been a decline in banks willingness to provide loans. Relevant data are also provided from the *Observatoire pour le financement des entreprises*'s report which provides a thorough analysis of the type of access to finance for SMEs and Entreprises de Taille Intermediaire (ETIs)<sup>66</sup>, mainly through the private sector. While the report does not distinguish between SMEs and ETIs, it does provide a very comprehensive picture of the financing situation for SMEs.

### Equity finance

The most important source of finance for SMEs seems to still be the companies' own equity. In 2009, SMEs and mid-caps<sup>67</sup> capital increased by €7.7 billion. While no final data are yet available, early pointers suggest that this has been done mainly through **savings of past benefits**, although at the cost of new investments.

The French **capital investment** market has taken off in the 2000s and is now the second European market for VC, behind the UK, having grown at a rate of 10-20% per annum between 1999 and 2010. In 2010 alone, 1,685 SMEs benefited from equity finance through members of AFIC<sup>68</sup>, totalling €6.6 billion. The majority of those investments are still leverage buy-outs (LBO) but importantly, risk and development capital is increasing.

Traditionally, the **insurance sector** also plays an important role of investor. The sector gathers an important amount of private capital especially through life insurance and similar products. As of December 2010, the sector was managing €1,617 billion (although this figure encompasses investments in all type of ventures, including multinationals, bonds, etc.), €940 billion of which was used to finance companies.

**Financial markets** also play a role in equity finance through the normal process of buying shares, although this is a small part of equity finance, with only 574 SMEs and ETIs listed on the stock exchange as of 31<sup>st</sup> December 2010 (Euronext B and C as well as Alternext).

### Loans

While SMEs represent around a quarter of all **commercial loans** from French banks to companies, not all of them have a similar access to loans. In particular, start-ups and innovative companies have difficulties in acceding to commercial bank loans as they have little or no credit history and sometimes require a relatively large initial sum to launch a product. There is also a fear amongst professionals that financial institutions will be even less likely to lend to SMEs in the run up to the introduction of the Basel III prudential measures in 2013, requiring banks to increase their CET1, which might in turn lead to a more adverse inclination to take risks.

**Supplier debts** are seen as an important means by which SMEs finance themselves. According to INSEE, debt to suppliers represent on average 10% of the balance sheet of companies in France and this share appears to be ever larger for SMEs (although no empirical data is available). This is of course not an ideal

<sup>66</sup> ETIs are considered in France to have between 251 and 4,999 employees.

<sup>67</sup> French statistics often aggregate SMEs and Entreprises de Taille Intermédiaire (ETI) who have between 251 and 5,000 employees and a turnover of under €1.5 billion.

<sup>68</sup> Association Francaise des Investisseurs en Capital

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situation, especially for the company waiting for a payment. Payment delays have reduced since 2007, with one estimate suggesting a gain of €3 billion for SMEs.

The French state strives to promote capital investment through **tax breaks** (22% of income tax is deducted from the total due when one invests in an SME, or provides funds to a FCPI or FIP) as well as a 50% reduction in the ISF when one invests directly in an SME or in a funds for SMEs). Those tax breaks are estimated to have cost the public purse €1.1 billion in 2009 underlining the importance of this mechanism.

One of the key aspects of the market failure problem is **rationing of credit**. The issue of credit rationing can be explained by the lack of information available to the lender who therefore tends to overestimate the risk in lending. This problem is particularly important for SMEs for which information is either difficult to gather or unavailable. With regard loans, banks must retain a certain amount of equity per loan they grant.<sup>69</sup> The Basel III increases the equity requirement for riskier loans, which can potentially put at least part of the existing loans market for SMEs in jeopardy.

## 4 Public support for Business Angels

This section examines the existing support schemes for Business Angel financing in France and, on the basis of available information, provides an assessment of their performance.

### 4.1 Support measures introduced

The following fiscal measures have been introduced to encourage Business Angel in France:

The Advantage Madelin provides a tax credit of 25% (and a maximum of €40 000) for any investment in an SME provided the equity is kept for more than five years. In 2007, the loi TEPA (Loi en faveur du travail, de l'emploi et du pouvoir d'achat) was adopted, providing a 75% tax break to tax-payers subjected to the Solidarity tax on wealth (ISF – Impôt sur la fortune) for any investment in SMEs, up to a maximum of €50,000. This break was reduced to 50% in 2010. SMEs financed cannot have over €1.5 million of such equity in their companies. The Ministry of Finance has also played a role in trying to help angel networks consolidate and federate under the France Angels umbrella, this has included financial support for the organisation. The ministry is also helping to set up a certification scheme and organises projects to encourage individual Business Angels to set themselves up in networks. This is an effort to set up networks which are then encouraged to converge towards the national organisation.

### 4.2 Evaluations of public support for Business Angels

To date, there has been no evaluation of the public support of Business Angels. The following table summarises the main features of the direct and indirect support policy support measures related to Business Angels as well as the conclusions in relation to their contribution to the development of the Business Angel market.

**Table 8: Main public policy measures for the promotion of Business Angels in France**

Type of support	Main features	Main conclusions on the basis of existing information
Support of Business Angels networks	Financial support to France Angels	Contribute to extend the reach BANs to encompass more existing Business

<sup>69</sup> Aubier, Maud and Cherbonnier, Frédéric, *Les banques et le financement des PME en France*, in *Le financement des PME*, La Documentation française, Paris, 2009

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		<p>Angels and France Angels to encompass more BANs</p> <p>Some contribution to awareness raising and support investment readiness</p> <p>Support in creating a certification scheme to ensure a common level of standards</p> <p>Increase visibility of Business Angels</p>
<b>Tax breaks</b>	50% tax break to investors subjected to the Solidarity tax on wealth	<p>A number of the investments made under the two measures benefitted love money, rather than angel's investments</p> <p>The measures have evolved and changed too often so there is no clear view as to what the situation is currently. This lack of fiscal and legislative stability has been harmful in trying to use such measures as incentives for Angels</p>
	Tax credit of 25% (and a maximum of €40,000) for any investment in an SME provided the equity is kept for more than five years	

# National reports: Germany

## 2

This annex contains a summary of data obtained in respect of the activities of Business Angels in Germany.

### 1 - Introduction : Overview of the German Business Angels market

The information presented in this report, and estimates provided, are based on a combination of available studies from academics, research organisations (ZEW) and financial institutions (KfW) as well as information from the national and the European Business Angels Networks (BAND and EBAN). These were complemented by an interview with the Federal Ministry of Economics and Technology<sup>70</sup>.

According to available data, the BA market is comprised of around 5,000-10,000 individual informal investors with a total size of €200-€300 million per annum. 10-20% of the Business Angel (1000-1400) and 25-50% of the investments are made from Business Angels that are organised in BANs. There are around 40 BANs operating in Germany, most of them also being members of the national BAN association, BAND.

In general, the Business Angels market in Germany should be considered as still under development with a much smaller number of informal investors per million population in comparison to the US or the UK. According to the national association (BAND), the Business Angels market in Germany has the potential to reach a total value of €5 billion.

A key element of the German market is the general risk-adverse attitude of the typical wealthy individuals among which one usually finds Business Angels as well as a traditional reliance of firms on debt and the relatively effective provision of it through national and regional banks and public support schemes. This possibly reduces the demand for equity, even though the data available still suggest that demand exceeds supply.

### 2 – Business Angels' market data

#### 2.1 Visible market

The visible part of the Business Angel market in Germany includes, according to data from EIF<sup>71</sup> and BAND<sup>72</sup>, 40 BANs that bring together 1000-1400 active Business Angels<sup>73</sup>. The 40 BANs have multiple forms. Around half of them have the form of projects supported primarily by the public sector through the Landesbanks (Regional development agencies) and have a clear geographical focus. 30% of the BANs are incorporated societies (Verein) created by Business Angels and possibly VCs or banks. They operate on the basis of the fees paid by their members and tend to have a broader geographical focus. A third type of BANs is organised as private clubs - circles of friends - with a regional or nationwide focus or sometimes a sector-specific focus. There are also a few BANs operating as profit driven (e.g. limited liability) companies.

<sup>70</sup> We also came in contact with BAND requesting an interview. Despite repeated efforts no representative was made available.

<sup>71</sup> EIF(2011), Business Angels in Germany EIF's initiative to support the non-institutional financing market, EIF Research & Market Analysis, Working Paper 2011/11

<sup>72</sup> <http://www.business-angels.de/default.aspx/G/111327/L/1031/R/-1/T/132140/A/1/ID/133257>

<sup>73</sup> According to the German Ministry the total number of Business Angels in networks is closer to 3000 suggesting that there are more BANs that are not member of BAND. This information has not been verified by other sources.



# National reports: Germany

## 2

The EBAN survey data for 2009<sup>74</sup> on the basis of responses from 13 German BANs suggests that each BAN has around 30 investors.

**Table 1: Business Angels Networks in Germany – Data from EBAN 2009 surveys and for the total of Business Angels' Networks**

Parameter	EBAN survey numbers (data from 13 BANs)	Total estimate for all German BANs
Number of networks	13	40 (2010)
Number of members (investors)	407	1,000-1,400 <sup>75</sup>
- Of which, number of active Business Angels	218	400-600
Average number of investors per network	29	
Total number of women Business Angels (% of total)	20 (5%)	
Number of angel investors recruited by BANs in 2009	60	
Number of women investors recruited during 2009	8	
Number of angels who have left the networks	25	
Average number of angels per investment round in 2009	1	

Source: EBAN and CSES elaboration

EBAN data also provide information on the investment activity. According to the data from 9 BANs a total of 3,391 plans were received and 531 plans were submitted to angels through the network, around 13% of which were eventually financed from a total of 60 Business Angels. The total investment was around €20 million. While extrapolation to the total visible Business Angel market is rather difficult, on the basis of the average size of a deal and the estimated total number of deals, we estimate a total value of around €55 million.

According to the EBAN survey, Business Angels in Germany invest around €100k per company (median value: €30k). The mean is high due to the few high-tech companies that received comparably high amounts from the Business Angels, some of them more than €1 million. In comparison, the average VC provided around EUR2.1 million per company, 20 times the value of an average Business Angel participation.

The study of Stedler and Peters<sup>76</sup> in 2003 - based on responses from 232 Business Angels members of networks – found that Business Angels allocate a maximum of 20% of their entire capital, usually (in 75% of cases) not more than €500,000, to investments in unquoted companies. It is possible to estimate that each Business Angel has total capital assets of €2.5–€5 million. Their investments are spread across a portfolio of between one and five companies. These companies are either at the seed or the start-up phase. On average 10% of these investments are in university project spin-offs.

<sup>74</sup> EBAN data for 2010 are based on only 3 BANs. As a result the 2009 were considered as more reliable as a basis for making estimates on the total visible market.

<sup>75</sup> BAND data

<sup>76</sup> Heinrich Stedler and Hans Peters (2003), Business angels in Germany: an empirical study, VENTURE CAPITAL, VOL. 5, NO. 3, 269 – 276



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## 2

**Table 2: Business Angels' investment in networks: Type and volume in Germany in 2009 – Data from 9 BANs and estimate for total Business Angel Networks**

Indicator	EBAN data	Total (estimate) <sup>77</sup>
Number of business plans received	3,391	15,000
Number of business plans submitted to angels	531	2,400
Number of deals made through the network	69	300
Number of new companies financed	44	170
Number of investors that made investment in companies presented through the network	60	
Number of follow-on rounds	21 (8 BANs)	
Total amount invested by angels through BANs (€)	19.6 million (7 BANs)	€55 million
Average amount of the deal (€)	178,000	
Average amount per angel investor	111,000	
Total amount invested – including co-investors	22.3 million (7 BANs)	

Source: EBAN and CSES elaboration

In relation to the **sector focus**, the data from the EBAN survey and the study of Stedler and Peters indicate a priority to the ICT sector. According to EBAN, ICT and mobile software and applications represented close to 50% of the deals and 47% of the total investment in 2003. Biotech and healthcare represented around 11% of the deals reported and around 14% of the amount invested while energy and environment sectors also around 11% (13% of total invested).

**Table 3: Percentage breakdown of Business Angel investment by sector (2009) - Data from 13 BANs**

Sector	% of total number of deals	% of total amount invested
ICT	38.3	38.7
Mobile - including software and service applications	11.1	9.2
Biotech and Life sciences	5.7	9.2
Health Care and Medical technologies	5.5	4.8
Energy/ Environment and Clean-tech	11.3	12.8
Creative Industries	7.5	6.9
Retail and Distribution	4.6	2.7
Finance and Business Services	1.9	2.9
Manufacturing	6	5.6
Other	7.7	8.3

Source: EBAN survey (2009)

<sup>77</sup> Estimates are based on the ratio of total BANs to BANs in the survey.

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The EBAN survey also supports the general held view that Business Angels tend to invest in firms in their proximity with the majority (around 62%) of deals in 2010 concerning firms in the region where the respective BANs was located.

**Table 4: Geographical concentration of Business Angels' Investment – share of deals by location of recipient firm**

Location of recipient firm	% of deals
In the region where the Network is located	61.9
In the same country, but not in the same region	30.5
Cross-border in Europe	8.0
Outside of Europe	0.0

Source: EBAN survey

The EBAN data suggest that Business Angels in BANs tend to focus on early stages (pre-seed, seed, early stage and start-up) of the firms life cycle, representing 77% of the deals in 2010. However, a significant 23% is also invested in the second round expansion stages.

**Table 5: Business Life Cycle Stage of Investment**

Stage of investment	Share of total (%)
Pre-seed	14.2
Seed	30.4
Early stage and start-up	31.8
Expansion	22.8
Pre-IPO	0
Buy-out and turnaround	0.8

Source: EBAN Survey 2009

Finally, according to the EBAN survey, Business Angels tend to co-invest with other Business Angels inside or outside their own network but also with other early stage or VC funds. The results are very similar to those reported by Stedler and Peters in 2003<sup>78</sup> that identified as main partners other Business Angels, venture capital companies and the government technology venture capital company TBG<sup>79</sup> of the Deutsche Ausgleichsbank. A key aspect is the fact that Business Angels regard other Business Angels and venture capital companies as providing the most significant due diligence because of their specialised expertise. The Business Angels panel data confirm this preference and indicate that more and more Business Angels prefer to operate in syndicates (more than 50% of Business Angels stated this in 2011 compared to 14% in 2009).

<sup>78</sup> Heinrich Stedler and Hans Peters (2003), Business angels in Germany: an empirical study, VENTURE CAPITAL, , VOL. 5, NO. 3, 269 – 276

<sup>79</sup> Technologie-Beteiligungs-Gesellschaft mbH

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**Table 6: Level of Business Angel Co-investment**

Co-investors	Share of total (%)
Business Angels inside the network	26.3
BAS outside of the network	16.3
Early stage fund	31.3
Venture capital fund	13.8
Family office	3.8
Institutional investors	8.8
Other investors	0

Source: EBAN

Concerning the contribution of Business Angels Networks in Germany, their key role appears to be the facilitation of deal flows. Involvement in these networks provides Business Angels with access to investment opportunities. In the case of BAND, a key activity, among others, is the German Business Angels Day – taking place with the support of the government. This attracted 100 participants (firms or investors) in 2001, increasing to more than 500 participants in 2008 ..

## 2.2 Data on non-visible Business Angels market

There are a few sources available providing the basis for estimating the number of Business Angels and the total size of the Business Angel market in Germany.

The most often cited study of ZEW in 2007, based on information on first round investments received by high-tech start-ups in the period 2001-2005, indicates a total number of around 2,700-3,400 active Business Angels. Clearly this number is an underestimate of the total market. Another estimation based on data from financed exits indicated a total of around 5,200-5,400<sup>80</sup>. BAND suggested that the total number of Business Angel investors is in the range of 5,000-10,000<sup>81</sup> and that in comparison to the 850 active Business Angels per million population in the USA, German Business Angels are no more than 33-41 per million. This number is based on the ZEW estimate and focuses on active investors. As already indicated, around 1,400 of the Business Angels are organised in BANs, a share of around 10-25%, depending on which of the above estimates is used.<sup>82</sup>

Using a different approach, the 2010 Global Entrepreneurship Monitor report<sup>83</sup> that provides data on the number of informal investors among the adult population also allows us to develop an estimate of the total number of Business Angels. According the GEM data for Germany the share of individuals between 18-64 years old that have invested in someone else's business in the last two years was 3.6%. A large share of such investments are directed to friends and family and do not fit with the Business Angel

<sup>80</sup> EIF(2011), Business Angels in Germany EIF's initiative to support the non-institutional financing market, EIF Research & Market Analysis, Working Paper 2011/11

<sup>81</sup> <http://www.business-angels.de/default.aspx/G/111327/L/1031/R/-1/T/130582/A/1/ID/133257>

<sup>82</sup> <http://www.vc-magazin.de/themen/business-angels///business-angels-in-europa-ein-genauer-vergleich-lohnt.html>

<sup>83</sup> GEM consortium (2010), GEM Germany 2010 report (in German), <http://www.gemconsortium.org/docs/507/gem-germany-2010-report-german>

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definition. While there are no specific data available for Germany, the GEM study does provide information for other EU countries on the percentage of such investments directed to “strangers with a good business idea”. On the basis of the average value of around 7% for the EU countries available<sup>84</sup> we reach a total number of around 2,500 investors per million people, thus a total number of individuals that have invested in the last three years of close to 150,000<sup>85</sup>. This number is not realistic. The 2,500 investors per million population is significantly higher than the 850 per million population indicated in the US, a country where the Business Angels market is, according to all sources and experts, much more developed than in Germany. In addition, the accepted Business Angels’ definition implies subsequent involvement in the business and provision of support, a point that is not considered in the GEM data. Finally, one should take into account that, according to all sources available, female Business Angels represent no more than 5% of the Business Angels (see below). Put together, a more realistic upper estimate should be in the range of 25,000-30,000<sup>86</sup>.

Concerning the **value of the market**, according to the ZEW study the amount of capital invested by Business Angels in 2005 - without other funding and not considering deals in the non-high-tech sectors - was €190 million. According to the EIF, the total market is around €300 million annually which appears more plausible, given the limitations of the ZEW estimates. BAND provides a broader range of €250 million-€1 billion but suggests that the €250 million is the more realistic estimate<sup>87</sup>.

In terms of the **number of deals**, the ZEW study identified a total of 3,730 business deals in the period 2001-2005, around 750 annually. The number represented close to 5% of the total high-tech start-ups identified in the study (73,000). According to ZEW the average amount per investment is typically in the range of **€50-100k** and this number seems to be in line with the results from the Business Angels’ panel survey run by BAND and VDI<sup>88</sup>. It should be noted that there seems to be a decline in the size of the deals in comparison to the 2002-2004 period when investments were most often in the range of €100-€200k (EIF). Rather similar figures arise on the basis of the responses in the Business Angels panel, the average total amount invested by a single business angel in 2010 was around €130,000 and in 2011 €110,000. In 2002-2004 the average total amount invested was closer to €500,000-€600,000. The financial crisis has played a role in the reduction of both the size of the investments and the total amount of investment, the 2002-2004 period linked also with the dot.com bubble. On the basis of a total of 5,000 Business Angels this leads to a **total market size of €650 million for 2010**. However, this is probably an overestimate since the Business Angels in the panel are all active angels with a higher number of deals (1.5-2 on an annual basis) than the average Business Angel.

Most sources indicate that Business Angels **focus on the seed – or even pre-seed stage – and the start-up stage**. An earlier study (Brettel, 2003)<sup>89</sup> of 48 Business Angels also found that the focus is on the pre start-up/seed stage (41% of investments), start-up (28%) and early-stage (21%). The expansion stage concerned 10% of investments. Nonetheless, the ZEW study in 2007 indicated that around one third of

<sup>84</sup> GEM website, see above

<sup>85</sup> On the basis of the 18-64 cohort representing around 60% of the total population of 81 million.

<sup>86</sup> On the basis of 850 investors per million population and only 5% of the female population.

<sup>87</sup> Fryges, H., Gottschalk, S., Licht, G. and Müller, K. (2007). Hightech-Gründungen und Business Angels. Final Report for the German Ministry of Economics and Technology. October 2007

<sup>88</sup> The Business Angels panel is based on responses of 20-30 active business and is conducted on a quarterly basis since 2002.

<sup>89</sup> Malte Brettel (2003): Business angels in Germany: A research note, Venture Capital: An International Journal of Entrepreneurial Finance, 5:3, 251-268

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Business Angels also provided support for the expansion of existing firms, in the form of second-round follow-up investments.

On average German Business Angels hold 5 to 7 participations and the average holding period is around 4 to 7 years (Fryges et al, 2007). Wallisch (2009)<sup>90</sup> suggests a wider range of 3 to 10 years with an average of below 5 years).

In relation to the **sector focus** of Business Angels in Germany, these most often invest in the high-tech sector or in tech-oriented services. The EBAN survey indicated a focus on ICT and mobile software and applications, biotech and healthcare, energy and environment. The Stedler and Peters (2003) study suggested a similar focus with around 52% of investments in the IT sector and 22% in life sciences and 20% in services. The business panel quarterly reports indicate that over the last few years, Business Angels have given preference to investments in the energy and environmental (technologies), medical/health (life sciences) and the IT sectors.

Another important aspect is the **R&D intensity of the firms** supported. According to the ZEW study which focused on high-tech firms, in comparison to Venture Capital funds Business Angels are less demanding in relation to the R&D intensity of the firms (20% in comparison to 40% in relation to turnover) or the use of patents (33% among firms backed by VCs in comparison to 12%). Most of them could still be considered high-tech companies but it includes, not only cutting edge high-technology, but also other high quality technology and technology-oriented services.

Typically, the contact of Business Angels and companies was originally established on an informal basis (according to Fryges et al, 2007: 93%). The Business Angels' panel data indicate a total of around 50-60 business plans received, 15-20% of which leading to follow-up meetings. According to the ZEW study, only a third of such contacts are successful, leading to financing. Such data could possibly be seen as an indication of excess demand for Business Angel financing.

**Table 7: Summary table of estimates of total Business Angel market and key characteristics**

	Estimate on the basis of the various sources	ZEW study (2007) Period 2001-2005
Number of Business angels (estimate)	5000-10,000	2700-3400
% of female in total		3%
Total market size (€ million/year)	650 (2010)	300 (2007)
Total number of investments/year		750
Share of seed/start-up finance	70%-80%	
Average investment size	<€50,000	€50-100k
<b>Business Angels panel (active investors)</b>		
Business plans received/investor/ year	50-60	
Plans considered	10-15	
No. of Investments per individual	3-4	
Total amount invested/Business Angel	100,000-200,000 (2009-2011)	
Average investment size		53,000

<sup>90</sup> Wallisch, M. (2009). Der informelle Beteiligungsmarkt in Deutschland. Rahmenbedingungen, Netzwerke und räumliche Investitionsmuster. München, 2009

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Typical share of Business Angels in individual firm		20-25%
Average firms per investor	3.5-5.5	4-5
Main sectors	Medical, Environmental technologies, IT	

Sources: Various sources and CSES elaboration

## 2.3 Number of exits and exit strategies

The potential for exit is a key concern for Business Angels in Germany and the existing studies indicate that this remains an issue. According to the ZEW study cited earlier, the most common exit route of Business Angels has been the buy-back route through the repurchase of shares by the founders. Exit channels in the form of "trade sale" through the purchase of company shares by a strategic investor or through an IPO are generally rare. Nor was there any significant use of exit through the purchase of share by venture capital firms.

The Business Angels' panel data provide additional evidence in relation to this. Among 125 total exits in the period 2006-2011, 38 were trade sales to strategic investors (other firms), 23 were buy-backs from founders, 19 were purchase of shares by financial investors, only 7 IPOs – and none reported since 2007 while there were 18 liquidations. This limited number of IPOs comes in contrast to initial expectations recorded in Brettel's study (2003) when almost 50% of Business Angels indicated flotation as the preferred method for exit.

## 2.4 Other market and Business Angels' characteristics

As far as the **demographic characteristics** of Business Angels are concerned, the existing studies indicate that the share of female angel investors in the total is very limited. According to the most recent study 97% of the Business Angels in Germany are male, their average age is around 50 years and typically they are ex CEOs, MDs, or entrepreneurs, and often with own experience in founding companies<sup>91</sup>. Typically, the private wealth of Business Angels is higher than €5m (EIF, 2011). Whereas male Business Angels invest more in the life sciences sector and the electronics industry, female Business Angels show a strong preference for the service industry sector.<sup>92</sup>

With regard to **spatial patterns** of angel investing, as in other countries, Business Angels tend to invest in firms that are in close proximity. The survey conducted by Wallisch (2009) found that almost 40% of the companies were within one hour reach for the Business Angels and more than 60% of the companies were reachable within three hours. An earlier study of Stedler and Peters (2003) indicated that there is a concentration of Business Angels in the most economically advanced Western and South Germany (52% and 29% respectively).

## 2.5 Quality of data sources on Business Angels in Germany

In relation to the other EU countries, the existing data appear sufficient to provide a rather good picture of the operation and development of the Business Angel market. Even though an estimation of the total number of Business Angels or the total volume of investments will always suffer from the fact that in

<sup>91</sup> EIF(2011), Business Angels in Germany EIF's initiative to support the non-institutional financing market, EIF Research & Market Analysis, Working Paper 2011/11

<sup>92</sup> Heinrich Stedler and Hans Peters (2003), Business angels in Germany: an empirical study, VENTURE CAPITAL, , VOL. 5, NO. 3, 269 – 276

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many cases such investments are not formally reported, the combination of studies of the ZEW and KfW and the BAND business panel cover a range of aspects and give a relatively detailed picture of the market. Still, according to a recent article in VC-Magazin<sup>93</sup>, “the data from non-visible market are rather problematic and academic studies are still not of high standard or frequent”.

The **Business Angels' panel**<sup>94</sup> organised by BAND, University of Duisburg-Essen, RWTH Aachen and VDI news since 2002 is unique. The panel comprises around 30 Business Angels that provide, every quarter, information on their investment activities. The participants have been selected taking into account regional balance. The data collected from the angels includes information on sectors of investment, the geographical focus, their views on the development of the market and the motivations of the angels. Furthermore, the panel responds to questions about the transfer of know-how, deal flow and invested amounts. These are complemented with one or two topical questions every quarter, and the participants are also expected to evaluate the mood of other angels. Usually the data is complemented with interviews and entrepreneur portraits.

### 3 - SME access to finance in Germany

This section assesses the contribution of German Business Angels to SMEs' access to finance and the effectiveness of Business Angel finance to bridge the equity gap in the seed and start-up phases of the SME development.

#### 3.1 Overview

German SME financing is traditionally based on debt-finance and relies on the so-called "house bank" principle ("Hausbankprinzip"). Most small and medium-sized firms maintain a close, confidential and long-term-oriented relationship with one main bank, their "house bank". The majority of SMEs tend to co-operate (mostly for many years) with one or two "house banks". The German finance system is long-term-oriented specialised in providing (relatively cheap) long-term credits to SMEs. International comparisons indicate that, on average, German SMEs have lower equity ratios than comparable enterprises in other countries, reflecting SMEs' preferences and institutional and legal framework conditions. However, as a result of recent changes in the financial markets and the banking sector (reinforced by "Basel II") the equity ratio has gained considerable importance for the financing conditions. As a consequence, SMEs' average equity capital rate increased from just 6% in 1997 to 20% in 2009.

In comparison to other EU countries, access to finance for SMEs seems to be relatively easier than the EU average. According to information from the most recent Small Business Act Fact Sheet for Germany<sup>95</sup>, the share of unsuccessful bank loan applications by SMEs is only a little higher than in other EU countries while around 27% of SMEs responding indicated a deterioration in the banks' willingness to provide loans – close to the EU average. German SMEs have to pay higher interest to take up loans of less than €1 million compared to similar firms in other EU countries (a 29% difference in Germany compared to 24% in the EU as a whole).

<sup>93</sup> <http://www.vc-magazin.de/themen/business-angels///business-angels-in-europa-ein-genauer-vergleich-lohnt.html>

<sup>94</sup> [www.ba-panel.de](http://www.ba-panel.de)

<sup>95</sup> EU (2011), SBA Fact Sheet- Germany 2010/2011, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/germany\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/germany_en.pdf)



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**Table 8: Access to finance for SMEs – Key indicators for Germany and EU**

Indicator	EU average	Germany
Share of bank loan applications by SMEs that were not successful, 2009	23%	26%
Willingness of banks to provide a loan (% share of firms that indicated a deterioration)	30%	27%
Relative difference in interest rate levels between loans above €1 million and loans below €1 million, 2010	24%	28.9%
Venture capital investments - early stage (% of GDP), 2009	0.014%	0.018%
Access to public financial support including guarantees (% that indicated a deterioration)	22%	13%

Source: Small Business Act Fact Sheet for Germany

In terms of government support, the picture from the Fact Sheet is that, overall, the situation in Germany has been better than the EU average. Germany has a comprehensive system of public support at national and regional level including debt capital, mezzanine capital, loan guarantees and micro-credits as well as – more recently - equity capital support. The large variety of support programmes is available in the internet database run by the Federal Ministry of Economic Affairs and Technology (BMWi)<sup>96</sup>. (<http://www.foerderdatenbank.de>). Recently (2010), small and micro enterprises were given access to finance via the German micro-credit fund. German SMEs also have access to credit mediators (financed by the Federal Government) that help small businesses get access to finance by establishing contacts with banks and other providers of finance and by moderating negotiations. These mediators also offer consulting on public support opportunities.

In the terms of access to equity capital, the Fact Sheet suggests that, at a national level, early stage venture capital is more readily available than on average in the EU. However, a recent analysis of KfW concluded that in Germany the existing Venture Capital is not able to meet the excess demand of young innovative companies and only 2-5% of high-tech growth-oriented firms end up receiving VC funding.<sup>97</sup> Furthermore, the study concludes that there is a consistent shift towards later stage finance leaving significant gaps in relation to early stage finance. The focus is on larger size investments – most typically of over €1 million – and typically on the expansion stage while seed capital is very limited. There is thus a clear gap identified when it comes to early equity capital. Another study of the KfW in 2011<sup>98</sup> indicates that the demand for venture capital (VC) is positive but that there is insufficient supply. The EIF report<sup>99</sup> also states that there is excess demand for early stage financing. The public sector has attempted to address part of this fund with various measures and programmes including the Investment Fund for High-tech Start-ups. The fund is a public-private partnership aiming to provide venture capital to young technology-intensive start-ups.

<sup>96</sup> <http://www.foerderdatenbank.de>

<sup>97</sup> KfW Research (2010), Beteiligungsmarkt nach der Krise : Optimistischer Ausblick Aber Angebotslücke bei im Wachstums capital wird grösser

<sup>98</sup> KfW Research, Business Angels aus der sicht von Venture Capitalgesellschaften, Nr. 49, August 2011

<sup>99</sup> EIF(2011), Business Angels in Germany EIF's initiative to support the non-institutional financing market, EIF Research & Market Analysis, Working Paper 2011/11



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### 3.2 Role of Business Angels

On the basis of the existing equity gap, all studies mentioned earlier made reference to the potential role of Business Angels for the financing of early stage companies with seed or start-up capital, particularly in relation to SMEs in high-tech sectors.

As indicated earlier (ZEW, 2007), around 5% of the total high-tech start-ups that were looking for funding were supported by Business Angels, on average two per firm. Business Angels typically take minority stakes, most often not investing more than €50,000.

The 2010 investment market study of KfW<sup>97</sup> on the role of Business Angels indicates that, while relevant, the financial support provided is not the most important aspect. The findings of the study suggest that the main added value from Business Angels comes from the provision of contacts through their networks and the consulting support and know-how provided. On a scale for 1 (very high) to 6 (very low) these two aspects were given an average rate of 2.3 in comparison to an average of 3.1 for financial support.

## 4 - Public support for Business Angels

In this section we examine the existing support schemes for Business Angel financing in Germany and, on the basis of available information, provide an assessment of their performance.

### 4.1 Direct support measures

Public support in relation for Business Angels includes a combination of some - albeit limited - tax relief for capital gains, the support for the development of networks – including the national association of BANs and the creation of public-private funds co-investing in high-tech start-ups.

The tax scheme in Germany in relation to Business Angels is based on the following elements:

- The top tax rate is 42% and, since 2007, 45% for singles with income of €250,000 and for €500,000 for married couples. There is also an additional solidarity surcharge that increases this to 44.3 and 47.8% respectively;
- Income coming from shares of corporations of which the shareholder holds more than 1% - as most Business Angels - is liable for taxation. Since 2009, 60% of the capital gain is liable for taxation with a tax rate of 26.38%. If the amount held is less than 1%, any capital gain is tax free if the share has been purchased before 2009 and if it has been held for more than a year. For shares purchased after December 31st 2008 the tax rate on capital gain is 26.38%;
- If the Business Angel is acting through a corporation, 95% of the capital gain is not liable for the corporate income tax (Körperschaftsteuer). The remaining 5% share is liable at a tax rate of approximately 30%. Capital gain distributions collected after December 31<sup>st</sup> 2008, are liable to the "Abzugssteuer" at a tax rate of 26, 38%;
- The taxation of co-investments depends on the fund's legal form. If the fund is a non-incorporated firm the income tax rates apply. If the fund is a corporate enterprise (GmbH or AG), the capital gains tax rates apply;
- There is no wealth tax as in other countries and, as a result, no property-related tax shield related to investments from Business Angels.

The discussions with the Federal Ministry of Economy indicate that there are ideas of supporting the economic returns on investment from Business Angels and certain proposals have been made on the basis of a so-called roll-over principle in which capital gains are tax free when re-invested in start-

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ups. The government has presented a draft bill introducing investment allowances for Business Angels financing and it is currently being discussed among stakeholders. Pending issues include the minimum as well as the maximum limit of investment that should be considered, how to best ensure focus on small firms and the application of the scheme in the case of investments through a corporation<sup>100</sup>.

In addition, in cooperation with the European Investment Fund, the Federal Ministry of Economics launched in 2012 a Business Angels Fund with a total budget of €60 million<sup>101</sup>. The Federal government has also created national funds aiming for start-ups, especially in the high-tech sectors. These include the ERP Start Fund or the High-Tech Start-Up Fund II that are relevant for early investors.<sup>102</sup>

In relation to the promotion of networks, the national BANs association - BAND - was created with the support of the Federal Government and private sponsors. It operates as a network of networks and organises the Business Angels Day, a national network for experience exchange and the Angel of the Year award. Other activities include the sponsoring of the Business Angel panel presented earlier and the promotion of investment readiness activities. In addition, as a national association, it represents and promotes the interests of Business Angels.

Support to Business Angels also comes from some regional authorities. However, a recent article of the director of BAND in VC Magazin<sup>103</sup> suggests that, in terms of financial support, public support for Business Angels is rather limited, with the notable exception of the Frankfurt (Hess region). In most other regions the main activities include the promotion of the Business Angels concept (e.g. road shows), the support to local Business Angels Networks and the strengthening investment readiness aspect including business plan competitions.

### 4.2 Evaluation of public support for Business Angels

There are no studies and other relevant information available at this stage to allow for a formal assessment of the public support schemes provided and their effectiveness.

Stedler and Peter (2003)<sup>104</sup> survey of 48 Business Angels considered the importance of framework conditions and public support measures. The provision of public venture capital support was considered a significant support factor by the majority of Business Angels in Germany. In their investment activities Business Angels often work with such public bodies as the Deutsche Ausgleichsbank which specialises in start-up investment and the KfW. Tax relief was not considered as important for more than 50% of Business Angels in their informal investment activities although, if the taxation framework was to be changed, reducing the investment relief quota, half of them suggested that they would respond by founding their own holding company. Still, Business Angels consider deregulation of the investment capital market as more important than the provision of tax relief. Such measures could include, for example, the easing of restrictions on non-stock market shares in enterprises and application of the fourth financial market promotion law currently under discussion.

<sup>100</sup> BAND (2012), Erste Konturen der Investitionszulage für Business Angels Finanzierungen, <http://www.business-angels.de/default.aspx/G/111327/L/1031/R/-1/T/130782/A/1/ID/134744>

<sup>101</sup> <http://www.business-angels.de/default.aspx/G/111327/L/1031/R/-1/T/131081/A/1/ID/134718/P/0/LK/-1>

<sup>102</sup> <http://www.vc-magazin.de/themen/interviews/artikel/es-ist-wichtig-eine-business-angels-kultur-in-deutschland-zu-schaffen.html>

<sup>103</sup> <http://www.vc-magazin.de/themen/interviews/artikel/es-ist-wichtig-eine-business-angels-kultur-in-deutschland-zu-schaffen.html>

<sup>104</sup> Heinrich Stedler & Hans Heinrich Peters (2003): Business angels in Germany: An empirical study, Venture Capital: An International Journal of Entrepreneurial Finance, 5:3, 269-276

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**Table 9 – Role of framework conditions for Business Angels**

Framework conditions	Findings
Tax relief	46% important 54% less important
Response to changes in the tax framework	52% found own investment company 25% increase syndication
De-regulation of capital market	60% important 40% less important
Importance of public venture capital	57% high 20% minor 27% not applied for

Source: Stedler and Peter (2003)

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## 3

This annex contains a summary of data obtained in respect of the activities of Business Angels in Italy<sup>105</sup>.

### 1 - Introduction: Overview of the Italian Business Angel market

A key issue that emerges when examining the Business Angels market in Italy is the actual definition of BAs. In interviews with representatives of Italian organisations involved in the market for Business Angels, the point was made that in Italy there is not a distinction made at present between investment in the companies of friends, family and known business associates on the one hand and “strangers” on the other. The annual survey conducted by the Italian Business Angels Network (IBAN) does not make such distinction. It was also stated that one of the key factors making Business Angels useful and important is that they have a very deep knowledge of local realities and businesses and contacts which gives them access to informal networks in the region which they then access to make investments.

Having said that, Italy was a late starter in the Business Angel market and as the networks that have been set up since the establishment of IBAN in 1999 grow, there is an increased flow of projects for consideration and more contact with “strangers” so this aspect of the market is set to grow, particularly as Italian Business Angels increase their investments in projects in other EU Member States<sup>106</sup>.

According to Capizzi and Giovannini there are two types of Business Angel in Italy: financially oriented Business Angels who do not get involved in operational management (except very marginally); and industrial Business Angels, who get involved in management of the firm with their know-how and contacts<sup>107</sup>. Italian Business Angels tend to invest in seed or start-up rather than turnaround situations<sup>108</sup>. Another issue is the difficulty of finding details about the Business Angels deals and their size<sup>109</sup>. There is no public register of Business Angels and they also have a preference for privacy which makes it hard to find them – both for other entrepreneurs and researchers. Often they have a very strong desire to maintain their anonymity.

Given all these caveats, the data from IBAN survey and interviews with IBAN representatives suggest that the total number of Business Angels in Italy is around 450-600, 65-75% of which represent the visible part of the market. The total value of the measured market in 2010 was €33 million.

In its overview of the informal risk capital market in Italy for 2010<sup>110</sup>, IBAN suggests that the economic cycle has not had a negative influence on the growth of investments by Business Angels which had increased both in number and value compared to the previous year. This poses the question as to whether Business Angels are evolving as an alternative to bank finance and guarantees in the prevailing

<sup>105</sup> We wish to thank the Italian Business Angels network (IBAN) for the support provided by making available their survey data to the study team.

<sup>106</sup> An additional comment made was that what constitutes a “friend” is somewhat unclear. For example in the case of “the friend of a friend”.

<sup>107</sup> Capizzi, V. and Giovannini, R. (2010) : Business Angels e Informal Venture Capital in Italia, Bancaria Editrice, Rome, p.27

<sup>108</sup> Marzotto Caotorta, Presentation at the Xth Convention of IBAN, 25 June, 2009, referred to in Capizzi and Giovannini, p.27

<sup>109</sup> Capizzi, V. (2011): What drives the Returns of Business Angels’ Investments? An Empirical Analysis of the Italian Informal Venture Capital Market, International Journal on GSTF Business Review, Vol. 1, No 2, October 2011, p.55.

<sup>110</sup> IBAN (2011): Il mercato Italiano del capitale del rischio informale – Sintesi Survey 2010, Milan.

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financial climate. Angel investing is becoming an increasingly prevalent phenomenon in the Italian economic scene.

In terms of government support to Business Angels, the main measure taken so far has been the introduction in 2008 of a tax relief scheme targeting Business Angel investments. Other measures have not been taken, despite the efforts of the IBAN, but it appears that the government is now listening to some proposals. There has not been any evaluation of the tax relief scheme or of the overall policy towards Business Angels to this point.

## 2 – Data on the Business Angels' market in Italy

This section summarises key data on the visible and non-visible market for investment by Business Angels.

### 2.1 The visible market

The main source of information on the Italian Business Angel market is IBAN. IBAN has been conducting a survey of Business Angels for the past 10 years with a continuous series of data since then. The number of responses has grown, reaching a total of 313 in 2010 which, according to the IBAN, represents 50-70% of the total number of Business Angels, thus around 450-620 in total. They also get some data from the Italian Private Equity and Venture Capital Association.

According to the IBAN survey, informal venture capital in Italy has grown from only €400,000 to over €33 million between 2000 and 2010. Capizzi<sup>111</sup> suggests this growth is due to the organisation and structuring of the market over the past decade, driven, to a large extent, by IBAN.

At the same time, the average investment has declined from €183,000 in 2007 to €145,000 in 2010. The number of investments (per year) also increased from 105 to 229 over the same period. In addition, according to IBAN:

- The number of projects examined seriously has increased from 635 in 2007 to 1,362 in 2010: this has meant more Business Angels are involved and has also increased the quality of projects;
- There has been an emerging trend towards smaller deals to diversify and reduce risks (many Business Angels tend to only invest up to 10% of their personal wealth in this way);
- Some 160 start-up and highly innovative firms were created in Italy thanks to the contribution of Business Angels in 2010;
- Business Angels are more highly diffused than was first thought in Italy; some 30% of survey respondents do not belong to IBAN.

**Table 1: Number of transactions and values invested 2007 – 2010**

Year	Total invested (million €s)	Number of transactions
2007	19.5	105
2008	31.1	120
2009	31.5	179
2010	33.3	229

Source: IBAN

<sup>111</sup>(2011): What drives the Returns of Business Angels' Investments? An Empirical Analysis of the Italian Informal Venture Capital Market, International Journal on GSTF Business Review, Vol. 1, No 2, October 2011, p.56.

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- 63% of investments were for values of less than €100 000;
- Business Angels tend to invest some 10-15% of their liquid wealth, and more than 90% of the sample is of the view that the share can increase, which suggests there is substantial scope for the growth of angel investing;
- The Business Angel is increasingly professional and a serial investor: some 12% of respondents indicated that they had carried out more than 10 transactions in recent years;
- There is a reduction in the share of transactions by single investors, as well as an increase in the share of European transactions as compared to regional ones;
- A reduced number of respondents replied to the question about exits, but there were just over 30 recorded. Of these a third involved a cessation of activities, a third a sale to or merger with a different company, and a third a sale to the project team or larger third investors.

**Table 2: IBAN survey – Key Results for the period 2007-2010**

Year	Number of responding Business Angels	Projects examined	Projects invested in	Average value of projects (€s)	Declared exits
2007	104	635	105	183,000	23
2008	140	658	120	213,000	32
2009	268	1 394	179	176,000,	33
2010	313	1 362	229	145,000	31

Source: IBAN

**Table 3: Data on the visible Business Angels market in 2010**

Indicator	IBAN data (2010)
Total amount invested by angels	€33 million
Number of investments	229
Average amount of the deal (average investment)	145,000
Average amount per angel investor	<€60,000
Total amount invested – including co-investors	na

**Table 4: Business Angels Networks, 2010**

Indicator	IBAN data
Number of business plans received by BANs	na
Number of business plans submitted to angels (“examined”)	1,362
Number of new companies financed	around 150
Number of follow-on rounds = not syndication – very little info about that; e.g. co-investment with seed capital,	na

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**Table 5: Business Angels Networks, 2010**

Parameter	IBAN survey numbers (2010)
Number of networks	14
Number of members (investors)	450
- Of which, number of active Business Angels	75-90 %
Average number of investors per network	Varies: e.g. Ital Angels for Growth = 90, Trentino = 9. Average approx.: 32
Total number of women Business Angels (% of total)	5%
Number of angel investors recruited during 2009	Increased approx. 5-10%
Number of women investors recruited during 2009	Stays similar share
Number of angels who have left the networks	Very few if any
Average number of angels per investment round	60% of investments more than 7 (2011); Around 5% single investors

As regards industry shares, according to the IBAN survey data, in 2010 most of the deals concerned firms in the ICT sector (20%) followed by business services (16%), entertainment (12%), bio and medical technology and energy and environment (10% respectively). However, in 2009 the bio/med technology sector was the one with the higher share.

**Table 6: Sectors invested in by Business Angels in Italy (2010) – numbers of transactions**

Sector	Percentage
ICT	20
Business Services	16
Entertainment	12
Biotechnology and Med Tech	10
Energy and Environment	10
Commerce and Distribution	8
Manufacturing	7
Finance and Insurance	6
Internet	5
Agro-Food	3
Other	5

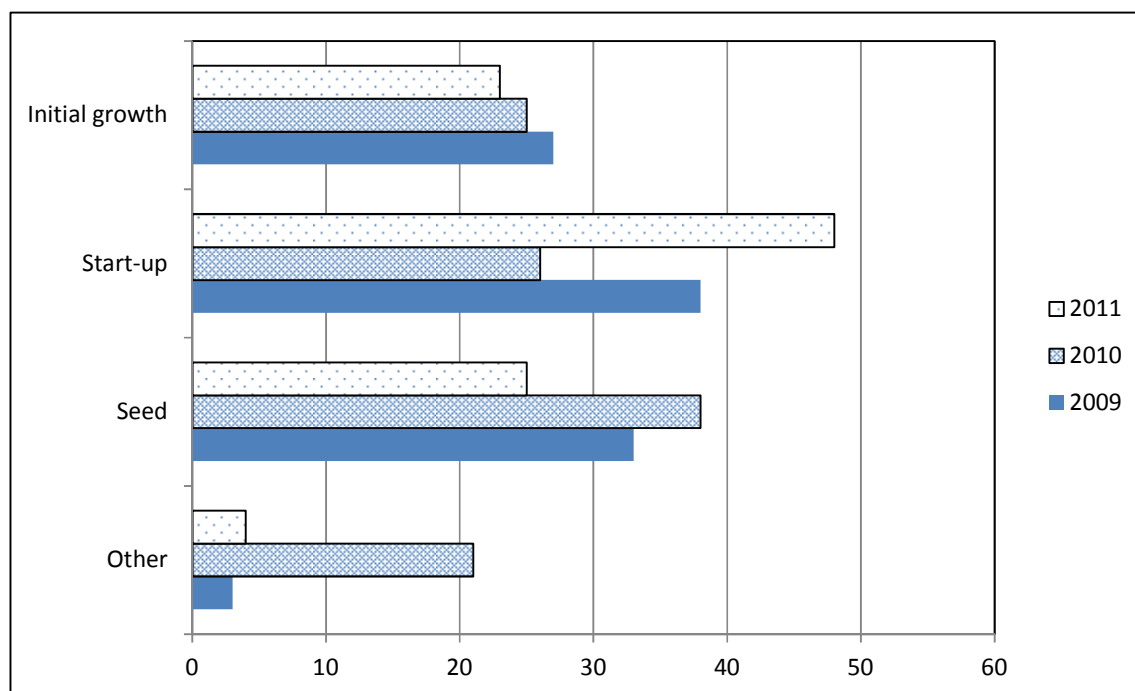
Source: IBAN survey 2010

As regards the stage of the development of companies invested in during 2009-11, IBAN points out that Business Angel investment is an integral element of “early stage” investment in Italy, an area where Business Angel investing is becoming increasingly important. Taking the aggregate values published by IBAN and AIFI together, some 70% of deals in this area originate from Business Angels, and the trend seems to be gradually increasing.

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**Chart 1: Stage of development of companies invested in, 2009-2011, %.**



Source: IBAN, 2012

Additional data from the IBAN survey indicate that the most common investment is smaller than €60,000. Investments are usually held for less than four years. Usually the Business Angels own 20% of the share capital of the financed firms. In 2011 almost a third of Business Angels responding to the survey had no investments in their portfolio (this may be related to the recent growth in their numbers and/ or the state of the economic environment) while the majority (around 55%) had between 1 and 3.

Most Business Angels prefer to work with S.r.L. companies (limited companies, usually with little capital). Most important determinants for deciding investments are the quality of the management team of the financed company, followed by market potential of the project<sup>112</sup>.

## 2.2 Data on the non-visible market

According to IBAN, the total number of Business Angels in Italy is in the region of 500, which, on the basis of the data provided earlier, suggests that invisible market includes some 50 - 100 Business Angels.

This number, if accurate, deviates greatly from the numbers from most other European countries where the invisible share of the Business Angel market usually represents more than 50%, and very often up to 90% of the total.

Considering the data of the GEM survey, around 3% of Italians in the age group 18-64 (close to 1,830,000) are informal investors (i.e. have invested in the business of another person in the last three years). There are no specific data for Italy but across Europe 5-10% of these invest in the business of strangers. In the case of Italy, the discussions indicate that this tradition is rather uncommon and we consider that even an estimate on the basis of 5% (around 90,000) is probably an overestimate. Given

<sup>112</sup> IBAN (2012): Il mercato Italiano del capitale del rischio informale – Survey 2011, Milan.



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that the great majority of investors (95%) are men even this number is most probably an overestimate. In addition, the GEM data do not differentiate between investors that are actively involved in the management of the firm. Thus, it is not possible to reach a more specific estimate with a reasonable level of certainty. Still, on the basis of these numbers, the estimates of IBAN for a very small non-visible Business Angel market may be somewhat conservative.

### 2.3 Exits and exit strategies

According to the IBAN survey data, 40% of respondents specify their intended exit strategy at the moment of investing, and only 7% do not have a predetermined approach. The preferred exit strategy is that of selling to, or the fusion with, another company (38%), followed by a sale to other investors (31%).

Using the IBAN data, Capizzi examined some 90 disinvestments made during the period 2007-2010 in Italy<sup>113</sup>. It suggests that exit strategy is an important variable to consider when investing in the capital of an unlisted company. Of the companies on the database, 16.7% were closed activities, with lowest IRRs; buy-back from the management team has a low IRR (28.9% of exits); sale to/ acquisition by another firm (35.6%) has the highest return; followed by a stock listing (2.2%); and sale to other investors (16.7%). Buy-back is usually the last-best strategy after failure of other exit strategies. The average duration with which investments that were part of the study were held is 3.3 years, and the IRR dramatically falls as years rise, although increasing after year five. 63% of losses occur in year two of the investment. The best performing industry was biotech/ medtech (only 1 investment showed a loss), followed by ICT and then retail. Overall, about one in three investments resulted in a loss (partial or total).

According to IBAN's most recent survey data, whereas in previous years the average number of exits declared in the survey was in the region of 30, in the 2011 survey there were only 14 exits declared. It may be that this is due to the unfavourable economic and financial environment, which has led to postponing of disinvestments until more favourable circumstances emerge. The average period for which investments are held was 4.6 years, as opposed to 4 years for the preceding years. Most disinvestments were in Northern Italy.

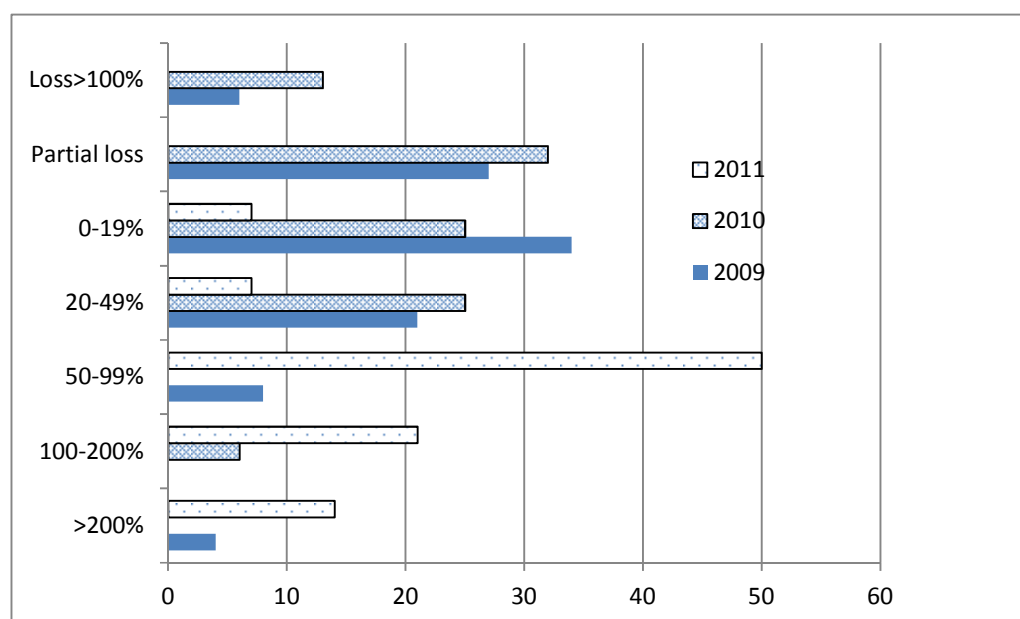
The sectors most disinvested from in 2011 were ICT 34% (22% in 2010), followed by manufacturing at 29% (22% in 2010) and energy and environment at 14% (7% in 2010). 64% of disinvestments were in high-tech companies.

<sup>113</sup> Capizzi, V. (2011): What drives the Returns of Business Angels' Investments? An Empirical Analysis of the Italian Informal Venture Capital Market, International Journal on GSTF Business Review, Vol. 1, No 2, October 2011, p.57.

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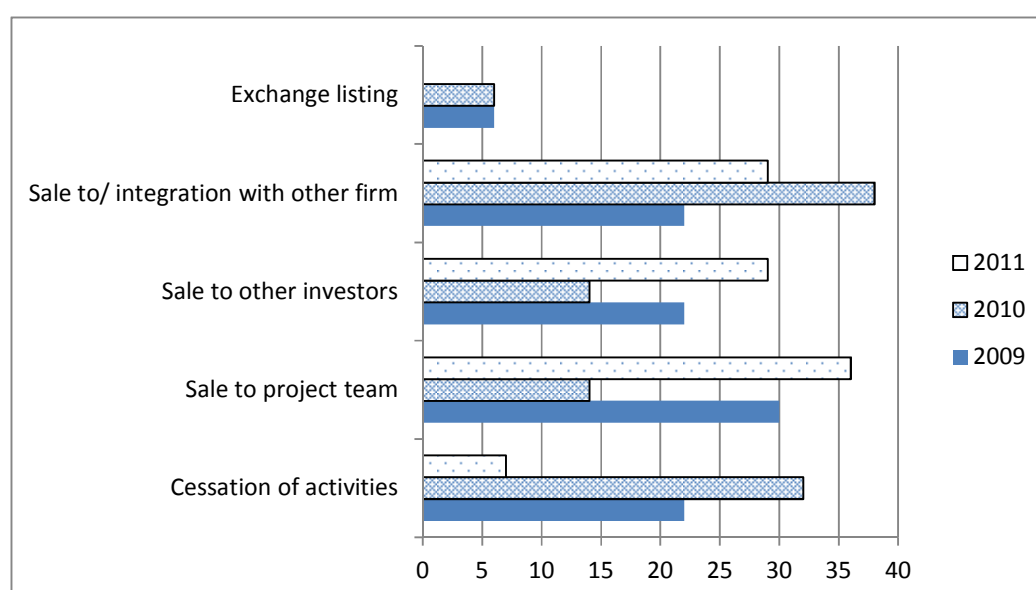
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**Chart 2: Losses and Gains on disinvestment, 2009-2011**



Source: IBAN, 2012

**Chart 3: Business Angel exit strategies, 2009-2011**



Source: IBAN 2012

The exit strategies selected show some variation. This is probably related to the state of prevailing economic conditions. For example in 2011 there were no exchange listings.

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### 2.4 Other market characteristics

According to the IBAN, the “typical” Italian Business Angel is a man (some 5% are female) aged between 44 and 50, has a university degree (58% have a degree, 35% a post graduate title, 7% have a medium-superior school diploma) and has private wealth excluding his personal residence of between several hundreds of thousands of Euros and €1.5 million (38% between €500,000 and €2 million). Around 10% of this wealth is invested in unlisted firms. In addition, the typical Business Angel usually involves at least one other Business Angel in his investments and is affiliated to a BAN. Only about 12% were serial investors. In addition, at least among the Business Angels that are members of BANs, Business Angels are concentrated in Northern Italy (50% in Lombardia and 11% in Emilio Romagna).

The most important contribution Business Angels bring is strategy, followed by contacts and the capital and financial knowledge.

The IBAN survey also indicates that the share of Business Angels that would prefer to invest in their own province, as opposed to nationally or on a pan-European scale, is gradually declining.

Creation of syndicates is increasingly popular among Business Angels. Usually syndicates are formed by expert angels, and there is a Lead Investor who co-ordinates with other investors and interfaces with the financed company. This allows diversification of risk and larger sums to be invested. These investments are targeted at companies that are not yet out of the start-up phase but need funding for the expansion phase until VCs can enter and close the second equity gap. Syndicates can also attract less expert Business Angels, encouraging them to be more active, as well as latent Business Angels.

They might also collaborate with the VC organisation AIFI (the Italian Association of Private Equity and Venture Capital) to jointly support companies throughout their growth and development cycle. They also co-operate with public sector funds for purposes of making co-investments. Seed funds to finance ideas and business at first stages exist in Italy that Business Angels can readily co-invest with in companies. For example, there is the Fondo Eporgen Bioindustry Park del Canavese, the Fondo Rotativo per le nuove imprese innovative della Camera di Commercio di Pisa, and the New Venture Development S.p.A.

### 2.5 Quality of data sources

At present the most robust and reliable source of data about the Business Angel market in Italy is that developed by IBAN since 2000. IBAN carries out a yearly survey through which it obtains details about Business Angels in Italy and their activities since 2000, providing a continuous database for that period. Usually between 30-40% of survey respondents are not members of networks. This is a cross-country data source and allows for useful comparisons in trends since the data has been collected.

A recent change in tax laws has meant that Business Angels can claim tax relief on their investments which should allow an additional source of measurement of the extent of the market, however, as yet data about these numbers, or research based on that, has not yet become available. One issue is that such data would include all those that claim tax relief under the law, which could include more than just Business Angels.

A combination of these two data sets should provide a more accurate picture of activity when the data become available.

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### 3 - SME access to finance - overview

According to the SBA Fact Sheet of 2010-2011, Italy ranks below the EU average in the area of access to finance for SMEs, with only a few indicators hovering around the average and most falling behind. As regards the indicators measuring access to private capital (venture capital, difference in interest rate levels and willingness of banks to provide loans), Italy performs below the EU average. For example, Italian small firms that want to take out a loan of over €1 million also have to accept a larger interest rate spread compared to loans above that threshold than their EU peers (36.28% of difference in Italy, compared to an EU average of 23.98% difference). Moreover, the share of Italian firms that also identified access to finance as the most pressing problem is higher than the EU average (19% vs. 15.41%).

**Table 7: Access to finance for SMEs – Comparison of key indicators for Italy and the EU**

Indicator	EU average	Italy
Share of bank loan applications by SMEs that were not successful, 2009	23%	17%
Access to public financial support including guarantees (% that indicated a deterioration)	22%	20%
Willingness of banks to provide a loan (% share that indicated a deterioration)	30%	32%
Relative difference in interest rate levels between loans above 1 million EUR and loans below EUR 1 million, 2010	24%	36.3%
Venture capital investments - early stage (% of GDP), 2009	0.01%	0.003%
Share of Italian firms that identified access to finance as the most pressing problem	15.4%	19%

Source: SBA Fact Sheet

Policy measures have been taken lately to improve the situation in Italy. Of relevance to the Business Angel market, is that during the course of 2010, training courses and seminars were organised to increase the knowledge of venture capital among SMEs. These courses precede the creation (expected in 2011) of a network of trained accountants, called 'Equity Angels', to help SMEs access venture capital. In addition, exporting SMEs can, since April 2010, apply for targeted financial support that also gives them the option to become minority shareholders of enterprises investing in innovation and research. Under this scheme, the financial support amounts to a maximum 25% of the net capital of the enterprise but no more than €500,000.

### 3.1 Role of Business Angels

Business Angels of some nature have been present in the market for some time in Italy. However, it has only been since they have been organised through networks that the market has developed strongly, and the term Business Angel is still quite unknown in Italy, even among some important Italian SME-focused organisations, although once explained it is clearer. This suggests that more awareness-raising activity can still be undertaken by IBAN.

According to Capizzi and Giovannini<sup>114</sup> the initial role of BANs as they appeared in the USA in the early 1980's was to act as a market for bringing supply and demand together. Subsequently, during the 1990's, they added more services such as pre-screening of projects, selection of appropriate Business

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Angels, consultancy and post-financing services. The crisis of the new economy with the bursting of the dot.com bubble led to a weeding out of Business Angels and the grouping of more serious and professional among them into associations. Members tend to be recruited on a more selective basis than before 2003 and how they can contribute overall is also a factor in such selection.

In Italy, BANs evolved more slowly than in many other European countries. The first BAN was IBAN that was set up in 1999, followed by additional networks soon after. IBAN became the key player, acting not only as a referral point and matching agent, but also as a driver of change, dealing with all the themes relevant to Business Angels in the Italian financial and business environment. The BANs helped resolve some of the key problems of the Business Angel market: quasi invisibility of the Business Angels and the high cost of search for new investment opportunities in SMEs that seek funding. Printed marketing materials distributed through the media did not achieve a great deal of success in persuading Business Angels to reveal themselves, but web-based approaches such as [www.angelsoft.org](http://www.angelsoft.org) were more successful

As a network of networks, IBAN has helped set up regional BANs. Currently there are 13 BANs in Italy, two of which are thematic - digital (Digital BAN) and life sciences (BAN Life Sciences/ Seven Hills Venture Partners Consortium) - and one is a « club » (Italian Angels for Growth). The remaining are regional BANs (e.g. Bologna, Brescia, Lazio). Syndication is an increasingly prevalent phenomenon in the operation of BANs. However, the deep desire for anonymity among many Business Angels is still a problem in the efficient operating of the market.

IBAN participates in EBAN and some EU projects such as « Ready for equity » (training for Business Angels and entrepreneurs, part of the Leonardo programme) and « EASY »<sup>115</sup>.

It has not been possible to identify a study dealing specifically with the SME funding gap in Italy, but through their activities, and also their close collaboration with venture and private capital (AIFI) and other seed funds, Business Angels in Italy are making a contribution to filling the financing gap and creation of new firms: for example, in 2011, 53% of investments were in companies with zero turnover, and 69% in companies with less than €100,000, while some two thirds of total investments were in high-tech firms.

### 3.2 Evaluation of the role of Business Angels

We have not been able identify any evaluation of the role of Business Angels in Italy.

## 4 - Public support for Business Angels

### 4.1 Direct support measures

In terms of government support to the Business Angel market, the Italian Government has recently approved a tax relief scheme on capital gains from Business Angel investments (D.L. 112/2008, art.3).

Tax breaks are provided as follows<sup>116</sup>:

- **Direct investments by a private individual resident in Italy for tax purposes:**

<sup>115</sup> [www.earlstageinvestors.org](http://www.earlstageinvestors.org); [www.Startupbusiness.com](http://www.Startupbusiness.com) in Italy is also an on-line platform for bringing together demand and supply, and information about opportunities.

<sup>116</sup> For more detail e.g. as regards restrictions please see EBAN Compendium of Fiscal incentives available to Business Angels in Europe.

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### Dividends–

Dividends from non-qualified participations are subject to a final withholding tax levied at 2.5%. When the dividends come from a foreign company the withholding tax, if any, suffered in the source country (i.e. the country of fiscal residence of the foreign company) can never be recovered in Italy. As of 1.1.2009 (D.M. 2.4.2008), 50.28% of dividends from qualified participations are tax exempt.

### Capital Gains–

Capital gains realised on non-qualified participations are subject to a final withholding/substitute tax levied at the rate of 12.5%. From 1.1.2009, capital gains realised on qualified participations are tax-exempt for 50.28% of their amount. The remaining 49.72% is included in the taxable income of the shareholder-individual subject to IRPEF<sup>117</sup> levied at progressive rates. It is possible to offset such gains with the losses realised on the selling of participations of the same category.

As of July 2008 (D.L. 112/2008), capital gains realised on qualified and non-qualified participations by private individual investors, not in a business capacity, are tax-exempt if

- Participations have been owned for at least three years;
- Companies of the referred participations, have been established for no longer than seven years;
- Companies, of the referred participations, have to have realised “productive” investments;
- Capital gains must be reinvested into “start-up” companies within 2 years since the gain accrued.

All requirements mentioned above must occur.

This is also extended to non-Italian private individuals investing in Italy under the same conditions as residents, although there are some specific dispositions deriving from bilateral agreements against double taxation.

### - Investment through a public/ private limited company resident in Italy for tax purposes:

#### Dividends–

Dividends distributed to resident companies are exempt from withholding tax, substitute tax or other deduction at source. 5% of such dividends are included in the taxable income of the companies, subject to corporation tax (IRES - levied at the ordinary rate of 27.5%). The effective tax burden connected with the dividend is therefore equal to 1.375% of the gross amount (5 x 27,%). In this case as well, no dividend tax credit is available in order to offset that tax.

#### Capital Gains -

Capital gains realised by resident corporate entities upon disposal of domestic or foreign participation could be partially exempt (95%) from corporation tax according to the "participation exemption" regime. Such regime needs the fulfilment of specific requirements.

If, upon the disposal of the participation, one or more of the requirements are not satisfied, the capital gain is totally subject to corporation tax levied at its ordinary rate (currently 27.5%).

Whether the participation exemption regime does not apply and the participation is classified in the fixed financial assets category and is, upon its disposal, held for at least three years, the gain could be taxed over five years (20% per year), starting from the disposal.

<sup>117</sup> L'Imposta sul Reddito delle Persone Fisiche – personal income tax.

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### - Investment by a private individual in business capacity resident in Italy for tax purposes:

#### Dividends -

As of 01.01.2009, 50.28% of dividends are exempt. The remaining 49.72% is included, as business income, in the taxable income of the individual, subject to IRPEF levied at progressive rates.

#### Capital Gains-

Capital gains realised on the disposal of participation could benefit from the participation exemption regime if all the requirements described above are satisfied. In such a case, starting from 01.01.2009, 50.28% of the gains are tax-exempt. The remaining 49.72% is included, as business income, in the taxable income of the individual subject to IRPEF levied at progressive rates.

Where the participation exemption regime does not apply capital gains are totally included, as business income, in the taxable income of the individual subject to IRPEF levied at progressive rates. It is possible to tax the gain in five years as the requirements above described are satisfied.

### - Investment by a partnership resident in Italy for tax purposes

#### Dividends -

From 01.01.2009, 50.28% of dividends are tax-exempt. The remaining 49.72% is attributed (together with the overall taxable income of the partnership) and taxed in the hands of its shareholders.

#### Capital Gains-

Capital gains realised on the disposal of participation could benefit from the participation exemption regime if all the requirements described above are satisfied. In such a case, from 01.01.2009, 50.28% of gains are tax-exempt. The remaining 49.72% is attributed (together with the overall taxable income of the partnership) and taxed in the hands of its shareholders.

Besides the tax relief scheme, we have not been able to identify any direct public support measure for Business Angels in Italy.

The Bank of Italy has recently commenced a research project on R&D and innovation, which also includes financing innovation and brings Business Angels into its ambit. However, the Bank is still at the onset of the research and specific conclusions about policies have not yet been made. IBAN also reports that they are campaigning strongly for public support for Business Angels but, while the relevant departments in the government are listening, it is still early days and no specific measures have been introduced.

Some spill-over effect supporting the Business Angels market may come from the "Equity Angels" programme launched to support venture capital.

## 4.2 Evaluations of public support for Business Angels

There has not been any formal evaluation of the tax relief scheme so far, nor any other evaluations of the policy towards Business Angels.



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This annex contains a summary of data obtained in respect of the activities of Business Angels in The Netherlands.

## 1 - Introduction: Overview of business angels market in The Netherlands

Business Angels have been present in the Netherlands for some years – for example, the BAN *Meesters van die Toekomst* was established in 1996. In recent years the topic of informal investment has gained increasing attention in the Netherlands from a policy point of view. In 2010 the Business Angels Network Nederland was set up to act as an overarching network for all BANs in The Netherlands.

According to the 2010 Global Entrepreneurship Monitor (GEM) Report for the Netherlands, in the past decade a substantial movement from a “job culture”, to a more entrepreneurial society, has occurred, which is reflected in an increase in both early-stage and incumbent rates of entrepreneurial activity.<sup>118</sup> This has contributed to an increased demand for early-stage/ seed funds, especially as at the same time banks and venture capital funds have been moving away from this end of the market.

While, according to the GEM Report, the Netherlands has not performed as well as the group of innovation-driven economies (economies identified by the World Economic Forum as driven by knowledge-based investment) that it is benchmarked against as regards “informal investment”, there was a strong, sudden increase in the informal investment rate in 2010 (as also occurred in the countries it is benchmarked against). Thus, in 2001, whereas the prevalence rate of informal investors was 1.3% against 3.0% in the benchmark countries, in 2010 these rates were 3.4% and 3.6%, respectively. Importantly, it needs to be remembered that in the GEM the category ‘informal investors’ consists of two groups: one made up of friends, family and former colleagues; and another, minority, of strangers – these latter ones being called “Business Angels” in their report.

According to the GEM Report, informal investment activity in The Netherlands almost doubled between 2009 and 2010, reflecting an increased demand for external finance while banks were still cautious about lending to new businesses and SMEs. In The Netherlands the amount invested per informal investor has tended to be relatively high, reflecting the higher share of Business Angels in informal investors compared to other countries. Over the period 2008-2010, the share of Business Angels in informal investors was 15% in The Netherlands, lower than the preceding period from 2007 – 2009, when it was 19% but higher than from 2001 – 2004 when it was 12%. The GEM report suggests that the great increase in informal investment activity in The Netherlands from 2009 to 2010 was due to non-Business Angel investment (friends, family and colleagues)<sup>119</sup>.

The report *Informal Investment in Nederland*<sup>120</sup> suggests that, overall, informal investment market in The Netherlands is seen in a positive light: there is sufficient capital available and the authorities support market development. However, a survey published in April 2012 found that as investors see the future with increased uncertainty due to the economic environment, they are acting with more circumspection, seed and venture capital funds are reducing and the size of sums invested are declining – many firms think “the worst is yet to come”<sup>121</sup>.

<sup>118</sup> Global Entrepreneurship Monitor 2010 The Netherlands The emergence of an entrepreneurial society, p.13

<sup>119</sup> Global Entrepreneurship Monitor 2010 The Netherlands The emergence of an entrepreneurial society, p.69

<sup>120</sup> Emerging technology Research p.5

<sup>121</sup> Emerging Technology Research Europe (2012); Netherlands investeringsklimaat voor Technostarters, Tornado Insider, 6-meting, April 2010, for Agentschap NL, p.3



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## 2 – Data on the Business Angels' market The Netherlands

This section summarises key market data on the visible and non-visible market for investment by Business Angels.

### 2.1 The visible market

The main source of information on the visible market in the Netherlands is the data collected by the Netherlands Angels Association and submitted to EBAN. Unfortunately, because of a reorganisation of the business angels market in the Netherlands, the 2010 survey included responses from only 4 of the 8 main networks of Angels. Thus, in order to have a more complete picture in relation to the visible part of the Business Angel market in the Netherlands we present data for both 2009 and 2010.

**Table 1: Business Angels Networks in the Netherlands– Data from EBAN 2009 and 2010 surveys and for the total of Business Angels' Networks**

Parameter	2009 survey	2010 survey
Number of networks	11	4
Number of members (investors)	2375	4470
- Of which, number of active business angels	1070	No data
Total number of women Business Angels (% of total)	30	No data
Number of angel investors recruited by BANs in 2009	202	No data
Number of women investors recruited during 2009	6	No data
Number of angels who have left the networks	72	No data
Average number of angels per investment round in 2009	3	No data

Source: EBAN and CSES elaboration

**Table 2: Business Angels' investment in Business Angels networks in the Netherlands - Type and volume (Data from the 2009 and 2010 EBAN surveys)**

Indicator	EBAN data 2009	EBAN data 2010
Number of business plans received	3735	
Number of business plans submitted to angels	442	
Number of deals made through the network	109	
Number of new companies financed	6	
Number of investors that made investment in companies presented through the network	179	44
Number of follow-on rounds	3	
Total amount invested by angels through BANs (€)	25320000	7400000

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Average amount of the deal (€)	364875	
Average amount per angel investor	139875	
Total amount invested – including co-investors	24450000	

Source: EBAN and CSES elaboration

**Table 3: Percentage breakdown of Business Angel investment by sector**

Sector	% in total number of deals, 2009
ICT	18.6
Mobile - including software and service applications	17.5
Biotech and Life sciences	0.9
Health Care and Medical technologies	2.1
Energy/ Environment and Clean-tech	16.2
Creative Industries	10.3
Retail and Distribution	12.3
Finance and Business Services	4.5
Manufacturing	12.3
Other	5.3

Source: EBAN survey (2009)

## Geographical location

The Nulmeting Informal Investment<sup>122</sup> report found that although personal contact between the informal investor and the business was important from the point of view of coaching and guidance, this did not necessarily mean that being in the immediate vicinity was critically important. Based on the EBAN 2009 survey, half of the respondents indicated that they had no preference for participating in companies within a radius of 50 kilometres of their home, and only 11% had a strong preference for such close investments.

**Table 4: Geographical concentration of Business Angels' Investment – share of deals though BANs by location of recipient firm**

Location of recipient firm	% of deals
In the region where the Network is located	35.5
In the same country, but not in the same region	53.6
Cross-border in Europe	0
Outside of Europe	10.9
Not known	0

Source: EBAN survey 2009

Survey results revealed quite a difference as regards the stage of investment that Business Angels invested in. According to the 2011 survey, most investments (40%) were made in young firms at the stage of exponential growth, followed by the stage just before and at start-up (30% each). In the 2012

<sup>122</sup> Bureau Bartels (NV) (2011); Nulmeting Informal Investment, for Agentschap NL, pp.19-20.

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survey there was much more concentration around the start-up (59%), just after start-up (58%) and pre-start phase (40%). No data was available for the stage in the business life cycle that investments were made.

**Table 5: Level of Business Angel Co-investment**

Co-investors	Share in total (%)
Business Angels inside the network	15.5
BAS outside of the network	5.5
Early stage fund	11
Venture capital fund	7.5
Family office	0
Institutional investors	10
Other investors	2.5

Source: EBAN survey 2009

## 2.2 Data on the non-visible market

There is no formal detailed study conducted providing evidence on the size of the non-visible part of the Business Angels market in the Netherlands. The Netherlands Business Angels Association suggested that the invisible market may be 7 times the visible market (in terms of number of Business Angels) but it has not been possible to check this number through any other source. As in other Member States, Business Angels tend to be hard to trace and are often publicity-averse.

The GEM survey provides a possible alternative source. According to the GEM data the percentage of 18-64 population in the Netherlands who had personally provided funds for a new business, started by someone else, in the past three years was in the range of 1.5-2% for most of the period 2001-2008 but has increased to over 3% in 2010 and 2011. The authors of the GEM report concluded that the rise was due to a rise in the number of informal investors investing in the businesses of family, friends or colleagues.

**Table 6: Informal Investors Rate: Percentage of 18-64 population who have personally provided funds for a new business, started by someone else, in the past three years**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Netherlands</b>	1.5	1.8	1.3	1.3	2	1.1	2.3	1.7	1.8	3.4	3.7

Source : GEM project

Still, the GEM survey also suggested that for the period 2008-2010 the proportion of informal investors who invested in strangers' businesses was around 15%, higher than the average of 10.6% for all developed economies.

On the basis of these two indicators for 2010, we calculate that around 0.5% of the working population aged 18-64 can be considered as potential Business Angels, a total of around 57,000 potential angels.

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Data from four of the eight BANs in the BANs 2010 suggested that the visible market had 4,470 angels, so the GEM data shows that the number of potential Angels in the Netherlands is 13 times the reported visible market. Given that the visible market is incompletely reported, this estimate is not inconsistent with the Netherlands Business Angels Association suggestion that the invisible market may be 7 times the visible market.

## 2.3 Exits and exit strategies

The 2012 survey <sup>123</sup>(p.33) found that informal investors tended not to have detailed plans about exit strategy and timing. However, respondents did say that they found that it was more difficult to find buyers and realise good values in the current market.

## 2.4 Other market characteristics

The profile of Business Angels tended to be similar to those other Member States. The *Nulmeting* (2011) survey found that in terms of age some 90% of Business Angels were relatively equally distributed between the 41-50, 51-60 and 61-70 years age categories. The follow-up survey of 2012 suggested there was a generational difference between the younger and the older Business Angels, with the older ones considering the younger ones inexperienced and in need of help, and the younger ones tending to be more involved in the business and considering older ones to “meddling” unnecessarily in their work. 3% of respondents were female, 94% male (3% did not reply). About two thirds had more than 5 years’ experience as a Business Angel. Importantly, some 50% of Business Angels had experience of investing in the funds set up through the Technostarter and Creatieve Starter initiative (see 4.1 below).

In September 2010, the kick-off meeting for the new overarching organisation linking the various BANs in the Netherlands took place<sup>124</sup> (a “network of networks”). The aim of BAN Nederland is to liaise and with, and talk to, government and stakeholders on behalf of the member networks; act as a trainer as regards trends and developments in informal investment; and, to develop a quality standard for BANs. It also aims to encourage participation by banks and investment funds.

At the time of launch some 14 Bans were part of the BAN Nederland. A recent publication by Koenraads<sup>125</sup> for the BAN Nederland identified the following BANs and some features.

**Table 7: Business Angel Networks in The Netherlands**

Network	Year established	Members	Participation values	Stages
TIIN Capital	1998	600	300k-2m	Growth, MBI/ MBO
Investeerdclub	2009	45	50-500k	Seed, start, growth
Informal Capital Network	2003	400	up to 1m	Growth, MBO, turnaround
BiD NETWORK	2005	115	10k-1m	All phases
FLIIN	2007	60	50-500k	Growth, start
Meesters van de Toekomst	1996	230	50k-1m	Start, growth

<sup>123</sup> Emerging Technology Research Europe (2012); **Informal Investment in Nederland**, Tornado Insider, for Agentschap NL, p.33

<sup>124</sup> Press release: “Nieuwe koepelorganisatie Business Angels bevordert innovatiekracht in Nederland”, 29 September, 2010.

<sup>125</sup> Koenraads, E., (2012); Handboek Informal Investment. De kunst van het investeren, BAN Nederland.

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Mind Hunter	2006		>100k	All phases
Women Professionals Group	2010		25-300k	Start, growth, MBI/ MBO
Money Meets Ideas	2002		100k-1.5m	All phases
NextStage	2004	100	50k-1m	Seed, start, growth
Investormatch	2010	>500	50k-2m	Start, growth, expansion

Source: Koenraads

While some of these are platforms and matchmakers rather than clubs with members, and it is also unlikely that membership lists will be up-to-date and reported accurately, and there may also be membership of more than one BAN by an individual Business Angel, this does throw some light on the population of Business Angels (about 1500) that want to be known and to participate relatively publicly in Business Angel activities.

## 2.5 Quality of data sources

The data provided to EBAN is affected by response rates and various contingencies so it is not complete and comparable with earlier periods as a source of visible market data. The GEM survey is highly limited as a source, due to definitional matters. With the launch of the BAN Nederland, the national BAN, it is expected that the quality of data will improve.

## 3 - SME access to finance - overview

According to the SBA Fact Sheet, access to finance is the only area among the various SBA indicators where The Netherlands is trailing the EU average by some distance. Indicators suggest that this is largely due to lack of credit provision by private banks, as evidenced by the data in the table below. Overall the trend is downwards.

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**Table 8: Access to finance for SMEs – Comparison of key indicators for The Netherlands and the EU**

Indicator	EU average	Netherlands
Share of bank loan applications by SMEs that were not successful, 2009	23	54
Access to public financial support including guarantees (% that indicated a deterioration) 2009	22	28
Willingness of banks to provide a loan (%share that indicated a deterioration) 2010	30	32
Relative difference in interest rate levels between loans above 1 million EUR and loans below EUR 1 million, 2010	24	37
Venture capital investments - early stage (% of GDP), 2009	0.01	0.02

Source: SBA Fact Sheet

The government has implemented some measures to deal with this issue. For example, in 2010 the Foundation Microcredits Netherlands (collaboration between the big banks, the Ministry of Economic Affairs, Agriculture and Innovation, and the Ministry of Social Affairs and Labour) attracted €30 million for micro-financing start-up companies and SMEs for loans up to €35,000. In addition, a website was launched ([www.eigenbaas.nl](http://www.eigenbaas.nl) – “own boss”) by the Foundation Micro credits and Entrepreneurship Netherlands offering start-ups information, coaching and advice, both through the website and a network of more than 30 locations where more detailed advice and support can be provided.

## 3.1 Role of Business Angels

Overall, it appears that Business Angels are making a small but meaningful contribution to funding of investments where there is a gap left by reluctance of banks and venture capitalists to enter that segment. However, Business Angels are also affected by the overall economic conditions and the quality of projects they can possibly participate in.

In both the 2011 and 2012 surveys mentioned above it was found that the term “Business Angel” is largely unknown to start-up SMEs in general, although once the concept was explained it was understood. BANs also were relatively unknown to start ups. Business Angels that were members of BANs found them, in general, to make a positive contribution, in particular to identify possible deals.

## 3.2 Evaluation of the role of Business Angels

As mentioned in the introduction, the role of Business Angels has been drawing increased attention from public policy makers and the reports mentioned (Bureau Bartels, Emerging Technology research Europe) focus specifically on informal investment, although not from the point of view of an evaluation or impact assessment but from a monitoring point of view. The reports are intended to be complementary to provide a time series of data that can be compared to identify trends and any other developments that may emerge.

## 4 - Public support for Business Angels

### 4.1 Support measures

There is a direct support scheme for Business Angel networks in the Netherlands under which the Government pays a subsidy towards the costs of network meetings. It is understood that the total budget for this support is €250,000 per annum for the Netherlands as a whole, so the amount is relatively small.

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A tax credit scheme for Business Angel investments was terminated two years ago as it was found that it was not sufficiently targeted.

A recent initiative that has supported Business Angels is the Technostarter and Creatieve Starter<sup>126</sup> funds within the SEED Capital Funds which are part of the Innovation Fund. With these funds, investors are supported to up to 50% of the investment budget. These are closed-end participation funds and the budget for 2012 is €16 million. Although not specifically targeted at Business Angels, at present about half of the 36 funds operating are operated by Business Angels. They have to have at least three independent investors, and to avoid any conflicts of interest, they do not invest in the friends, family and business relations category of the informal investment market. The overall aim of this initiative is to increase the supply of seed capital funding, given the tendency of banks and venture capital funds to move away from this market segment. By helping Business Angels to group together it should also make larger investments possible (syndicates) and spread the risk of those investments. The programme is run through Agentschap NL.

Agentschap NL also provides support to Business Angel networks through:

- Stimulating collaboration between networks (e.g. support for BAN Nederland);
- Awareness raising and information meetings;
- Supporting investment and investor readiness;
- Research and monitoring.

## 4.2 Evaluations of public support for Business Angels

We have not been able to identify any specific evaluations carried out of the Business Angel support programme in the Netherlands, however, as mentioned earlier in the report, the Technostarter Funds have been viewed favourably by other reviewers, and the Technostarter funds are spoken of favourably by the Funds' manager (Agentschap NL). It is also expected that the renewed initiatives in support of a national BAN and support through provision of information and research will have a positive impact on the development of Business Angels in the Netherlands.

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<sup>126</sup> Definitions: a "technostarter" is a legal person running a business or preparing to start a business based on new technical invention or new application of an existing technology (products, processes/ services – not advice); a "Creatieve Starter" is a legal person running a business or preparing to start a business based on a new creative invention or new application of an existing creative invention (products, processes/ services – not advice).

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**This annex summarises key market data on the visible and non-visible market for investment by Business Angels in Poland**

### 1 - Introduction : Overview of Polish angel market

The Business Angel market in Poland is still very young. Its development can be presented in three periods:

- 1990-1995/97 - beginning of the development of entrepreneurship, with very low demand for this type of investment, which resulted in lack of experience in this respect;
- 1995/97-2006 - contractors already had some experience in conducting business and the financial resources and therefore there has been growing interest in this type of investment;
- 2006 - onwards – period of strong development, mainly because of the accession to the EU, observed an increase the number of potential Business Angels.

Business Angels in Poland are concentrated around BANs that were mostly financed by the Operational Programme (OP) Innovative Economy 3.3.1. Due to the specific Business Angels' investment activity - the networks are aimed at different regions of the country. Currently there are 10 regional BANs operating in Poland. According to EBAN data there are around 15,000 Business Angels active in the networks.

The biggest and most active BANs are the Lewiatan Business Angels, PolBAN, Silban, and Amber with smaller networks operating in different regions. A new initiative in this field in Poland was a creation of the Association of Business Angels Networks (ABAN), which aims to improve multi-level cooperation among early-stage market and to join networks of Business Angels and seed capital funds across Poland.

There are some important issues related to the operation of the Business Angel market in Poland. There are legislative and fiscal difficulties associated with establishing and running a business. At the same time, there is a low awareness of entrepreneurs of investment opportunities in private companies. Another problem is the lack of fiscal incentives for business investments, lack of tax breaks and appropriate solutions to a number of standard investment activities. The only visible tax incentive for private investors in Poland at the moment is a special deduction for the purchase of new technology (50%). Grants co-financed by the EU for financing Business Angel networks in Poland accounted for a substantial capital injection for the market, but the question now is, how many of the already established networks will be able to continue their operations after the period that support is granted expires.



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## 2 – Data on the Business Angels' market in Poland

### 2.1 Visible market

In 2011 there were 10 Business Angels networks (see table 1). Most of the Polish networks do not have a legal personality and they work as part of a larger organisation or association. According to estimates in the Report of Polish Ministry of Economy, each network associate around 30 Business Angels.<sup>127</sup>

**Table 1: Business Angels Networks in Poland 2011**

Name of the Network:	City of establishment:	Year of establishment
PolBAN Business Angels Club	Warszawa, Bydgoszcz	2003
Lewiatan Business Angels	Warszawa	2005
Śląska Sieć Aniołów Biznesu Silban	Katowice	2006
Sieć Inwestorów Prywatnych SATUS	Kraków	2006
Regionalna Sieć Inwestorów i Inwestycji Kapitałowych RESIK	Kraków	2007
Lubelska Sieć Aniołów Biznesu (obecnie Wschodnia Sieć Aniołów Biznesu)	Lublin	2007
Sieć Aniołów Biznesu Amber	Szczecin	2009
Secus Wsparcie Biznesu	Poznań, Warszawa, Kraków, Wrocław, Katowice	2010
Ponadregionalna Sieć Aniołów Biznesu	Katowice, Warszawa, Wrocław, Białystok, Gorzów Wielkopolski, Zielona-Góra	2010
Gildia Aniołów Biznesu	Łódź	2010
Studencka Sieć Aniołów Biznesu	Katowice, Warszawa, Wrocław, Białystok	2011

Source: Polish Ministry of Economy

Many Polish Business Angel Networks are non-profit institutions, but more of these organisations are taking up commercial activities. In Poland, the Business Angel networks are looking for projects for which capital needs range from 50,000 to 5 million zł (1,195,320 EURO).

The annual EBAN survey represents the most comprehensive source of information available in relation to the size and characteristics of the BANs in Poland. The data from the 2010 survey are based on only one response and do not allow for any meaningful conclusions. The 2009 data are based on the responses of 5 BANs with 89 angels' investors in operation, 41 of which were active.

<sup>127</sup> [http://www.mg.gov.pl/files/upload/8669/Bariery\\_w\\_rozwoju\\_ryнку\\_aniolow\\_biznesu\\_w\\_Polsce\\_WEB.pdf](http://www.mg.gov.pl/files/upload/8669/Bariery_w_rozwoju_ryнку_aniolow_biznesu_w_Polsce_WEB.pdf)

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**Table 2: EBAN survey data on visible Business Angel market (combined data from 4 Business Angels Networks in Poland)**

Parameter	EBAN 2009 data	Total (estimate)
Number of members (investors) in network	89	150-200
Of which, number of active Business Angels	41	80-100
Number of female Business Angels	12	
Number of angel investors recruited during the year	40	
Number of women investors recruited during the year	7	
Number of angels who have left the network	25	
Number of angels investing in companies through the network	2	

Source: EBAN and CSES elaboration

EBAN data also provides information on investment activity. According to the data from 4 BANs, a total of 348 business plans were submitted and 32 of them were successful. According to the limited data – from only 4 deals – the average deal was around €40,000 with each angel investing around €25,000 per deal. The data provided by the Ministry of Economy for all BANs suggest that the BANs receive 97 projects each month (1,164pa), from which usually around a quarter are worth closer attention. It is rather difficult to make projections for the total size of the visible BANs market from these data. However, the data available do not allow for an estimate of the total market size.

Networks also have their priorities for the industry in which they wish to invest. In terms of the **sectoral focus**, the 2009 EBAN survey indicates a strong focus on the high-tech sectors including ICT and mobile, including software and service applications. In the survey of the Polish Ministry of Economy, networks also declared preferences in high-tech sector: especially Internet (100 %), Computer, software: (100%), Media and Multimedia: (100%), Telecommunications (86%), Ecology, environment (86%) and Biotechnology and pharmaceuticals (86%).<sup>128</sup>

**Concerning the stage of investment**, the data from EBAN survey point to a focus on pre-seed (60%), seed (30%) and early stage start-up (10%).

**Table 3: Business Life Cycle Stage of Investment among formal Business Angels (data from EBAN 2009 survey)**

Stage of investment	Share of total (%)
Pre-seed	60
Seed	30
Early stage and start-up	10
Expansion	0
Pre-IPO	0
Buy-out and turnaround	0
Other	0

Source: EBAN

Polish networks are in a phase of dynamic development, despite the fact that they face many barriers to development and implementation of their tasks. According to the directors of the largest networks the main barriers are reluctance of the scientific community for commercialisation of scientific

<sup>128</sup> [http://www.mg.gov.pl/files/upload/8669/Bariery\\_w\\_rozwoju\\_rynku\\_aniolow\\_biznesu\\_w\\_Polsce\\_WEB.pdf](http://www.mg.gov.pl/files/upload/8669/Bariery_w_rozwoju_rynku_aniolow_biznesu_w_Polsce_WEB.pdf)

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achievements, lack of business confidence for this form of financing of the project, or even sometimes lack of projects to commercialise.

### 2.2 Non visible market

Research as regards the non-visible market in Poland has not yet been conducted in Poland. It is therefore difficult to estimate what share of the market is non-visible. However, as it was pointed out in interviews, of the total amount of investments made in Poland, around 5-10% go through BANs and it is possible that a slightly lower percentage of Business Angels could be operating outside the networks (in the non-visible market). However, the investors working outside Polish networks are usually more experienced and they use their own contacts to receive interesting projects offers. Despite the smaller number of those investors, they still make more investments than those in the networks.<sup>129</sup>

According to the GEM survey, in 2011 3.1% of the population age 18-64 have provided funding for the starting of a new business by someone else in the last three years<sup>130</sup>. Unfortunately, there are no data for Poland on the share of those individuals that have provided funding to strangers (not family and friends). If we use the 5-10% EU average from the data available from other EU countries – possibly a rather generous assumption in the case of Poland – we can reach an estimate of around 45,000-90,000 individuals<sup>131</sup> that have provided funding for the starting a new business in the last three years. Given the top-down approach of the GEM data and the absence of information concerning the level of involvement in the business investments, this should only be considered an upper estimate.

### 2.3 Exits

According to a report on the barriers for Business Angel development, prepared by Polish Ministry of Economy, the main possibility of exits for Business Angels in Poland<sup>132</sup> are:

- The basic form of exit for Polish Business Angels is the trade sales to industrial or financial investors (including Private Equity/Venture Capital funds);
- Another exit is **the entrance to the Stock Exchange** (IPO - Initial Public Offering). The debut can be made on the main Stock Market Exchange (Warsaw Stock Exchange- WSE). However, conducting a public offering on the WSE is a very complicated procedural process, including the necessity of admission of securities to the public market by the Financial Supervision Commission. There is also the possibility of debuting on the NewConnect. The NewConnect exchange is considered to be effective due to several factors. Firstly, there are limited formal requirements and simple admission procedures;
- **Buy-back** is redemption of shares with the aim of remitting them afterwards. It is only successful when such purchase is held at higher or equal price to current ratings of the company on the stock exchange or expectations of the investor. Buy-back has become an alternative for dividends, however, self-buyouts are not yet as popular as dividends on the WSE, although slump has caused a rapid increase in interest in buy-back transactions;
- Another option of exit is **repayment**. The case of repayment is adjusted by a loan agreement

<sup>129</sup> [http://cdn.pi.gov.pl/PARP/HTTPFiles/media/\\_multimedia/656714E145EC457F89D99E61FB7449BE/20101214\\_115814%20business%20angels.pdf](http://cdn.pi.gov.pl/PARP/HTTPFiles/media/_multimedia/656714E145EC457F89D99E61FB7449BE/20101214_115814%20business%20angels.pdf)

<sup>130</sup> <http://www.gemconsortium.org/visualizations>

<sup>131</sup> Total population of Poland in 2011 was 38 million, with around 27 million in the 18-64 age group.

<sup>132</sup> [http://www.mg.gov.pl/files/upload/8669/Bariery\\_w\\_rozwoju\\_rynku\\_aniolow\\_biznesu\\_w\\_Polsce\\_WEB.pdf](http://www.mg.gov.pl/files/upload/8669/Bariery_w_rozwoju_rynku_aniolow_biznesu_w_Polsce_WEB.pdf)

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between the investor and the entrepreneur. However, if the loan repayment period is not marked, the debtor is obliged to return the loan within six weeks after termination made by the person providing the loan (Art. 723 CC);

- **Redemption of bonds** is another possibility for Business Angels to exit the investment. Redemption of bonds shall be in accordance with terms of the bonds and on the basis of Art. 24 of Bond Act; to become a subject of cancelation. Another form is **closure of mezzanine financing** - closing of the investment based on a mechanism based on the mezzanine debt capital repayment, awarded under this funding and/ or potential execution permissions to the share;
- Finally, in the case of **management buyout (MBO)** – namely taking control of the company by its existing management- there are significant limitations in Poland due to the prohibition of support by a joint stock company to the purchase of own shares by a third party (so-called financial assistance). This prohibition does not apply to companies with limited liability<sup>133</sup>.

While there are clear differences between the exist strategies of Business Angels and Venture Capital, the data from the report on the Private Equity/Venture Capital market in Poland in 2010<sup>134</sup>, in the 2007-2009 period provide some indications. There were 76 exits from VCs that had invested in Polish companies. The most common way of exiting was by selling to a strategic investor (18 transactions), then the sale to another venture capital fund (13 transactions) while there were also 12 IPOs.

## 2.4 Other market characteristics

Business Angels in Poland are most commonly male and aged 35-65 years with higher education and high asset values. Their investment portfolio has from 2 to 5 companies in which they invest on average the range of 100,000 - 1 million z<sup>3</sup> (€24,000-€100,000) which accounts for 15% of his net assets.<sup>135</sup>

According to EBAN data, of the 89 investors in the Polish BANs that responded to the survey, 12 were female (13.4%). This share is rather high in comparison to other EU countries. However, the rather limited data mean that we cannot have a high level of confidence in this figure.

The EBAN survey data also suggest a clear **focus on the Polish Business Angel Networks in the regional or national market**. 66% of the deals closed in 2009 had a regional dimension (firms were located in the same region as the Business Angel), whereas 33% had a national dimension. Networks in Poland have been established with focus on the regions' needs. The larger networks are mainly focusing on the most developed region in Poland – Mazowieckie, mainly Warsaw.

## 2.5 Quality of data sources

In general, the data on Business Angels is still poor, lacking governmentally/academically initiated up-to-date evaluations and assessments of the market. One of the measures to be undertaken by the ABAN<sup>136</sup> association in the coming months is to investigate the early-stage market in Poland that is poorly penetrated. Currently, ABAN is researching a possible methodology and discussions with potential partners who could assist us in conducting research and evaluation.

<sup>133</sup> [http://www.mg.gov.pl/files/upload/8669/Bariery\\_w\\_rozwoju\\_rynku\\_aniolow\\_biznesu\\_w\\_Polsce\\_WEB.pdf](http://www.mg.gov.pl/files/upload/8669/Bariery_w_rozwoju_rynku_aniolow_biznesu_w_Polsce_WEB.pdf)

<sup>134</sup> <http://polban.pl/inwestycje-private-equityventure-capital-polsce-2/>

<sup>135</sup> European Business Angels Network, "EBAN Tool Kit. Introduction to Business Angels and Business Angels network activities in Europe"; Brussels 2009.

<sup>136</sup> <http://www.aban.org.pl/>

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## 3 - SME access to finance

### 3.1 Overview

According to the SBA fact sheet for 2010, Poland performs on a par with the EU average on access to finance. Private credit lending has been deteriorating at a similar pace as in the EU: 28% of SME owners had noticed a declining willingness of banks to provide loans and about 25% of those who applied for credit were actually refused a loan in 2009. When it comes to the cost of financing, the interest rate difference between loans above and below 1 million EURO is significantly lower than in the EU, meaning that SMEs in Poland can borrow money at a cost only slightly higher than large companies do. On the other hand, the venture capital market is not yet very well developed, which does put some limits on the availability of risk capital for highly innovative companies in early stages of development.

**Table 4: Access to finance for SMEs – Comparison of key indicators for Poland and EU**

Indicator	EU average	Poland
Share of bank loan applications by SMEs that were not successful, 2009	23%	25%
Access to public financial support including guarantees (% that indicated a deterioration)	22%	27%
Willingness of banks to provide a loan (%share that indicated a deterioration)	30%	28%
Relative difference in interest rate levels between loans above 1 million EUR and loans below EUR 1 million, 2010	24%	3,38%
Venture capital investments - early stage (% of GDP), 2009	0.01%	0%
EU Structural Funds dedicated to stimulating entrepreneurship and SMEs in 2007-2013 (% of total allocation by MS) (2011)	22%	5,5%
EAFRD dedicated to Support for business creation and development in 2007-2013 (% of total allocation) (2011)	2,29%	5,73

Source: SBA Fact Sheet

A few **policy measures** have been initiated since 2010 to improve the situation in Poland, some of which directly or indirectly related to access to equity. The current form of the financing policy framework has been largely defined by the provisions of the *National Development Plan 2007–2013*<sup>137</sup> (2004) reflected in the government *Strategy for Increasing the Innovativeness of the Economy for 2007–2013*<sup>138</sup> (MG 2006) and the programme for the simplification of commercial law. The latter identified the existing regulatory barriers to the process of obtaining capital by businesses in the venture capital/private equity and leasing segments and pointed to possible solutions.

<sup>137</sup> Original: Narodowego Planu Rozwoju 2007-2013

<sup>138</sup> Original: Kierunki zwiększania innowacyjności gospodarki na lata 2007-2013

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## 4 - Public support for Business Angels

### 4.1 Direct support

Polish law does not provide a specific legal basis (in the strict sense) for dedicated venture capital or Business Angel activity.

In terms of the tax regime, the maximum income tax rate in Poland is 40%. If registered as an entrepreneur or as a company, a flat tax rate applies of 19%. Currently, two capital gains taxes exist in Poland: withholding tax 19% (Belka tax), which applies mainly to the dividends' and yearly income tax (also 19%) calculated as an income minus cost and applies to gains from the selling of shares. The only tax incentive available currently is a special deduction for the purchase of new technology. The investor may deduct some of the expenses that he invested in the purchase of machinery, equipment and buildings from his taxable income<sup>139</sup>.

More direct support to Business Angels is through the financial support schemes for BANs. BANs in Poland operate on a support system of grants co-financed by the European Union ERDF (Operational Programme Innovative Economy) and the state budget: Priority 3 - Capital for innovation, Measure 3.3 - Creating a system facilitating investment in SMEs. This allows the creation of advisory platforms (e.g. Angel Investment Network or BAN), which are responsible for linking entrepreneurs looking for capital with Business Angels.

This support is not expected to be continued. The grants have already been distributed and, according to the Ministry, a further call for proposals for action 3.3.1 OP is not likely to be repeated. The grants accounted for substantial support for the market and were critical for the creation and operation of BANs in Poland. However, it was pointed out in interviews that the question that remains is how many of the established networks will be able to continue their operations after the period of grant support expires. It was suggested that ongoing financing has to be continued in the future to enable the networks to continue the activities that they have taken up.

In relation to the access to *equity*, the following instruments are currently available:

- **National Capital Fund (NFC)** – was established by the Polish Government on July 1st 2005, in accordance with the National Capital Fund Act, with the aim of filling in the equity gap on the Polish SME market. It is the central fund of venture capital/private equity funds (VC/PE) in Poland. The NCF provides VC funds with financial support for their investments in SMEs of innovative character showing strong development potential operating in Poland;
- **Seed funds (e.g. AIP SEED CAPITAL, IIF Group or Business Angel Seedfund)** – these are venture capital funds, specialising in investments in projects that are at the seed and start-up stage. In Poland they are mainly based on public support, EU funds, VC and private equity funds. Average amount of funds invested through seed funds in 2009 in Poland was more than 6,200,000 zł (approximately €1.5 million);
- **NewConnect** – this is a new stock market financing the growth of young companies with a large growth potential, organised and operated by the Warsaw Stock Exchange, which was started in late August 2007. NewConnect has the status of an organised market outside the regulated market as an alternative trading system for young, growing companies, especially in the high-tech sector (but companies from other sectors may also be eligible for trading). Because of this issuer profile,

<sup>139</sup> EBAN: Tax incentives available to private informal investors or Business Angels in Europe; june 2006

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NewConnect offers more liberal formal obligations and information requirements, which reduces the cost of capital.

The establishment of the three instruments was expected to lead to a significant closing of the equity gap, according to a study by Tamowicz in 2007<sup>140</sup>. In the report, the equity gap is understood as a discontinuity in the supply side of capital (either a complete lack of capital on the market or weakness of institutions offering some portion of funding). At that time, the equity gap in Poland was estimated to be up to €10 million. Its existence was connected with weakness of venture funds and systematic growth of private equity funds. It was estimated in the report that those three initiatives, along with more active BANs, reduced it to €1.5 - 4 million. It is also pointed out that there are theories that the equity gap in Poland has been addressed by availability of capital for various investments, including different sectors and the level of companies' development. However, the issues still remain, though not connected to the availability of capital, but to the level of accessibility, information policy concerning the funds and entrepreneurial education, that still require improvement in Poland.

### 4.2 Assessment of existing policy framework

There is no formal evaluation or other assessment of the policy support for the Business Angel market. The support of BANs has been one initiative but there is no information on its effectiveness or the viability of these networks. Similarly, there is no information on the impact of the government initiatives on increasing the access to equity and to the Business Angels market more specifically.

However, the interviews conducted pointed to a number of government actions that could bring improvements. These include:

- Intensification of training activities of investors and entrepreneurs; the popularisation of various forms of financial investments (including passive investment), increasing the number of offers of investment in private equity;
- Organisation and simplification the legal aspects of setting up a business, ranging from tax issues through legal regulations related to the conduct of companies (licensing / authorization) and ending on the legislative stability;
- Creation of a favourable environment for establishing a real collaboration, bringing together Business Angels institution with centres of innovation, research institutes and universities to recruit from these sources of high quality, innovative projects;
- Establishment of a system of direct tax incentives for individual investors, drawing on experience from Western Europe;
- Support of educational campaigns to prepare the effective cooperation and exchange of investment and investor readiness;
- Creation of new, or modification of existing, legal forms designed for BA investment activity;
- Tidying up the market by the encouragement of joint investment by the BANs and venture capital funds both within the country and internationally, and by associating them with the appropriate institutions to facilitate the acquisition of valuable partners.

<sup>140</sup> P. Tamowicz, „Business angels. Pomocna dłoń kapitału”, Polska Agencja Rozwoju Przedsiębiorczości, Gdansk 2007



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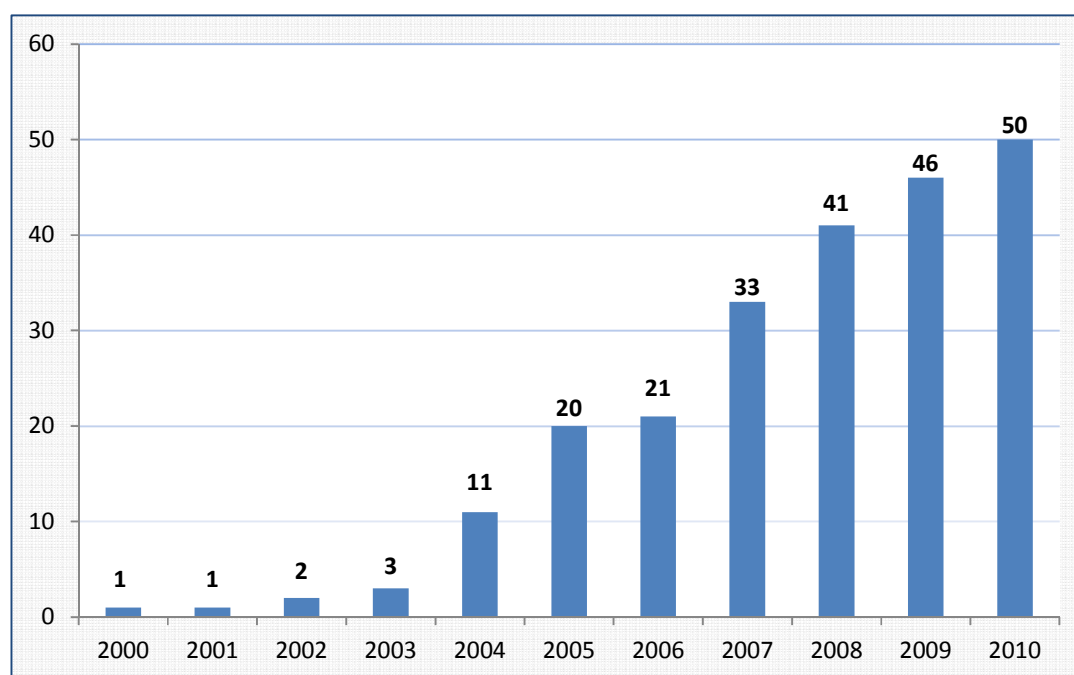
This annex contains a summary of data obtained in respect of the activities of Business Angels in Spain.

## 1 - Introduction : Overview of Spanish angel market

The notion of the 'professionalised' Business Angel is relatively new in Spain, especially when compared with other EU countries, or particularly with the U.S.

The first BAN appeared in 2002 in Catalonia, the Business Angels Network Catalunya (BANC). Although other economic development companies or European Innovation Business Centres were founded earlier, Business Angel activities in the sector came after this date. From that time, Business Angel networks began to spread throughout Spain, the first networks with their own legal entity being located in the regions of Catalonia, Madrid, Canary Islands and Galicia. As the chart below shows, from 2005 the number of networks increased considerably, more than 75% of the networks identified in Spain having been created since then and extending to almost the entire Spanish territory.

**Chart 1: Evolution of the number of Business Angels' Networks in Spain**



Source: ESBAN

In Spain, there are three types of BANs:

- First, national Business Angels such as the Spanish Network of Business Angels (ESBAN) formed in 2004 and the Spanish Association of Business Angels (AEBAN), both representing the interests of the networks in Spain and aimed at promoting the business angel concept, the growth and development of the sector, the competitiveness of the SMEs and collaboration with the authorities to develop a legal framework for this kind of investment;
- Second, regional and local Business Angels, providing services in their area of influence; and sectorial or thematic specialisation in a particular sector;



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- Virtual networks that provide services through the Internet and 'alumni' angel networks that were created by leading business schools in Spain, such as IESE and ESADE.

So far, neither Business Angels nor BANs are directly subject to any regulation so they are not, therefore, registered or verified by any public or private entity. For this reason, most networks are part of other organisations and do not have their own legal entity. These networks are promoted by European Business Innovation Centres, public bodies like city councils or chambers of commerce, economic development agencies, business schools and universities. Also, there are a small number of networks that operate as trading companies, associations and foundations.

As mentioned above, in Spain the notion of the 'professional' Business Angel is relatively new and the need for institutional support in these early stages, both financially and structurally, is quite important. This could explain why most networks are legally part of other organisations or entities.

In Spain, most BANs do not specialise in any specific sector, although there are a few specialised networks in ICT/software/multimedia and biotechnology. They are typically based in industrial zones, business incubators, science and technology parks and universities and which, in many cases (e.g. universities, science and technology parks), by nature promote specialised projects in a specific sector. Likewise, in line with the European trend, Spanish Business Angels tend to have a local or regional focus of their investment as they are usually involved directly in the management of the business projects invested.

With regard to the profile of the Spanish Business Angels, most of the available data on the sector is from the Project GEM Spain. According to the Project GEM Spain, the investor who puts money into another's business in Spain is, more often than not, a male (61.2% of cases), about 40-41 years old, well educated (59.4% cases) and has a professional training (44.2% of cases). 5.9% of these investors had been entrepreneurs in the past and, in 3.8% of cases, directed a successful business activity. A total of 90.3% of these investors are of Spanish origin.— Data on Business Angels Market

This section summarises key market data on the visible and non-visible market for investment by Business Angels.

### 2.1 Visible market

Nationally, the most recent study that has attempted to measure the volume of the visible Business Angel market in Spain was conducted by the Directorate General of SME Policy of the Ministry of Industry and ESBAN, Spanish Network of Business Angels, and provides data for 2008. According to the report:

- In 2008, there were 40 BANs and 1,465 investors, representing the 0.4% of the total of angel investors. The number of angel investors recruited during 2008 was 83, 5 of whom were women;
- The COTEC report 2011<sup>141</sup>, based on data provided by the ESBAN, raised the number of BANs at the end of 2009 to 46 with 1,623 associated investors;

<sup>141</sup> COTEC, Foundation for Technological Innovation. It publishes annually the Cotec Report on Technology and Innovation in Spain since 1996 with the main aim of providing a collection of indication on the state of innovation and technology in Spain and the positioning with respect to the countries of its environment.

<http://www.cotec.es/index.php/pagina/publicaciones/novedades/show/id/945/titulo/informe-cotec-2011--tecnologia-e-innovacion-en-espana>

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- The number of deals performed in 2009 by 66 investors was 41 with a total amount of €9 million, on average €220,000 per deal.

Although so far there are no published official data, according to one of the expert interviewees<sup>142</sup>, the number of networks and number of Business Angels for 2010 reached 50 and 1,729 respectively.

EBAN statistics are based on data provided by surveyed BANs that are members of the European network and are one of the best sources of information on visible Business Angels that operate through BANs. In the case of Spain, data for 2010 is based on the responses provided by 13 BANs. These 13 BANs had 807 investors of which 34.2% were active and around 6% female.

**Table 1: Business Angels Networks in Spain (2010)**

Parameter	EBAN data (13 BANs)	ESBAN data
Number of networks	13	50
Number of members (investors)	807	1,729
- Of which, number of active Business Angels	276	
Average number of investors per network	34	
Total number of women Business Angels (%)	18 (2.23%)	57 (0.4%) (2008)
Number of angel investors recruited during 2010	10	83 (2008)
Number of women investors recruited during 2010	1	5 (2008)
Number of angels who have left the networks	2	55 (2008)
Average number of angels per investment round in 2010	1	

EBAN also provided information on the investment type and volume. In Spain, 594 business plans were submitted to angels through the 13 BANs that responded to the survey in 2010. There were 58 deals made through the networks and around 6% of those were financed with a total investment of around €8 million.

According to the 2011 COTEC report, up to 2007 there had been 122 deals in Spain for over €25 million, with an average of around €205,000 per transaction. In 2008 there were 79 investors who made a total of 46 operations by more than €13 million, with an average per transaction around €270,000. In 2009 the number of deals performed by 66 investors fell to 41 for an amount of €9 million, nearly €220,000 on average per transaction. These investments involved 209 deals throughout the period (2007-2009) for a total of €47 million, generated 435 jobs (direct or indirect), and reflect an increasing tendency to perform co-investment and syndication by Business Angel groups.

<sup>142</sup> Mr Albert Colomer, Treasurer of ESBAN and Spanish representative in the Board of Directors of EBAN

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**Table 2: Business Angels investment Type and volume in Spain (2010)**

Indicator	EBAN data (13 BANs)	Total (ESBAN data)
Number of business plans received	1,189	
Number of business plans submitted to angels in 2010	594	
Number of deals made through the network in 2010	58	41 (2009)
Number of new companies financed	38	
Number of follow-on rounds	2	
Total amount invested by angels through BANs (€)	8,162,000	9,000,000 (2009) 28,300,000* (2010)
Average amount of the deal (€)	182,197	220,000 (2009)
Average amount per angel investor	137,033	

Source: ESBAN \* Including co-investment.

The Ministry of Industry, Energy and Tourism also offers quantitative data on the BAs market based on the information provided by BANs granted under the 'Programme of Impulse to Business Angel Networks' of the Ministry described in detail in Section 4. Even though this information is not collected or checked by the Ministry, it is a good approximation of the visible market. However, it has to be taken into account that these figures correspond only to the BANs that had received grants under this Programme. According to the information provided by 44 networks that applied for grants in 2010 and 2011, the total amount provided by their own sources was €3.2 million. The number of projects received in 2009 was 1,755 and increased to 2,704 in 2010. A total of 529 of business plans were submitted to angels in 2009 and 670 in 2010, representing around the 25% of the projects received. This led to 55 deals being made through these granted networks with a total investment of around €14 million in 2009, and increased to 91 deals and around €21 million in 2010.

Although the 2011 data are provisional, it is clear that there was a considerable increase to both the number of projects received and those that were submitted to investors. The number of deals is over 250 and the total amount invested by angels is more than double over the previous year.

**Table 3: Data on Business Angels networks that received grants under Spanish government Impulse programme**

Indicator	2009	2010	2011*
Number of business plans received	1,755	2,704	4,694
Number of business plans submitted to angels	529	670	1,421
Number of deals	55	91	253
Total amount invested by angels (€)	13.929.588	21.008.885	44,932,358

Source: Ministry of Industry, Energy and Tourism ; \* Provisional data

### Breakdown of Business Angel investment by sector

According to the study, 'Nature of Business Angels networks in Spain and main characteristics of market players'<sup>143</sup> (2008 data), economic sectors with relatively high levels of investment by the Spanish BANs

<sup>143</sup> Naturaleza de las redes de Business Angels existentes en España y principales características de los agentes del mercado. (in Spanish).

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are: ICT/software/multimedia, biotechnology and renewable energy. One reason for concentration in these sectors may be that in order to attract business projects, the Spanish networks are typically based in industrial zones, business incubators, science and technology parks and universities. Also, many Spanish networks have a strong dependence on host organisations which, in many cases, are universities, science and technology parks, which by nature offer specialised projects in a specific sector.

This also emerges from the data provided by EBAN of the 13 Spanish networks that provided information for 2010. As shown in the table below, the highest percentage of deals was concluded in the ICT sector, 33% of the total for 2010. This is followed by Creative industries and Manufacturing sectors with 14% and 13% respectively. Both Biotech and Life Science and Environment and Clean-tech sectors represented around 10% each.

**Table 4: Percentage breakdown of Business Angel investment by sector (2010) – Data from 13 BANs**

Sector	% in total number of deals	% in total amount invested
ICT	33.3	35.7
Creative Industries	13.9	8.9
Manufacturing	13.2	14.8
Biotech and Life sciences	10.3	8.5
Environment and Clean-tech	9.6	10
Other*	4.2	5.3
Health Care and Medical technologies	2.8	4.7
Energy	2.8	0.4
Retail and Distribution	2.9	1.3
Logistics and transportation	2.8	1.8
Mobile - including software and service applications	2.1	7.7
Social and Sustainable Investments - impact investing	1.4	0.1
Finance and Business Services	0.8	0.9

Source: EBAN Survey. (\*Automotive, Intelligence).

### Percentage breakdown of association members' investment by geographical region

Concerning the location of investment, Spanish Business Angels tend to have a regional focus, in line with the general European trend. According to the above-mentioned Spanish study, 2008 data indicate that most of the Business Angels networks identified (52%) invested in their own region while 25% invested in the same country but in a different region. Only the 8% of the networks had an international scope. EBAN data of the 13 BANs, confirm that the vast majority of Business Angel Investment in Spain takes place in the same region where the network is located. Only around 4% of the investment was made in the same country, but not in the same region where it is located and less than 1% of the investment was made outside Europe.

**Table 5: Business Angel Investment by location of the recipient firm**

Location of recipient firm	% of deals
In the region where the Network is located	94.7

<http://www.ipyme.org/es-ES/Financiacion/BusinessAngels/Documents/AGENTES%20DEL%20MERCADO.pdf>

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In the same country, but not in the same region	4.5
Cross-border in Europe	0
Outside of Europe	0.8

Source: EBAN

### *Life Cycle Stage of Investment at which Business Angel Funding Occurs*

The EBAN data for the 13 Spanish BANs suggests that the vast majority of funding takes place at the seed and early stage and start-up level. Around 3% of funding takes place at pre-seed level and less than 8% of the investment was for the expansion projects.

**Table 6: Business Life Cycle Stage of Investment in Spain (2010)**

Stage of investment	Share (% of deals)
Pre-seed	3.1
Seed	40.3
Early stage and start-up	48.9
Expansion	7.7
Pre-IPO	0
Buy-out and turnaround	0
Other	0

Source: EBAN

### *Co-investment between angels with other bodies*

The table below illustrates the percentage of the total number of deals that co-invested in 2010. Around 30% of the 13 Business Angels monitored by EBAN co-invested with Business Angels inside the network and around 5% with Business Angels outside the network. Just over 10% of the co-investments come from venture capital funds, while co-investments from institutional investors contributed less than 2%.

**Table 7: Level of Business Angel Co-investment in Spain (2010)**

Co-investors	Share in total number of deals
<b>Business Angels inside the network</b>	29.2
Business Angels outside of the network	5.4
Early stage fund	0
Venture capital fund	10.4
Family office	0
Institutional investors	1.9
Other investors	0

Source: EBAN

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The study "*Spanish Network of Business Angels: research procedures and market volume*"<sup>144</sup> analyses the preferences of Spanish BANs with regard to co-investment, based on a survey of the 40 BANs in 2008. According to this study, most of the Spanish BANs that decide to co-invest prefer to invest along with other Business Angels (over 40%), a trend similar to elsewhere in Europe. However, the study also shows that in Spain over 20% of investors prefer to invest alone.

### 2.2 - Data on the Non-visible Business Angels market

Quantification of the invisible market is very difficult, mainly because of the desire of BAs to remain anonymous and the undocumented nature of their investing activities. In Spain, no study has attempted to measure the non-measured market.

The GEM Project<sup>145</sup> provides some valuable information. Data for 2010 are based on a survey with a sample of 26,388 interviews. According to this study:

- 3.24% of the adult population reported that they had invested in someone else's business in 2010, much higher informal investment (3.02% of the population aged 18-64 years) than investment conducted by the Business Angels (0.22% of the population aged 18-64 years). In other words, Business Angels represent less than the 7% of individual investors who invested in someone else's business (2010);
- Given that for the same year, the adult population (people between 18 and 64) was 30,741,514 (INE, the National Institute of Statistics), the number of active Business Angels in Spain would stand at around 67,700 people in 2010.

According to ESBAN data (Table 1) there are 1,729 Business Angels belonging to recognised networks. This, combined with the above data, would suggest that the active Business Angels in the invisible market should not exceed 66,000 (67,600 minus 1,729).

This number is most probably an overestimate of the size of the invisible Business Angel market. In that respect, some interviewees questioned the appropriateness of using the GEM data because it is not until 2010 when the GEM project for Spain began to distinguish between the informal investor and Business Angels, the latter not having any family relationship with the entrepreneur.

According to the Treasurer of ESBAN and the Spanish representative in the Board of Directors of EBN, the invisible part of the Business Angel market is most probably around 20 or 25 times greater than the visible or formal Business Angel market, thus no more than 43,300 (1,729 x 25). Overall, and taking into account both sources, the non-visible market could be between 34,600 and 67,700 individuals in 2010. These estimates suggest that, compared with other countries, the invisible Business Angel market is relatively large in Spain in relation to the measured/visible part. This is quite possible given the business culture in Spain and the 'informal' nature of many activities.

Regarding the demand for finance, some conclusions can be obtained from the report, 'Thermometer of investments in start-ups in Spain 2011'<sup>146</sup>, developed by Ready4Ventures based on the information extracted from a series of surveys and interviews of entrepreneurs with investment projects searching

<sup>144</sup> Redes españolas de Business Angels: investigación de procedimientos y volumen de mercado (in Spanish). <http://www.ipyme.org/es-ES/Financiacion/BusinessAngels/Documents/VOLUMEN%20DE%20MERCADO.pdf>

<sup>145</sup> Informe GEM España 2010 (in Spanish). <http://www.gemconsortium.org/docs/download/616>

<sup>146</sup> Termómetro de la inversión en Startups en España 2011 (in Spanish). <http://www.readyforventures.com/wp-content/uploads/2011/05/Termometro-de-la-inversion-en-Startups-en-Espana-2011.pdf>

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for investors. The information is derived from 66 questionnaires answered by investors, mainly BAs and private investors, and 109 questionnaires answered by entrepreneurs, mainly serial entrepreneurs:

- 72% of these entrepreneurs financed their projects by own savings and family support, 42% made use of loans and financing from investors;
- For 2011 and 2012, only 35% stated they will consider credit as an option, while 58% expected to apply for funding from private investors;
- Contrary to what is believed by some entrepreneurs and analysts, 42% of investors forecasted an increase in the availability of funds for investment during 2011 and 2012. In addition, 55% expected to grow the number of deals closed during that period.

### 2.3 - Exits and exit strategies

As in other countries, the Spanish Business Angels invest temporarily in the companies - on average between 3 and 5 years. Disinvestment typically occurs through: sale of shares to other shareholders or the company itself, sale to a third party or sale to a venture capital firm. However there are no studies or relevant data providing more information concerning the exit strategies of the Business Angels in Spain.

### 2.4 - Other market characteristics

As mentioned above, the notion of the professional Business Angel is relatively new in Spain, especially compared with other European countries and the US, with the first BAN created in 2002.

Another characteristic of the market in Spain is the concentration of BANs in certain regions - Catalunya, Valencia and Madrid.

Analysis of the different sources identified shows that the number of female angel investors and entrepreneurs receiving angel investment in Spain is very limited.

According to the 2008 study '*Spanish Business Networks: research procedures and market volume*', only 0.4% of the 1,465 investors identified were women. Even though the data provided by EBAN for 2010 shows an increase in the proportion of women angels in the sample of 13 networks, representing approximately 6% of the investors, their representation remains low. Another example is the data provided by ACCIÓ from the Generalitat de Catalunya that refers only to the Catalanian BANs. In 2010 there were 295 investors and only 1% was female. It is also noteworthy that for the same year no female entrepreneurs received angel investment. Overall, the picture is that Business Angel activity in Spain is still very much male dominated.

### 2.5 Quality of data sources

Unlike some other European countries, in Spain, there is currently no register of Business Angel networks or of the activity of Business Angels. The new Law on Entrepreneurs that the Government is about to approve will regulate Business Angels and will create an official registration by the *Comisión Nacional del Mercado de Valores* (see section 4.1).

So far, most of the available information on the Business Angel market comes from the detailed studies produced by ESBAN, the Spanish Network of Business Angels, and the Directorate General of SME Policy of the Ministry of Industry between 2008 and 2009. These studies provide data on Business Angel networks in Spain up to 2008. Since then, there have been no similar studies.

In recent years COTEC, Foundation for Technological Innovation, annually publishes a report, ('COTEC Report on Technology and Innovation in Spain'), which includes basic data on the size and volume of the



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formal market of Business Angels, according to data provided by ESBAN, which monitors the activity of the network in Spain.

## 2 - SME access to finance

This section assesses the contribution of Spanish Business Angels to the SMEs' access to finance and the effectiveness of Business Angel finance to bridge the equity gap in the seed and start-up phases of the SME development.

### 3.1 Overview

In Spain, the design and management of programmes of financial support to start-ups and SMEs is the responsibility of the Dirección General de Política de la PYME (DGYME) and the Instituto de Crédito Oficial (ICO). The funding support of entrepreneurs provided by DGPYME is performed by ENISA, a Spanish governmental agency which helps and invests in the technological innovation. In addition, CERSA is a state corporation under the same Ministry through DGPYME aimed at the refinancing or partial coverage of risk assumed by mutual guarantee companies to SMEs that require additional guarantees to solve their financial problem, prioritising the financing of innovative projects and micro firms and start-ups.

The ICO is the State's Financial Agency, attached to the Ministry of Economy and Finance through the Secretariat of State for the Economy. ICO offers different lines of financing to promote all phases of the companies/projects: ICO entrepreneurs, ICO SME and ICO business growth (unified in 2010 in ICO investment) and ICO Internationalisation.

Finally, the NEOTEC initiative of the CDTI which aims to support the creation and consolidation of technology-based companies in Spain, has a number of tools to support technology entrepreneurs from the moment of the conception of the business idea until turning it into a viable company. The initiative is implemented primarily through grants, *ayudas NEOTEC*, and venture capital contributions through two companies: a fund of funds (NEOTEC Venture Capital Fund Company, SA, SCR) and a co-investment fund (Joint Venture NEOTEC, SA, SCR).

According to the findings of the White Paper on Entrepreneurship in Spain, promoted by the *Fundación Príncipe de Girona (FpdGi)*<sup>147</sup> and written by ESADE Business School experts, in comparison to other European countries there are not many sources of funding for new entrepreneurs. In addition to their own personal savings, entrepreneurs obtain funding mainly from banks. The proportion of companies that obtain funding by venture capital or private investors is much lower and is mainly linked with highly innovative companies.

According to the expert opinion presented in the same study, funding is one of the problems that inhibits development of entrepreneurship in Spain, although there are some who claim that 'good entrepreneurs will always find capital'. Thus, although 43% of experts believe that in Spain there are sufficient funding sources for new initiatives, 72% believe that lack of funding is a major constraint for the entrepreneurs that want to start up their ideas.

### Chart 2: Expert's opinion on the financing of the entrepreneurial activity in Spain

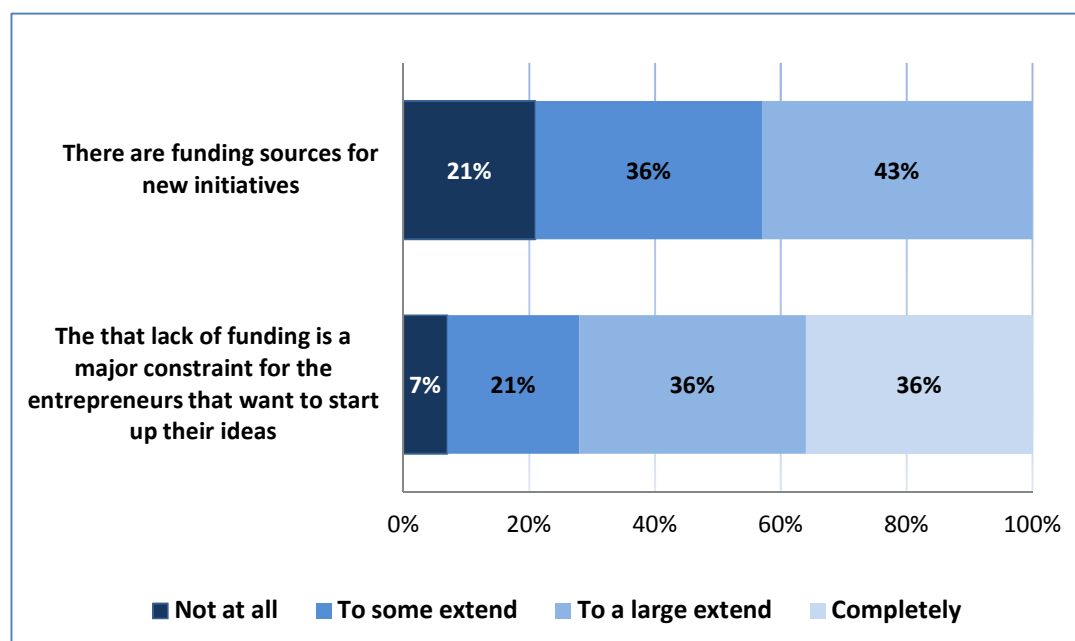
<sup>147</sup> Libro Blanco de la Iniciativa Emprendedora en España. (in Spanish).

[http://itemsweb.esade.es/wi/research/eei/Investigacion/LBIEE\\_DocumentoFinal%2027-07-2011%20Rev%20Oct11.pdf](http://itemsweb.esade.es/wi/research/eei/Investigacion/LBIEE_DocumentoFinal%2027-07-2011%20Rev%20Oct11.pdf)



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Source: White Paper on Entrepreneurship in Spain.

Since early 2009, the Spanish Chamber of Commerce regularly carries out a survey of SMEs (from 1 to 249 workers) that have tried to access external funding in the last three months. Results of the survey for the last quarter of 2011<sup>148</sup> (based on a representative sample of 400 SMEs) are in line with the findings of the previous study. The survey indicates that most of the SMEs (65.5%) had problems in obtaining funds from financial institutions while 3.25% of SMEs rejected available support because of the onerous conditions. A total of 15.75% of the SMEs were rejected and the remaining 5% were still in the process of applying for funding. Besides higher interest rates, the Spanish SMEs had to face higher transactional costs. A small percentage of businesses used alternative instruments to get external financing – mostly venture capital (1.3% of SMEs). On average, companies that used these alternative instruments satisfied 24.4% of their funding needs.

**Table 8: Share of companies that have used alternative instruments to obtain external financing**

	Average 2010-2011	Fourth Quarter 2011
Venture capital	3.2	1.3
Business Angels	0.5	0.0
Seed capital	0.3	0.0
Participative loans	1.6	0.0
Funds from the EU	0.2	0.5

Source: "Encuesta Cámaras sobre el acceso de las pymes a la financiación ajena" (December 2011).

<sup>148</sup> "Encuesta Cámaras sobre el acceso de las pymes a la financiación ajena" (December 2011).

[http://www.camaras.org/publicado/shop/prod\\_42282/estudios/pdf/encuesta\\_finan/financiacion\\_pymes\\_4\\_trimestre\\_2011.pdf](http://www.camaras.org/publicado/shop/prod_42282/estudios/pdf/encuesta_finan/financiacion_pymes_4_trimestre_2011.pdf)

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According to the Small Business Act Fact Sheet for Spain 2010-2011<sup>149</sup>, almost 50% of SMEs have faced deterioration in access to credit since 2009 - considerably greater in Spain than the EU average. Almost 50% of the SME owners indicated that access to public financial support including guarantees has experienced a deterioration compared with the previous year (8 percentage points higher than the EU average). Similarly, indicators measuring credit lending are also below the EU average. More than half of the SME owners (57%) had noticed that banks were less willing to provide loans and actually refused credit to almost one third of their customers. The cost of credit to small businesses (for loans under €1 million) is more than 40% higher than for larger enterprises. Likewise, in Spain the venture capital investments in the early stages of a company are much lower than the EU average.

**Table 9 : Access to finance for SMEs – Comparison of key indicators for Spain and EU**

Indicator	EU average	Spain
Share of bank loan applications by SMEs that were not successful, 2009	23%	31%
Access to public financial support including guarantees (% that indicated a deterioration)	22%	47%
Willingness of banks to provide a loan (%share that indicated a deterioration)	30%	57%
Relative difference in interest rate levels between loans above 1 million EUR and loans below EUR 1 million, 2010	24%	40.48%
Venture capital investments - early stage (% of GDP), 2009	0.01%	0.004%

Source: SBA Fact sheet Spain.

The same pattern is reflected in the results on the survey conducted by IESE in 2009<sup>150</sup> of entrepreneurs that participated in the Investors' Forum of IESE Network of Private Investors between 2006 and 2008. The survey asked entrepreneurs to rate the relative importance of five external factors to ensure the development of their project/company (easier access to sources of financing, the availability of a more qualified workforce in the market, the existence of support services and resources for the development of the project or company). The results reveal that 'Access to finance remains' a key concern of entrepreneurs, even by those who have obtained funding from other sources but need additional resources to continue growing (58% of respondents considered it the key factor in ensuring the future development of their companies). Entrepreneurs also rated their overall perception of the public or private support regarding the search for funding during the analysis period (2006-2008). Only 27% indicated feeling satisfied about the support (public or private) received for raising funds. Nevertheless, there is evidence of a comprehensive effort to improve access to credit when this is not available through the private sector.

<sup>149</sup> EU (2011), SBA Fact Sheet- Spain 2010/2011, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/spain\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/spain_en.pdf)

<sup>150</sup> La Financiación externa de empresas innovadoras en fases iniciales de desarrollo. Restricciones financieras, fallos de mercado y papel de los inversores privados. IESE Business School-Universidad de Navarra (in Spanish). <http://88.84.77.137/madridemprende/sites/default/userfiles/Informe%20IESE%20Business%20Angels.pdf>

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### 2.2 - Role of Business Angels

All existing studies on the Business Angel market stress the potential role they have for the financing of SMEs in their early stages, mainly for high technology-based companies, and especially in recent years when access to credit has suffered a significant deterioration.

Business Angels can help fill the equity gap that occurs between the stage of personal or family funding and the eventual entry of venture capital funds. According to the above-mentioned study by IESE, in Spain in the absence of reliable data on the activity of the informal venture capital market, some analysts estimate this gap to lie in the range from €600,000 (although others lower this limit) to up to €2-3 million, i.e. investments of a size that would be suitable for venture capital funds. According to the report *Venture Capital & Private Equity in Spain* published by ASCRI (Spanish Association for Venture Capital and Private Equity)<sup>151</sup>, 80% of venture capital operations closed in 2010 were below €1 million.

As in other countries, in addition to the provision of financing, especially in the early stages of the company, Business Angels also have a crucial role in attracting additional funding in subsequent phases of the development of the company and provide added value with their knowledge and experience. The survey of entrepreneurs included in the IESE study measured the reputational impact of the entry of private investors in the business project. All entrepreneurs indicated that the entry of a private investor is a key factor to attract additional funding in later stages (62% indicated it helps a lot and 38% quite a lot). Likewise, the survey asked if the Business Angels also provided knowledge and experience to their projects and more than half of the entrepreneurs (52%) completely agreed with this statement and 27% to a large extent.

In addition, according to the IESE survey, 58% of the surveyed entrepreneurs “completely agreed” with the statement ‘without the entry of external capital, the project could not continue forward’ while 21% agreed “to a large extent”.

<sup>151</sup> Informe Capital Riesgo & Private Equity en España (page 9). ASCRI. 2011.  
[http://www.ascr.org/upload/documentos/20110718\\_122112\\_563886714.pdf](http://www.ascr.org/upload/documentos/20110718_122112_563886714.pdf)

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## 4 – Public support for the Business Angels market

In this section we examine the existing support schemes for Business Angel financing in Spain and, on the basis of available information, provide an assessment of their performance.

### 4.1 Tax breaks

Since 2006, there have been various initiatives to promote Business Angels. However, the Spanish legal system does not recognise the status of Business Angels and there is no favourable tax treatment for their activity. Some Autonomous Communities (Madrid, Catalonia, Galicia and Navarre) have introduced fiscal support measures but they are of limited scope due to the conditions and restrictions on the maximum amount to be tax deductible (€4,000 in Catalonia recently increased to €6,000). At a national level, in July 2011, the Government introduced a favourable tax treatment for tax on capital gains from investment in newly created companies. In particular, the capital gains generated by the transfer of shares or units in such initiatives are exempted from tax when the investment is in new or recently created companies (there is exemption from tax on capital gains from the sale of shares whose value does not exceed €25,000 per year).

In 2008, the Law 4/2008 of 23<sup>rd</sup> December, stated that the Government will consider the formulas that exist in comparative law to encourage the creation of SMEs and to support entrepreneurs and Business Angels in order to study its feasibility in Spain and, where appropriate, a legal and fiscal regime that will result from its application. This was reflected in two reports<sup>152</sup> published by the then Ministry of Industry, Tourism and Trade and conducted in collaboration with ESBAN.

In the second report, it was proposed to apply to Business Angels a similar legal and fiscal regime to that which applies to venture capital. In summary, the measures proposed include:

- Establishing a regulatory framework defining the operational scheme of investments by BAs;
- Identification of a supervisory body for the operation of this funding market that could be the *Comisión Nacional del Mercado de Valores* (CNMV), the Spanish government agency responsible for regulating the financial securities markets in Spain; and
- Establishing fiscal measures that encourage development of this sector.

One year later, in 2009, the Congress of Deputies approved a motion (*'proposición no de ley'*) urging the Government to promote a legal framework that recognises and promotes the figure of the Business Angel or informal investor, so that all subsequent policies to encourage employment and economic activity could refer to it. It also urged initiation of collaborative processes between the government and BANs to define the future legal and fiscal system for these investors in order to establish further mechanisms of information, promotion, monitoring and validation of projects, allowing assessment of their impact on the economy.

In this motion, it was also agreed to prepare a Proposition of law (*'proposición de ley'*) to articulate the relevant financial and fiscal incentives for funding by Business Angels, similar to venture capital and applicable to both individuals and corporations. However, so far, none of the existing proposals have

<sup>152</sup> 'Análisis de tributación comparada de la figura de los Business Angels en Europa' and 'Propuesta de medidas fiscales de fomento de la figura de los Business Angels en España' (in Spanish).

[http://www.ipyme.org/SiteCollectionDocuments/IPYME/EmprendedoresCreacionEmpresas/Finanzaciacion/BUSINESS%20ANGELS\\_%20AnalisisTributacionComparada.pdf](http://www.ipyme.org/SiteCollectionDocuments/IPYME/EmprendedoresCreacionEmpresas/Finanzaciacion/BUSINESS%20ANGELS_%20AnalisisTributacionComparada.pdf)

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been implemented and Business Angels do not have a specific tax system, in contrast to some other countries, and therefore are taxed like any other securities investment.

To summarise, the current regulation and taxation framework concerning Business Angel investments is as follows:

- Lack of tax benefit for the investment made;
- Dividends received by a business angel from the company in which he/she has invested (target companies) are taxed at the rate of 18%, like any other income from savings;
- Interests received on loans to target companies are subject to the overall scale;
- Income of Business Angels that comes from advisory services is also taxed on the overall scale;
- Property gains are taxed at 18%, like income from saving. Losses are also taxed at 18% and can only be offset against positive income from savings;
- There is not a special regulation for Corporate Tax, taxing to 32.5% for 2007 and 30% for 2008 and subsequent years, except for entities with less than 6 million euros turnover, in which case they are taxed at reduced rates (25%). The general rules for dividends and capital gains are applied;
- Similarly, neither Property Transfer and Stamp Duty nor Inheritance Tax has fiscal benefits.

However, the current framework is expected to develop further soon. On June 29, 2011 the governing party submitted the first proposal to regulate Business Angels included within the Proposition of law to support entrepreneurs to the Congress. So far, this has not materialised but, although the current economic situation in Spain has caused a significant reduction in the general state budget, according to some experts interviewed, the proposals relating to Business Angels will be launched, so it is more than likely that it will retain the main measures. The following summarises the chapters of this Proposition of Law which refer to the Business Angels:

- It includes the definition of informal private investors or Business Angel. However, it seems that it is not contemplated that the Business Angel, as an individual, can operate as a legal person except in the case of joint investment. Among the conditions to be met by these legal entities, is to be part of a registered BAN;
- It establishes investment limitations - the maximum investment, including both capital and bonus payouts, as the participation loans, of a business angel or informal investor in one company may be €200,000. It restricts the volume of investment and measures are not contemplated when the start-up grows or when it requires further rounds of investment;
- It also includes the definition of BAN and indicates that it will be determined by regulations which are the requirements that a BAN must meet in order to be officially recognised. Also, an official register of BANs in Spain supervised by the *Comisión Nacional del Mercado de Valores*, is to be established.
- Tax incentives for Business Angels are to be established.

### Proposed tax incentives for Business Angels

- Personal Income Tax: **(i) Deduction of payable tax.** (a) The initial investment of a business angel, maintained for at least three years, will result in a deduction of 25% of the investment with a ceiling on the deduction base of €100,000. (b) The taxable basis of the deductions may not exceed for each of them the 10% of the taxable income of the taxpayer. The investment volume will be certified by the network registered in the Official Register of Business Angels in which the investor participates. (c) The deduction generated and not applied as a result of a

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quota or insufficient taxable income, may be initiated within 5 years following accreditation. (d) If the Business Angel breaches the minimum period of three years of the investment the Business Angel must return the deduction, plus interest for late payment. **(ii) Disinvestment.** (a) Capital gains by disinvestment will be taxed at the standard tax rate as savings income. (b) Those capital gains that are reinvested in the twelve months following its acquisition shall be exempt from tax. (c) When a capital loss or participation loan loss ensues, this loss is offset against the savings tax base without any limitation. In the case that compensation gives a negative balance, this may be offset by the general basis with a limit of 25%. If the resulting balance continues to be negative it can be offset over the next five years. Also, there is a 99% exemption from Corporate Tax on the income generated by investment via capital gains or interest on equity loans.

- Capital Gains Tax: To establish an exemption from Capital gains tax on investments by Business Angels.
- Inheritance Tax: 95% reduction in the transfer 'mortis causa' of the investments made by the Business Angel, but only if the heir maintains the investment for at least three years.
- Property Transfer and Stamp Duty: Corporate operations of incorporation and capital increase shall be exempt when the company operates as Business Angel. Also, it will be exempt from this tax if the capital increases as a result of a Business Angel investment. In any case, the exemption shall be conditional on the certification issued by a BAN registered in the official record maintained by the CNMV.

### 4.2 Direct support measures

Even though the Spanish legal system does not recognise the status of Business Angels and there is no favourable tax treatment for their activity at this point, in recent years there have been initiatives recognising the importance of Business Angels and the need for supporting them. Besides the Proposition of law to support entrepreneurs outlined above, these include the Programme of Impulse to Business Angel Networks launched by the Ministry of Industry, Tourism and Trade, and several co-investment fund schemes.

#### Programme : Impulse to Business Angel Networks

In 2010, the then Ministry of Industry, Tourism and Trade (now Ministry of Industry, Energy and Tourism) launched an initiative to encourage BANs 'Programa de impulso a las Redes de Business Angels'<sup>153</sup> (Programme of Impulse to Business Angel Networks). The aim of this programme is to strengthen and professionalise organisations that perform brokerage services between enterprising companies and potential investors (or Business Angels) so that the services are provided in a more professional manner. This should improve the opportunities for SMEs to access Business Angel funding. The programme is open to both public and private entities that have their own legal personality, fulfil certain conditions to attract investors, are able to assess and promote investment in innovative projects carried out by enterprising SMEs with the support of agents related to the creation of companies and innovation (development agencies, technological parks and centres, etc.). In the first year the programme granted €440,000 to 24 BANs and this increased to €708,604 (30 BANs) in 2011.

<sup>153</sup>Programme of Impulse to Business Angel Networks

<http://www.ipyme.org/en-us/SubvencionesAyudas/RedesBusinessAngels/Paginas/ImpulsoRedesBusinessAngels.aspx>

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As to the regional distribution of grants between 2010 and 2011, there is a concentration in certain regions, in line with the concentration of BAN. The Community of Catalonia received most grants (18, worth €434,892), followed by Madrid (5 grants worth €120,000) and Valencia (4 grants worth €100,000).

So far no official results and impacts of the initiative have been published. Similarly, it is not known yet if a new call will be launched for 2012.

### Co-investment fund schemes

ENISA, a Spanish governmental agency under the Ministry of Industry, Energy and Tourism, through the Directorate General of Industry of the SME has a cooperation agreement with AEBAN and IESE which helps and invests in technological innovation. ENISA provides participative loans from €100,000 to €1,500,000 to innovative companies that meet certain criteria and are proposed by BANs that have signed the partnership agreement.

From 2009 to March 2012, ENISA financed 23 projects to the value of €5,545,000. 4 other projects for a total investment of €1,050,000 are under study and one has been already approved for €100,000. Since the launch of this line of co-financing 67 projects have been abandoned or rejected, mainly for not complying with the requirements or providing the necessary information.

17 of the 23 projects approved and disbursed in the period are located in Barcelona and 5 in Madrid. Most participative loans are for between €100,000 and €200,000, about 26% between €220,000 and €300,000 and just over 17% from €450,000 to €600,000. Analysis of the activities of the beneficiaries shows that the vast majority are from the field of ICT and Creative Industries; although in all cases the activities have an innovative component, an essential requirement for the granting of such funding.

At a regional level there are also other co-investment initiatives with Business Angels, as launched by the Generalitat de Catalunya. The IFEM, a subsidiary of the Catalan Institute of Finances (ICF), has a collaboration agreement with, to date, 11 BANs to co-invest in start-ups. The last call was launched in late 2011 and will fund a total of 80 start-ups until 2015 for a total amount of 10 million euros. These companies will receive between €50,000 and €200,000 with the condition that the Business Angels have to provide the same amount as the IFEM.

The IESE study mentioned above also indicates the perception of entrepreneurs about options for co-investment with public and private funds. The survey assessed whether entrepreneurs perceive the possible entry of external capital together with public funds as an attractive element and, at the same time complementary (e.g. covering the requirements of funding) for a private investor deciding to invest. The results show that more than half of the entrepreneurs who responded to this question are rather cautious regarding the possibilities of cooperation schemes as described, probably due to lack of further information (41% think it can help “a lot”, 18% that it could help “somewhat” and 18% that it could help “very little”).

### **4.3 Evaluations of public support measures for Business Angels**

So far, there have been no formal assessments of the results and impacts of any of the above described public initiatives supporting Business Angels.

Even though these initiatives represent evidence of the increasing importance that Business Angels assume in Spain, everyone agreed that there is still a need for a uniform BA policy from the government, a regulation of the definition of the status of the informal investor and establishment of a favourable tax treatment for their activity. In this respect, the representative of AEBAN and Director of Madrid



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Business Angel network, was of the view that the application of a mechanism for regulating the market and provision of tax incentives allowing the application of reduced rates on capital gains or losses deductions would enhance the development of the sector and encourage such investments. The Head of Finance of the DGPYME from the Ministry of Industry, Tourism & Trade, added that the Spanish Business Angel market is new but is growing and has great potential. She added that the creation of new networks of private investors, thanks to initiatives like the Programme of Impulse to Business Angel Networks, is helping to reveal the opportunities of the Business Angel market.

In relation to the co-investment schemes, the feedback from the interviews indicates that the response of investors and entrepreneurs has been very positive so far. They are considered as contributing to filling the equity gap in the early stages, leading to higher volume of investment and sharing the investments risk.

According to those interviewed the key added value of BANs comes through its role of raising awareness of the market, making it visible, by spreading this kind of investment, encouraging supply and demand to grow, and creating the mechanisms to bring willing buyers and sellers together. The current trend suggests that most Business Angels with investing capacity do not find investment opportunities suitable to their expectations. At the same time, entrepreneurs have difficulty identifying potential Business Angels, since a good number of these Business Angels value anonymity excessively. In addition, according to the Spanish BANs, in most cases investors prefer to co-invest with another Business Angel. In this sense, the role of BANs is crucial, creating a circle of trust between investors and promoting a number of Business Angels to join for investment operations.



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This annex contains a summary of data obtained in respect of the activities of Business Angels in Sweden.

## 1 - Introduction: Overview of Swedish Business Angels market

On the basis of the data available, the Business Angels market in Sweden includes around 3,000-5,000 potential investors – although depending on the definition adopted they may be up to 27,500 – and a total volume of investments in the range of €200-400 million. It is organised around a formal segment that is based on 22 BANs distributed around the country with 600-1000 investors representing between 5-15% of the total. An upper level estimate of the total annual number of Business Angel investments in the period 2004-2007 was around 30,000 in a total of 7,500 firms.

As regards the overall role of the Business Angel market in access to finance, in comparison to the EU average, access to bank loans remains easy and banks are the key source of finance. Still, there has been significant growth of the equity markets in the last years – especially in relation to firms in high-tech sectors – putting Sweden among the top countries in Europe in terms of access to early stage equity capital.

In terms of public sector support to BAs, government policy has been mainly indirect. The main focus has been on promotion of BANs. This included an initial financial support towards the formation of a network of BANs across Swedish regions and the development of a national association to promote networking and activities to increase investment readiness. Indirectly, the existing initiatives for the provision of equity finance to high technology start-ups - ALMI Invest and Innovation Bridge - also contribute to the development of the Business Angel market by requiring additional private sector investment but also by offering a certain guarantee through their selection process. On the other hand, there are no dedicated tax breaks or other tax schemes to promote Business Angel investments although the government is considering one.

## 2 - Data on the Swedish Business Angels Market

This section summarises key market data on the visible and non-visible market for investment by Business Angels in Sweden.

### 2.1 Data on the Visible market

According to Swedish Venture Capital Association, that has been responsible for the organisation of the promotion and coordination of BANs in Sweden since 2005, there were 22 BANs operating in Sweden in 2010 with around 1,000 registered members, of which some 400-600 were active<sup>154</sup>. 13 of those BANs were registered in the SVCA database with a total of 681 angels<sup>155</sup>.

The annual EBAN survey provides the most comprehensive source of information available on the size and characteristics of the Business Angels in Sweden. Still, the 2010 data are based on the responses of 4 BANs with 135 angel investors in operation, 57 of which were active. These 57 angels represented 10-14% of the 400-600 Business Angels in the 22 networks identified in 2010. Thus, the estimates provided concerning the total formal Business Angel' market are based on an extrapolation from the EBAN data.

<sup>154</sup> Sofia Avdeitchikova interview

<sup>155</sup> [www.svca.se](http://www.svca.se)

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**Table 1: Business Angels Networks in Sweden (2010) – Data from 4 Business Angels networks and estimate for total**

Parameter	EBAN survey numbers	Estimate for total
Number of networks	4	22 (2010)
Number of members (investors)	135	750-1000
- Of which, number of active Business Angels	57	400-600
Average number of investors per network	34	

Source: EBAN and CSES elaboration

EBAN data also provide information on the investment activity. According to the data from the 4 BANs, a total of 98 business plans were submitted and 18% of those were eventually financed with a total investment of around 3 million Euros. On the basis of this, the total value of the deals through BANs is estimated at around €21-30 million. Another SVCA study on the basis of 166 angels from 14 BANs reported investment activity in 2010 of approximately €12 million. Extrapolated to the total number of BANs it suggests a total value of around €30 million.

**Table 2: Formal Business Angels' investment type and volume in Sweden (2010) – Data from 4 BANs and total estimates**

Indicator	EBAN data (4 BANs)	Total (estimate)
Number of business plans received in 2010	435	
Number of business plans submitted to angels in 2010	98	700-1000
Number of deals made through the network in 2010	25	175-250
Number of new companies financed	17	120-170
Number of follow-on rounds	5	
Total amount invested by angels through BANs (€)	3,020,000	21 -30 million
Average amount of the deal (€)	91,850	
Average amount per angel investor (€)	65,500	

Source: EBAN and CSES elaboration

In terms of **sectoral focus**, the 2010 EBAN survey indicates a strong focus on the high-tech sectors including Healthcare and ICT. They represented 57% of the total number of deals and 55% of the total amount invested. Mobile phone applications, biotech and environmental technologies also received a little more than 10% of the total, respectively.

**Table 3: Percentage breakdown of formal Business Angels investment by sector (2010)**

Sector	% in total number of deals	% in total amount invested
Health Care and Medical technologies	31	25
ICT	26	30
Mobile - including software and service applications	13	13
Biotech and Life sciences	13	21

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Environment and Clean-tech	11	8
Energy	4	2
Creative Industries	2	1
Social and Sustainable Investments - impact investing	0	0
Retail and Distribution	0	0
Finance and Business Services	0	0
Logistics and transportation	0	0
Manufacturing	0	0

Source: EBAN

The EBAN survey data also indicate **that the Swedish BANs have a clear regional orientation**. The 13 BANs in the database are present in all different regions of the country even though there is, as expected, a concentration in the south part of the country where the main economic centres and most of the population is concentrated<sup>156</sup>. The interviews with experts – including the representative of one Network<sup>157</sup> – confirmed that the regional orientation is particularly strong.

**Table 4: Formal Business Angels' Investment by Region**

Location of recipient firm	% of deals
In the region where the Network is located	100
In the same country, but not in the same region	0
Cross-border in Europe	0
Outside of Europe	0

Source: EBAN

**AS regards the stage of investment**, the data from EBAN survey point to a focus on early stage/start-up (73.75% of the total), and less so on the expansion (17.5%) or seed stages (8.75%). This makes them rather similar to the UK Business Angels and less so with the German, Italian or Spanish Business Angels which, according to the EBAN data, focus more on the seed stage. However, the information on the 13 BANs provided in the SVCA website<sup>158</sup> indicates a focus of the BANs on the seed stage (9/13), with only 3 referring to start-up stage and one on expansion. In the absence of additional information the main conclusion is that seed and early stage phases are dominant.

**Table 5: Business Life Cycle Stage of Investment among formal Business Angels**

Stage of investment	Share
Pre-seed	0
Seed	8.75
Early stage and start-up	73.75
Expansion	17.5
Pre-IPO	0
Buy-out and turnaround	0

Source: EBAN

Finally, according to the EBAN survey data, formal Business Angels in Sweden do not seem to have strong preferences in terms of their **co-investors**. They co-invest both with other Business Angels inside

<sup>156</sup> 10/13 in or around the main centres of Stockholm, Gothenburg and Malmo.

<sup>157</sup> Interviews with Sofia Avdeitchikova of University of Lund and Jeannette Anderson from Connect Skane

<sup>158</sup> SVCA, <http://www.svca.se/membersearchen?type=BusinessAngelNetwork>

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their own networks – although less than in most other countries – but also with Business Angels outside the specific networks as well as institutional investors or even venture capital funds.

**Table 6: Level of Co-investment among formal Business Angels**

Co-investors	Share in total
Business Angels inside the network	13.33
BAS outside of the network	23.33
Early stage fund	10
Venture capital fund	13.33
Family office	0
Institutional investors	26.67

Source: EBAN

## 2.2 Non-visible market

The data on the non-visible segment of the Business Angel market are not extensive and are relatively old, referring to the period 2004-2007 and therefore not reflecting any impact of the financial crisis. Still, available studies allow for estimates that could be considered relatively reliable. Overall, the sources identified suggest that the total Business Angel market (visible and invisible) is in the range of €200-400 million. Thus, on the basis of the earlier data on the formal part (€21-30 million) the invisible part represents 85-95% of the total. In terms of the number of investors, the estimates range greatly from less than 1,000 to up to 7,500 depending on the approach followed.

The data collected from the Global Entrepreneurship Monitor<sup>159</sup> (GEM) suggest that the proportion of informal investors in the adult population<sup>160</sup> in Sweden is significantly higher than most other EU countries following a significant increase during the last 5 years. While it was similar to the EU average – around 2% - it has developed, especially after 2005, reaching a total of 6.5%, 2-2.5% higher than the EU average. However, a large share of those investments is directed to friends and family and do not fit with definition of Business Angels used in this report. While there are no specific data available for Sweden, the GEM provides information for a number of EU countries on the percentage of such investments directed to “strangers with a good business idea”. On the basis of the average value for the EU countries available<sup>161</sup> - around 7% - we estimate that there are some 27,500 informal investors<sup>162</sup> - around 3,000 per million of the population. One needs to treat such a number with some scepticism, given that the relevant number in the USA is 850 per million of the population, the country where the Business Angels market is, according to all sources, the most developed. As a result, this number of 27,500 investors should be considered as an upper limit.

Besides the estimates derived from GEM data, there have been two main academic studies attempted to directly measure the number of Business Angels. The first major study of Business Angels in Sweden was carried out in 2004 at Lund University<sup>163</sup>. It developed a database of Business Angels including members of BANs, investors in companies registered in the Swedish Patent and Registration Office and

<sup>159</sup> GEM (2011), Entrepreneurship in Sweden, National Report 2011 (in Swedish)

<sup>160</sup> Percentage of population aged 18-64 who personally provided funds for a new company, started by someone else, over the past three years.

<sup>161</sup> GEM website, <http://www.gemconsortium.org/docs/cat/4/national-reports>

<sup>162</sup> On the basis of the 18-64 cohort representing around 60% of the total population of 9.3 million.

<sup>163</sup> see Nils Månsson & Hans Landström (2006): Business angels in a changing economy: The case of Sweden, Venture Capital: An International Journal of Entrepreneurial Finance, 8:4, 281-301

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through information in articles and journals. It concluded with a total of 894 Business Angels. This number represents the lowest estimate since some individual investors should be expected to have been missed by this approach. It should also be expected to be biased towards members of BANs as this was the first and easier source of information.

A different approach was followed in a study by Avdeitchikova<sup>164</sup> to identify the share of informal venture capital investors among the Swedish population on the basis of a survey of a random sample of the population. From a total of 24,166 responses, around 861 individuals claimed to have made informal venture capital investments<sup>165</sup> in the last 5 years. The analysis of a smaller number of them (401) led to a total of 298 (69.3%) identified as actual informal investors. About half of them had an entrepreneurial background, some of them with multiple start-up experience ('serial entrepreneurs'). Extrapolating the results from the sample - using weights based on the size of the initial sample in relation to the adult population in Sweden and adjusted with respect to background variables to eliminate the non-response bias – it was estimated that the number of informal investments in Sweden was between 27,800 and 32,600 annually. It also estimated then that the number of businesses financed by informal venture capital investors should be around 7,500 per year (on the basis of around 4 investors per business). The study does not provide for a direct calculation of the number of Business Angels. However, the author suggested that the data available indicated that the number of Business Angels was approximately 5,000 and that this may have slightly increased since. The Swedish Venture Capital Associations also referred to a total of 3,000 to 5,000 angels in Sweden<sup>166</sup>.

As regards the **total investment value**, according to the Swedish Agency for Economic and Regional Growth, a rough estimate of the volume of the Business Angel market is at least 3 billion SEK per year (€340 million)<sup>167</sup>. SVCA also referred to a total – formal and informal - market size in 2004 of 2 billion SEK (€225 million), around half of the VC investment. The Lund study estimated the total annual investment at around 3 billion SEK (€335 million) and Avdeitchikova reached a value of €385-450 million.

The Avdeitchikova survey also suggested that the majority (59%) of individuals are fairly low activity investors who have made only one investment, and the average number of investments per individual is 2.33. The investments completed were generally rather small, on average just over €6,000 and only 4% of investments are larger than €100,000.

Concerning the **investment stage**, the Lund study indicated that seed and start-up stage represented 48% of the total investments while a quite high 33% concerned expansion stage. According to Avdeitchikova, about 59% of investments were in the early stages of a company's development (seed, start-up and early growth). Both studies indicate a relative focus on the expansion stage when compared against data from other countries.

<sup>164</sup> Sofia Avdeitchikova (2008): On the structure of the informal venture capital market in Sweden: developing investment roles, *Venture Capital: An International Journal of Entrepreneurial Finance*, 10:1, 55-85

<sup>165</sup> The definition used was : individuals that had, within the previous five years, made non-collateral investments in unquoted companies to which they did not have any family connections,

<sup>166</sup> SVCA, Business angels – a complement to formal private equity, <http://www.svca.se/en/Our-members/Angels-venture-and-buyout--who-is-who/Business-Angels/>;

<sup>167</sup> Nils Månsson & Hans Landström (2006): Business angels in a changing economy: The case of Sweden, *Venture Capital: An International Journal of Entrepreneurial Finance*, 8:4, 281-301

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**Table 7: Summary table of estimates of total Business Angel market and key characteristics**

	Investors survey (Mansson & Landstrom, 2004)	Population survey (Avdeitchikova, 2004)
Business angels	894 (identified)	3,000-5,000 (estimate)
% of female in total	4%	19%
Total market size (€ million/year)	335	385-450
Number of investments/year		7,500
Share of seed/start-up finance	48%	59%
Investments per individual	5.6	2.3
Amount invested per individual in last 5 years	€50% in the €0.05-€0.5 million range	
Total amount invested/individual		92% less than €100,000
Average investment size		€6,000

The studies presented do not offer extensive information concerning the membership (or not) of investors in BANs. However, on the basis of the information provided earlier, we can estimate that the Business Angels in networks represent 10-20% of the total number of informal investors (depending on the number of Business Angel members adopted) and the total amount of €21-30,000 invested around 5-15% of the total size of the market.

## 2.3 Exits and exit strategies

Exit from investment is a key issue for Business Angels. Our discussions with Business Angel representatives and Tillväxverket suggest that this is still problematic. According to the representative of Connect Skana, Business Angels often end up in participating in second and third rounds of investment in the absence of alternative exit route options.

The existing studies do not provide information on the exit strategy of Business Angels. According to the Mansson and Landstrom database of Business Angels, the average investor in 2004 had seen the companies in which he or she invested go bankrupt 1.1 times and made 1.5 exits during the previous five-year period. Data for 2003 and 2006 provided by SVCA<sup>168</sup> indicate that trade sales represent the most common exit route while bankruptcy/liquidation is also a very common outcome. In 2003, out of the 109 exits reported in the survey, 54% ended up in bankruptcy/liquidation while around 40% included sales to financial or industrial buyers<sup>169</sup>. 2006 data provide a more positive picture with around 65% of exits reported based on trade sales and only 18% ending to bankruptcy. The SVCA data show that the IPO route accounts for less than 10% of exits in 2006 and close to 5% in 2003. Still, according to a Connect representative, the specialised Swedish equities market targeting growth oriented SMEs - Aktietorget<sup>170 171</sup> - is well placed to provide an effective exit route<sup>172</sup>.

<sup>168</sup> Nils Månsson (2007), Swedish Business Angels, Presentation in the German Business Angel Day, [www.business-angels.de/DWD/\\_111327/upload/media\\_5609.ppt](http://www.business-angels.de/DWD/_111327/upload/media_5609.ppt)

<sup>169</sup> The high bankruptcy rates may be due to the fact that this period coincided with the dot-com crash.

<sup>170</sup> Aktietorget, <http://www.aktietorget.se/AboutGeneral.aspx>

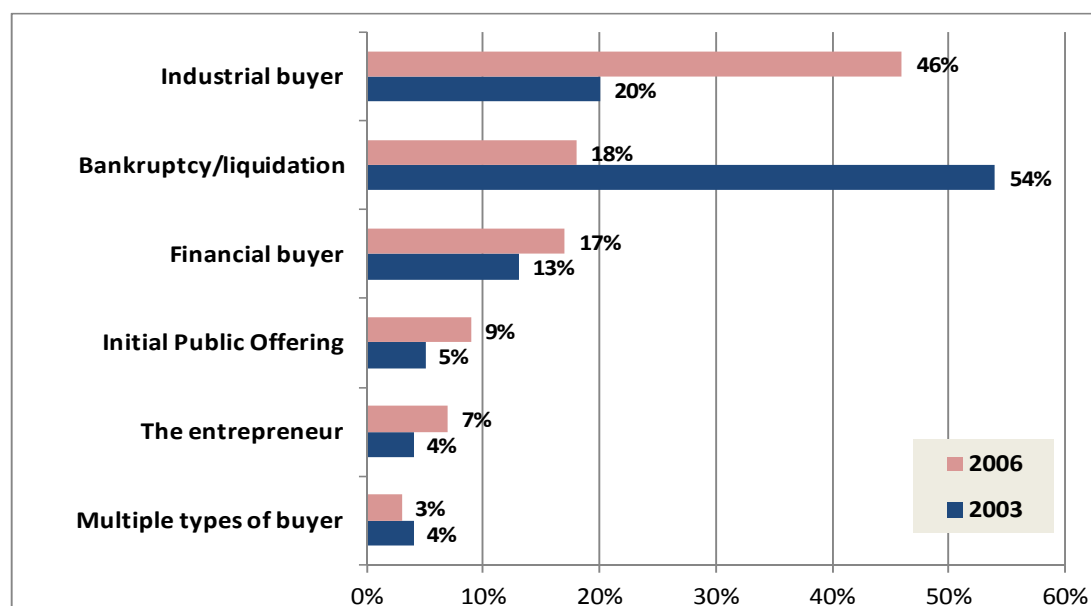
<sup>171</sup> There are currently 125 firms listed in Aktietorget with market capitalisation ranging from €1-100 million.

<sup>172</sup> No additional information was found to help assess the number of IPO for firms supported by Business Angels and to help assess the effectiveness of Aktietorget as an exit route option.

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Chart 1: Common exit routes for Business Angels



Source: SVCA

## 2.4 Other market characteristics

### *Business Angels characteristics*

The two studies cited above provided additional information on the characteristics of Swedish Business Angels. In general, Business Angels have a fairly high income by Swedish standards: 49% have an annual household income of over €111,000 while 10% have a household income in excess of €444,000 per annum. Their average wealth is €16.1 million while the median wealth around €2.2 million.

Swedish Business Angels are generally experienced investors with a history of 11 years of informal investments. They had, on average, made 5.6 investments each within the past 5 years and the majority of them (66%) have invested less than €0.5 million in total in the last 5 years. The great majority (91%) of investments are in syndicates. Swedish Business Angels are also highly entrepreneurial, as over 90% have started a minimum of one company. Of those who have started companies, the median number of start-ups is three while the average number is 4.4.

Another finding (Avdeitchikova, 2008)<sup>173</sup> is that Business Angels may have different forms of contribution to the firms supported. The study differentiated between:

- Micro-Investors that provide low investment and low skills;
- Fund managers offering large investment but limited skills support;
- Mentors: low investment, high skill;
- Business Angels: large investments and high skills.

<sup>173</sup> Avdeitchikova (2008), On the structure of the informal venture capital market in Sweden: developing investment roles, *Venture Capital*, Vol. 10, No. 1, January 2008, 55–85



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## Female Business Angels

The existing studies on the Business Angels market provide only limited information on the share of female Business Angels. The population-based survey of Avdeitchikova indicated a total share of female informal investors of around 19%, imply a total number close to a total of 1,000. However, the data from Mansonn and Landstrom study indicated a much lower share, around 4% of the total. The data from the EBAN survey indicated a female share of 7.4% while SCVA suggested a total of 5-10%<sup>174</sup>. No additional information on the activities of female Business Angels, such as sector focus, average investment size was available.

## Regional distribution

As regards the **regional distribution** of Business Angels in Sweden, Mansonn and Landstrom (2006)<sup>175</sup> found that over half of the investments (53%) of Business Angels were in companies located within geographical proximity – less than 100 km – from the investor. A second study of Avdeitchikova (2007)<sup>176</sup> corroborates this conclusion indicating a concentration of informal investment in the metropolitan regions of Stockholm, Gothenburg and Malmo (70-80%) – in line with the concentration of population and economic activity - followed by some university cities (20%).

## 2.5 Quality of data sources

While allowing for a number of general estimates concerning the size of the Business Angel market, the available data for Sweden are more than 5 years old. Furthermore, the data available has been collected mainly through one-off exercises rather than systematically repeated exercises that would allow for a monitoring of the development of the Business Angel market over time. The activities of Business Angels in networks are more frequently monitored via SVCA but, again, there is no systematic monitoring of activities beyond the data sources provided by a small number of BANs through the EBAN study.

It would clearly be useful to update and extend the database of 894 Business Angels created as part of the study of Mansson and Landstrom. This could be used to provide a panel basis for monitoring trends over time and providing a reliable source data. Population surveys conducted by Avdeitchikova may also be informative – as they allow for an extrapolation to the general population – but are time consuming and expensive and can only be conducted in long intervals.

## 3 - SME access to finance

This section reviews the available information on the access of Swedish SMEs to finance and the role of Business Angels.

<sup>174</sup> Nils Månsson (2007), Swedish Business Angels, Presentation in the German Business Angel Day, [www.business-angels.de/DWD/\\_111327/upload/media\\_5609.ppt](http://www.business-angels.de/DWD/_111327/upload/media_5609.ppt)

<sup>175</sup> Nils Månsson & Hans Landström (2006): Business angels in a changing economy: The case of Sweden, *Venture Capital: An International Journal of Entrepreneurial Finance*, 8:4, 281-301

<sup>176</sup> Sofia Avdeitchikova (2009): False expectations: Reconsidering the role of informal venture capital in closing the regional equity gap, *Entrepreneurship & Regional Development: An International Journal*, 21:2, 99-130



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## 3.1 Overview

According to the recent Small Business Act Fact Sheet for Sweden<sup>177</sup>, the level of access to finance for SMEs seems to be better than the EU average on most aspects considered. The share of unsuccessful bank loan applications by SMEs is lower in Sweden than in other EU countries. Moreover, banks in Sweden – which traditionally represent the most common and important source of finance for SMEs (Cressy and Olofsson, 1997; Klagge and Martin, 2005) – appear to fulfil their role of providing loans. There is a lower share of unsuccessful loan applications and a smaller share of firms indicating a deterioration in the willingness of banks to provide them with a loan. Having said that, Swedish SMEs wishing to take up loans of less than €1 million have to pay more interest than on bigger loans compared to similar firms in other EU countries (a 38% difference in Sweden compared to 24% in the EU as a whole). Furthermore, access to bank loans has been made more difficult by the new collateral rules of 2005, which worsens the position of banks in case of bankruptcy. In terms of access to equity, the Fact Sheet also suggests that in Sweden venture capital is more readily available than in the EU. However, there are important differences at the regional level<sup>178</sup> as VC firms are concentrated in the metropolitan regions of Stockholm and Gothenburg.

**Table 8: Access to finance for SMEs – Comparison of key indicators for Sweden and EU**

Indicator	EU average	Sweden
Share of bank loan applications by SMEs that were not successful, 2009	23%	14%
Access to public financial support including guarantees (% that indicated a deterioration)	22%	5%
Willingness of banks to provide a loan (%share that indicated a deterioration)	30%	15%
Relative difference in interest rate levels between loans above 1 million EUR and loans below EUR 1 million, 2010	24%	37.60%
Venture capital investments - early stage (% of GDP), 2009	0.01%	0.04%

Source: SBA Fact Sheet

The above positive picture is replicated in a recent study by the Swedish Agency for Economic and Regional Growth (Tillväxtverket)<sup>179</sup> which found that access to loans and credit does not appear to be a major obstacle to the growth of SMEs. Furthermore, according to the Nordic Entrepreneurship Monitor (2010), "[regarding] the access to early-stage venture capital Sweden is second to none". The data indicate that, in relative terms, Sweden is among the top countries in terms of access to venture capital – especially in relation to early stage capital. The data from the Global Entrepreneurship Monitor<sup>180</sup> also indicate that the informal venture capital market has developed rapidly since

<sup>177</sup> EU (2011), SBA Fact Sheet- Sweden 2010/2011, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/sweden\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/sweden_en.pdf)

<sup>178</sup> Bjorn Berggren and Lars Silver (2010), Financing entrepreneurship in different regions -The failure to decentralise financing to regional centres in Sweden, Journal of Small Business and Enterprise Development Vol. 17 No. 2, pp. 230-246

<sup>179</sup> Tillväxtverket (2012): Opportunities and Obstacles to Growth in Swedish SMEs, summary

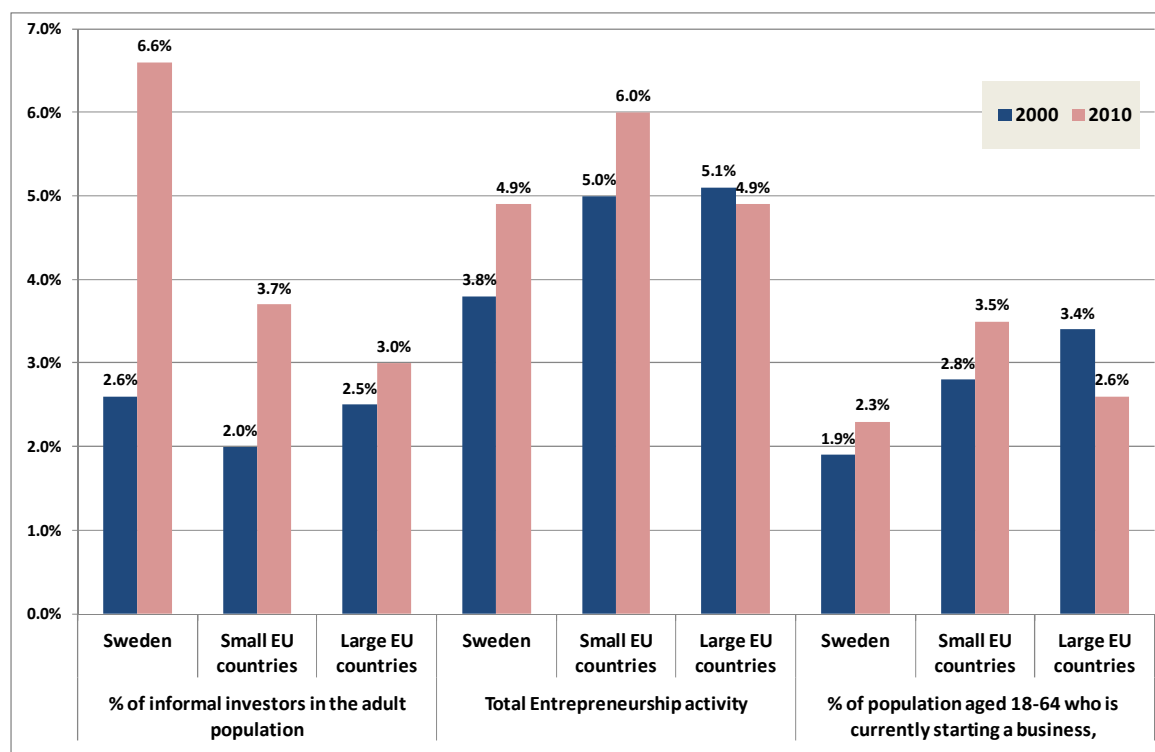
<sup>180</sup> GEM (2011), Entrepreneurship in Sweden, National Report 2011 (in Swedish)

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2000. While at the start of the period the proportion of informal investors in the adult population<sup>181</sup> was similar to the EU average – around 2% - it has increased, especially after 2005, reaching a total of 6.5% in 2009, 2-2.5% higher than the EU average. However, the GEM data suggest that the increased availability of informal investment has not coincided with an increase in entrepreneurship activity in the respective period as expressed by the Total Entrepreneurship Activity<sup>182</sup> indicator or the share of the population starting a business.

**Chart 2: Evolution of entrepreneurship activity and share of informal investors in Sweden and EU**



Source: GEM

In contrast to the above statements, according to a 2009 report from the Nordic innovation Centre<sup>183</sup> there has been a substantial decrease of the number of venture capital investments since 2007, particularly in relation to initial stages with much greater focus on later stage follow-on investments. Business Angels were recognised as an alternative source but, as suggested in the report, the financial crisis had had a negative impact and the amount of capital invested has decreased due to the recession<sup>184</sup>.

<sup>181</sup> Percentage of population aged 18-64 who personally provided funds for a new company, started by someone else, over the past three years.

<sup>182</sup> Percentage of population aged 18-64 who is either an entrepreneur in the making or own and manage a new business.

<sup>183</sup> Nordic Innovation Centre (2009), Challenges and Initiatives for the Nordic Seed Stage - Promoting a common Nordic seed capital market, [http://innovationsbron.se/wp-content/uploads/2012/04/Challenges\\_and\\_initiatives\\_for\\_the\\_nordic\\_seed\\_stage\\_final\\_report1.pdf](http://innovationsbron.se/wp-content/uploads/2012/04/Challenges_and_initiatives_for_the_nordic_seed_stage_final_report1.pdf)

<sup>184</sup> No specific data are provided in the study

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Considering the role of Business Angels' finance for SMEs, Berggren and Silver's (2010)<sup>185</sup> survey of Swedish SMEs in the manufacturing and professional services sector provides information on the importance of different sources of finance in Sweden. For the majority of respondents, bank loans remain the main source of finance (64% of firms indicating as the most important source of finance), followed by industrial partners (11.7%). Business Angels and VC are less important and considered as the main source for 4.2% and 3.5% respectively. However, among SMEs in metropolitan regions - that were also typically younger and more growth-oriented - Business Angels have had a greater role as a source of finance (6.5%). Furthermore, while around 8% of the total respondents indicated that they approached a venture capital firm and 6.5% a Business Angel over the last three years, only 2.2% ended up using VC funding in comparison to 5% that used Business Angels' support. Among firms in metropolitan regions of Stockholm and Gothenburg, a higher percentage (9.6%) had approached Business Angels and 7.6% actually ended up using their support. The results indicate that Business Angels are an important source of finance for a sizeable number of SMEs, particularly among the growth-oriented and dynamic firms. We should note that the survey sample is comprised of firms that are well established with an average age of 14 years. Thus, the responses may under-represent the total demand for Business Angel finance which is more fitting to newly created firms in the seed or start-up stage.

### 3 - Public support for Business Angels

In this section we examine the existing support schemes for Business Angel financing in Sweden and, on the basis of available information, provide an assessment of their performance.

#### 4.1 Direct support measures

The Swedish government has had a direct role in the development of the domestic venture capital industry. The first venture capital fund was established in 1973 as a collaboration between the government and the private sector. By the mid-1980s, the number of private and public venture capital funds were 20 and 30, respectively. For example, *Företagskapital* was created in 1973 by the government together with merchant banks. Regional development funds and corporations were also launched during this period.

In comparison, in the case of Business Angels the role of the Swedish government has been less direct. According to Silver (2008) while certain legislative proposals and programmes had a bearing on Business Angels, they have not been a priority objective of the Swedish government and the relevant government agency (Tillväxtverket- former Nutek) has not assumed the promotion of Business Angels as an explicit objective. Our own discussions with Tillväxtverket support this view although, as suggested, there is currently a renewed focus through a number of support programmes in the pipeline.

There are currently no targeted **tax breaks** or other relevant tax schemes supporting investments by Business Angels. The basic capital gains tax rate in Sweden is 30% for individuals – with two more rates at 50% and 55% - and 26.3% for corporations. Under certain circumstances, dividends received by

<sup>185</sup> Bjorn Berggren and Lars Silver (2010), Financing entrepreneurship in different regions - The failure to de-centralise financing to regional centres in Sweden, Journal of Small Business and Enterprise Development Vol. 17 No. 2, pp. 230-246

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individuals from private equities can benefit from a tax deduction<sup>186</sup>, although there are no similar provisions for venture funds or corporations. The Swedish government had in the past considered proposals to exempt companies investing venture capital in other companies from capital gains tax on any subsequent profits made in order to increase financial resources for re-investment. Tax deductions were proposed for private investors who channelled equity to small businesses, with a minimum holding period of five years. However, the proposals failed to stimulate sufficient interest in venture investments in small firms and the scheme was cancelled shortly after<sup>187</sup>. According to the information provided by the SVCA, no such tax break is available at this stage. Our discussions indicated that the government is currently considering the possibility of re-introducing a tax scheme.

The focus of policy has been on the promotion of BANs. Only a few networks existed in 2000, notably the Connect network that was established in 1999, transferring the experience of the CONNECT network in San Diego, USA. CONNECT currently has a number of regional branches across the country. NUTEK also supported the creation of the Swedish Business Angel Network (*SwedBan*) in 2001. This was a private entity organised in the form of an economic for-profit association. SwedBan was intended to create a number of local and regional platforms or forums for matching entrepreneurs and Business Angels and to provide angels with deal flows, opportunities to co-invest with other angels, and an exit to the formal venture capital market. Swedban ceased operating in 2005 and, since then, the Swedish Venture Capital Association was awarded a contract to support the operation of BANs networks. SVCA activities included the organisation of meetings within local networks, provision of support material to increase investment readiness and promotion of Business Angels' activity in the media. Following the expiration of the contract with SVCA, Tillvaxverket is currently considering revitalising the formation of a national association, this time through the incubator association.

In the past, NUTEK had supported the operation of Business Angels through initiatives like the *Cap Tec* project, where young companies in the early technological development phase presented themselves to potential investors, whether venture capital companies, Business Angels or corporate investors (OECD, Braygan, 2003)<sup>188</sup>. There is, however, no information available on the effectiveness of this initiative. Currently, Tillvaxverket is preparing the implementation of 7 projects focusing on education and improving investment readiness and improving matching.

In terms of the direct financial support, there is no scheme such as a fund of funds directly investing in BAs. The most relevant forms of support is through regional venture capital funds created with the support of the EU Structural funds. The first venture capital funds were set up in 2005 with three pilots in three regions (West Sweden, Gotland and Mid-North Sweden). The regional companies of ALMI *Företagspartner*<sup>189</sup>, a non-profit limited company fully owned by the Swedish state, set up subsidiaries (ALMI INVEST) that managed the partnership funds. The pilots were structured to promote a change from being a passive partner to an active private co-investor and were completed in 2008 with a total of

<sup>186</sup> According to EBAN database of existing tax schemes, investments made through a limited liability company, capital gains and dividends from investments in unquoted shares, or quoted shares if the holding represents at least 10 % of the total votes, are tax free.

<sup>187</sup> OECD report

<sup>188</sup> Baygan, G. (2003), "Venture Capital Policies in Sweden", OECD Science, Technology and Industry Working Papers, 2003/11, OECD Publishing, <http://dx.doi.org/10.1787/784213407652>

<sup>189</sup> ALMI *Företagspartner*, a non-profit limited company fully owned by the Swedish state. ALMI *Företagspartner* has 19 regional offices (subsidiaries) in Sweden. These are 51% owned by the Swedish state and 49% by regional public authorities. The main focus of ALMI *Företagspartner* is the provision of finance -mainly in the form of loans- to SMEs. At the same time it provides business advice services.

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71 investments totalling SEK 112 million (€13 million) in 62 companies. The investments were made in conjunction with 49 partners.

In 2006, the European Investment Fund (EIF) carried out an analysis of the opportunities to enhance SMEs' access to capital through the JEREMIE initiative on the basis of a requirement of both national public co-financing and private co-financing. Eventually, the Structural Fund partnerships of the eight programme areas and the Swedish Agency for Economic and Regional Growth invited financing actors to apply for ERDF funds for regional venture capital funds aims to create revolving financing tools for equity. Twelve regional venture capital funds were created covering 8 regions of the country. ALMI Invest regional subsidiaries manage 8 of the 12 funds and the remaining are managed by other regional public-private partnership organisations. The total investment – public and private – for all 12 funds has reached SEK 2.2 billion<sup>190</sup> (€256 million).

Finally, Innovation Bridge (Innovationbron<sup>191</sup>) is a state-owned limited company with seven regional offices that provides equity capital and business support to newly created firms in the form of equity capital. The Innovation Bridge is mainly oriented towards young firms (or even firms not yet established). The main aim of the support is the commercialisation of research and innovation through the provision of venture capital via their investment subsidiaries (Teknoseed AB, Uppsala Seed Capital and Innovationsbron Rendra Sådskapital AB) and through advice and help with research-based firm formation and development. The Innovation Bridge has a clear focus on innovation and follows a high-risk strategy through an explicit focus on new, previously non-existent technologies. Investments are typically around €250,000 and may, but need not, be matched by other investors. Innovation bridge does not focus on co-investments with Business Angels but, as in the case of ALMI Invest, it can often operate as a guarantee and help spread the risk of individual investments.

## 4.2 Evaluation of public support for Business Angels

There has been no formal assessment made of the above support schemes. One relevant source is the 2008 review by Lars Silver<sup>192</sup> that assessed the work of NUTEK (currently Tillväxtverket). As a general observation on Swedish policy towards Business Angels, Silver concluded that there had been no uniform policy from the government and that the work of NUTEK has been largely experimental in nature. The study also notes that while a number of legislative proposals on industrial policy have had a bearing on Business Angels, they were not explicitly addressed in any of them.

The overall assessment of the approach followed by NUTEK was that the relatively limited resources dedicated have been effectively utilised. The support provided for the development of BANs is considered by Silver - and our own interviewees - as rather positive, and critical for the development and the survival of some of them. BANs are generally considered as effective even if they cover only a small part of the total number of Business Angels (no more than 15%). According to the representative of CONNECT Skane, the main contribution of the BANs is to filter the deal flows and support Business

<sup>190</sup> Tillväxtverket (2011), Mid-term evaluation of regional venture capital funds implementation and lessons learnt, [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/evalsed/evaluations/sweden/files/1111\\_sweden\\_venture\\_eval\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/evaluations/sweden/files/1111_sweden_venture_eval_en.pdf)

<sup>191</sup> <http://innovationsbron.se/investerings-kapital/>

<sup>192</sup> Silver, L., (2008), Utvärdering av Nuteks insatser och stöd för utveckling av regionala affärsängelnätverk samt nationell intresseorganisation för affärsänglar och affärsängelnätverk [Evaluation of Nutek's efforts and support for development of regional business angel networks and national association for Business Angels network], (in Swedish), <http://www.tillvaxtverket.se/download/18.21099e4211fdb8c87b800030531/Utv+Affnglar-slutrapport+27+juni.pdf>

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Angels' syndication that helps spread the risk of investments and represents more than 90% of total investments in BANs. In addition, Avdeitschikova<sup>193</sup> observed that, through their various activities and support services to entrepreneurs, BANs promote learning about Business Angels and contribute towards increased investment readiness, a necessary first step in strengthening the Business Angels' market. On the other hand, Silver concluded that not all networks created had the necessary size to build up solid and sustainable structures. Some of them were not successful on leveraging private sector funding and were fully invested after a brief period. Their viability depended on additional public funding. Outside the main metropolitan areas and the university centres, the demand for Business Angels' finance is limited and the viability of some BANs has proven problematic. Still, the support provided did help broaden the coverage across the country, a relevant aspect, given the importance of proximity for business angel investment.

As regards the venture capital funds created with the support of ERDF funding the main finding so far is that they have successfully attracted Business Angel investment, primarily as a result of the sharing of the risk and the professional screening process. The evaluation of the initial pilot initiatives of the period 2005-2008<sup>194</sup> suggested that venture capital funds largely achieved the objectives set. It was assessed that the venture capital funds stimulated the supply of capital to the regions. However, the distribution of investments was not even and some parts of the regions did not take part in any investment. The evaluation also concluded that the availability of business and financial expertise in the regions increased with the establishment of venture capital funds. The model for co-investments also worked well and responded to an existing need and was appreciated by fund managers, co-investors and companies. The function of co-investors seemed, in most cases, to provide companies with both expertise and networking while the recruitment of partners/co-financiers took place through networks which led to attraction of Business Angels in a large number of cases. It was also clear that regional and local knowledge was also an important success factor in the pilot funds' work. The fact that the venture capital funds had a regional basis and that they cooperated with investors from their own region meant that the parties could obtain good knowledge and insight into the invested company and in the entrepreneur as a person.

The currently running funds (period 2009-2014) are experiencing a great deal of interest from companies in the region and the inflow of new objects is considered as rather good even though not all proposals meet the requirement for high growth and potential for exit with 4-7 years. Up to the end of 2011 the venture capital funds had received 1,467 investment proposals and made investment decisions in 124 companies with a total investment of SEK 786 million (€93 million), SEK 458 million (€54 million) being private co-finance. The majority of the funds have so far invested in accordance with, or close to, the investment plan but 4 of them require additional efforts to achieve the targets set. In terms of the firms support, start-up and early stage represent the majority of firms invested (around 60%) with ICT representing around 40%, industrial 23%, trade and life sciences 13% each.

The key point from the Business Angels market perspective is the fact that more than 55% of co-investors were Business Angels while 36% were VC investors. The main contribution of the VC funds – and the main attracting element – is the sharing of the risk, the expertise and professionalism brought to the investments, the thorough due diligence conducted and the simplification and standardisation of

<sup>193</sup> Input from interview

<sup>194</sup> Tillväxverket (2011), Mid-term evaluation of regional venture capital funds implementation and lessons learnt, [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/evalsed/evaluations/sweden/files/1111\\_sweden\\_venture\\_eval\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/evaluations/sweden/files/1111_sweden_venture_eval_en.pdf)



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contractual procedures. Furthermore, the evaluation indicated that the cooperation with the venture capital funds increased their knowledge, skills and ability to implement investments (71% of respondents), extend their network (66%) and their knowledge about investment opportunities in the region (around 52%). In terms of the additionality of the venture capital funds investment, 45% of co-investors said they would probably not have implemented the investment and 10% that they probably would have implemented a smaller investment. On the other hand, 42% considered that they would have invested about the same amount, but in the latter case without the venture capital fund's co-investment. Thus, the initiative has so far led to an increased volume of investment for about half of respondents.

According to the representative of Connect, the key added value for Business Angels comes through the *screening of the business proposals, the quality assurance that is provides to any potential Business Angel and the capacity to spread the investment risk*. Indeed the data for 2010 indicate that more than half of the co-investors - in a total of over 90 deals - were Business Angels, either as individuals or in the form of syndicates<sup>195</sup>.

Finally, concerning the effort to create a national association of BANs, Silver refers to problems of operational efficiency that led to its closure. Silver also points to scepticism by some Business Angels of the potential added value of the presence of a national association since most Business Angels prefer to remain anonymous or develop their own networks at the regional level. On the other hand, it is recognised that a dedicated organisation can promote the specific interests and needs of Business Angels in the policy making process. In that respect, the appropriateness of transferring the responsibility for the operation of the national network to SVCA - the national Venture Capital Association - is questioned. Silver, as well as the representative of Connect and Tillvaxverket, questioned the appropriateness of subordinating angels under the Venture Capital association due to the different focus and interests of the two types of activities - different size of investment, different stages in the firms' life cycle. From the SVCA side, the involvement of SVCA provided the opportunity for greater cooperation and the development of a bridge between Business Angels and VCs activity. However, Silver's (2008) review suggests that this bridge is more theoretical than practical and no specific data of such cooperation or other information was made available to indicate that this bridge is indeed working.

The following table summarises the main features of the direct and indirect support policy support measures related to Business Angels as well as the conclusions in relation to their contribution to the development of the Business Angels' market on the basis of the available feedback.

<sup>195</sup> <http://www.slideshare.net/googlehumano/first-results-of-the-survey-on-european-early-stage-venture-capital>

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Table 9: Main public policy measures for the promotion of Business Angels in Sweden

Type of support	Main features	Main conclusions on the basis of existing information
<b>Support of Business Angels networks</b>	Financial support for the creation of Business Angels networks in different regions	Contribute to extending supply of Business Angels capital beyond capital areas Some contribution to awareness raising and support investment readiness Positive role in syndication
<b>Creation of a national association of Business Angels</b>	Creation of a national BANs association to represent the interests of Business Angels and organise meeting and other promotion activities (through the national Venture Capital Association)	Limited/problematic viability Added value rather marginal Different views on the need of such an organisation and the appropriateness of involvement of VC association
<b>Public sector supported equity finance schemes</b>	Venture capital funds scheme providing equity to early stage firms and requiring matching from private investors – not direct support to Business Angels	Significant number of investments so far with high level of leverage (additionality) and no evidence of crowding out. High level of Business Angel attractions (main co-financers) Positive role as quality assurance and risk spread for Business Angels. Viability of some funds in less developed regions is questionable



# National reports: UK

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This annex contains a summary of data obtained in respect of the activities of Business Angels in the UK.

## 1 - Introduction : Overview of the UK business angels' market

The visible sector of the Business Angel market in the UK differs throughout the country. There are two main Angel Federations.

The **British Business Angel Association** covers the whole of the UK, but in practice operates principally in England and Wales. Its members include networks of Angels (17 networks are listed as members<sup>196</sup>). More recently it has become involved in the organisation of syndicates of Angels, including the operation of a Co-investment fund. Overall its membership includes almost 100 organisations, including over 20 early stage venture capital funds, as well as professional service providers and advisers, including accountancy and law firms, corporate finance, banks, regional development agencies, universities and public policy-makers.

The position in **Scotland** is different where there is a much greater emphasis on syndicates. **LINC Scotland** is the main federation and they see their role as to: *"Support and improve the working of the business angel environment in Scotland. At individual deal level, we focus on improving the efficiency of the 'process' by making targeted introductions to well matched business angels among our members. These include most of the well known syndicates and hundreds of individual investors who prefer less public visibility"*<sup>197</sup>

LINC has been established since 1993 and the Scottish Business Angel marketplace is now amongst the most developed in Europe. LINC supports the emergence and formation of structured Business Angel syndicates. There are 13 funding groups who are members of LINC, mainly large syndicates. Archangel Informal Investment<sup>198</sup> (formed 1992) and Braveheart Investment Group<sup>199</sup> (formed 1997) are amongst the longest established Business Angel syndicates in Europe.

Most studies suggest that a large amount of the market does not go through either the syndicate or network model, and is composed of direct investments by individuals. The most comprehensive recent studies of the UK market are the annual reports on the Business Angel Market in the UK by Mason and Harrison<sup>200</sup>. The latest report covers the period to March 2010 and was published in 2011. It appears that the series will not continue.

## 2 – Business Angels market data

### 2.1 Visible market

Data on the visible market in the UK must be considered in the context of the differing systems in Scotland and the rest of the UK. Scottish investors are generally organised in syndicates rather than networks, so data for the UK on the number of networks is not comparable with other countries. Some data is available from returns made to EBAN for 2010 (UK information is generally provided for the year

<sup>196</sup> <http://www.bbaa.org.uk/member/directory?type=1>

<sup>197</sup> <http://www.lincscot.co.uk/about-us>

<sup>198</sup> <http://www.archangelsonline.com/>

<sup>199</sup> <http://www.braveheart-ventures.co.uk/>

<sup>200</sup> Accessible at <http://www.bis.gov.uk/assets/biscore/enterprise/docs/a/11-p116-annual-report-business-angel-market-uk-2009-10>

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to 31<sup>st</sup> March when the national fiscal year ends). The most comprehensive source of UK data is the annual report on the Business Angels Market<sup>201</sup> by Mason and Harrison. The last available report is for the year to 31<sup>st</sup> March 2010. The reports provide some information for the whole of the UK market, as well as detailed breakdowns by constituent country within the UK.

The first table provides data largely based on information from the BBBA, i.e. excluding Scotland where Angels are largely organised in syndicates.

**Table 1: Business Angels Networks in the UK– Data from EBAN 2010 surveys and for the total of Business Angels’ Networks**

Parameter	EBAN survey numbers
Number of networks	22
Number of members (investors)	537
- Of which, number of active business angels	177
Average number of investors per network	24
Total number of women Business Angels (% of total)	30
Number of angel investors recruited by BANs in 2010	57
Number of women investors recruited during 2010	8
Number of angels who have left the networks	67
Average number of angels per investment round in 2010	3

Source: EBAN and CSES elaboration, Mason and Harrison

EBAN data provide also information on the investment activity. The table below is based on the same sources, but also provides some estimates for the UK as a whole based on research by Mason & Harrison.

**Table 2: Business Angels’ investment in networks: Type and volume in UK in 2010**

Indicator	EBAN data	Total (estimate) <sup>202</sup>
Number of business plans received		
Number of business plans submitted to angels	115	
Number of deals made through the network	127	316
Number of new companies financed	40	
Number of investors that made investment in companies presented through the network		
Number of follow-on rounds	4	

<sup>201</sup> Annual Report on the Business Angels Market in the United Kingdoms, Mason & Harrison

<sup>202</sup> Estimates are based on the ratio of total BANs to BANs in the survey.

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Total amount invested by angels through BANs (€)	€18 million	€73 million
Average amount of the deal (€)	142500	
Average amount per angel investor	25000	
Total amount invested – including co-investors	57170000	

Source: EBAN and CSES elaboration

A breakdown of investment by sector is shown below. As in other countries, there is substantial investment in technological sectors.

**Table 3: Percentage breakdown of Business Angel investment by sector (2010)**

Sector	% in total number of deals	% in total amount invested
ICT	26.34	43.67
Mobile - including software and service applications	0.56	1.73
Biotech and Life sciences	23.53	19.86
Health Care and Medical technologies	11.44	11.23
Energy/ Environment and Clean-tech	9.37	7.58
Creative Industries	5.83	4.45
Retail and Distribution	0.91	1.58
Finance and Business Services	0	0
Manufacturing	18.65	8.17
Other	3.37	1.73

Source: EBAN survey (2010)

The EBAN survey also supports the generally held view that Business Angels tend to invest in firms in their proximity with the majority (around 73%) of deals in 2010 concerning firms in the region where the respective BAN was located.

**Table 4: Geographical concentration of Business Angels' Investment – share of deals by location of recipient firm**

Location of recipient firm	% of deals
In the region where the Network is located	72.87
In the same country, but not in the same region	22.47
Cross-border in Europe	2.60
Outside of Europe	1.40
Not known	0

Source: EBAN survey

The EBAN data suggest that Business Angels in BANs tend to focus on early stages (pre-seed, seed, early stage and start-up) of the firms life cycle, representing 79% of the deals in 2010. However, a significant 19% is also invested in the second round expansion stages.

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**Table 5: Business Life Cycle Stage of Investment**

Stage of investment	Share in total (%)
Pre-seed	0
Seed	7
Early stage and start-up	72
Expansion	19
Pre-IPO	2
Buy-out and turnaround	0
Other	0

Source: EBAN Survey 2010

Finally, according to the EBAN survey Business Angels tend to co-invest with other Business Angels inside or outside their own network but also with other early stage or VC funds.

**Table 6: Level of Business Angel Co-investment**

Co-investors	Share in total (%)
Business Angels inside the network	95.24
Business Angels outside of the network	6.02
Early stage fund	3.90
Venture capital fund	0.90
Family office	17.78
Institutional investors	0.59
Other investors	57

Source: EBAN

## 2.2 Data on non-visible business angels' market

Data on the non-visible market in the UK, as in other countries, is difficult to estimate. However, there has been a series of annual reports on the business angels market in the UK by Mason and Harrison which provide some overall market estimates, shown in the table.

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**Table 7: Summary table of estimates of total Business Angel market and key characteristics**

	Estimate on the basis of the various sources
Number of Business angels (estimate)	25000
% of female in total	
Total market size (€ million/year)	£317m (€381m)

## 2.3 Quality of data sources on business angels in the UK

Whilst the UK market for Business Angels is relatively well researched, data on the activities of Angels and in particular those who do not participate in the visible market is hard to come by. There are a large number of reports on small business financing and it would not be possible to list more than the key sources.

There have been two annual reports on the Business Angels market in the UK by Mason and Harrison, which draw together data from other sources and in addition provide some survey data. The main national federations in the UK (BBBA and LINC) provide data on the visible market, although the data provided to EBAN by BBBA for 2010 was much less complete than in previous years.

As far as small business financing as a whole is concerned, quantitative data comes from the small business financing surveys carried out by the Department for Business Innovation and Skills (BIS), the relevant UK government department. There are also important studies carried out for Scottish Enterprise, bearing in mind the different nature of the Angel market in Scotland.

## 3 - SMEs' access to finance in the UK

This section assesses the contribution of UK Business Angels to SMEs' access to finance and the effectiveness of Business Angel finance in bridging the equity gap in the seed and start-up phases of the SME development.

### 3.1 Overview

There has been continuing research in the UK into the provision of risk and growth capital for SMEs, and into potential market failures in the provision of such capital. Almost all studies find that there is a lack of such capital provision.

One of the most recent government sponsored studies was the Rowlands report into The Provision of Growth Capital to UK Small and Medium Sized Enterprises<sup>203</sup>. The report found that there was a gap in the provision of equity capital in the range between £2 million (€2.5 million) and £10 million (€12.5 million). As far as business angels are concerned, this is likely to be at the top end of the range of funding they could contribute to. As the report says :

<sup>203</sup> Accessed at [www.bis.gov.uk/files/file53698.pdf](http://www.bis.gov.uk/files/file53698.pdf)

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*“Drawing on two separate data sources, we estimate that there are 25,000 - 32,000 UK businesses that are growing and/ or restructuring and with characteristics that may make them suitable for growth capital. Our analysis suggests that up to 5,000 of these firms per annum will be viable SMEs which are likely to experience significant problems in accessing capital as the economy emerges from recession. It is likely that those SMEs which are seeking to access growth capital in amounts above £2million – the current upper limit of public/private provision – and below £10million – the minimum level at which private equity providers will fund – will face particular difficulties”*

### 3.2 Role of business angels

The UK government also carries out a periodic survey of small company financing<sup>204</sup>. The 2011 survey found that the majority of SMEs either used their own funding or obtained external funding. Of those seeking external funding, 74% were successful. But there were market failures and in particular an “equity gap affecting SMEs seeking between £250,000 to £5m of equity finance. There are also cyclical issues relating to the supply and demand of finance”. It was felt that very few venture capitalists invest below £5 million. Below the level of £250,000 friends and family, grants and business angels are the key sources.

According to Mason and Harrison<sup>205</sup>, below the level of £2 million (£2.5 million), there is more likelihood that business angels will make a significant contribution. Their view is that “Business angels have become by far the main source of risk capital for new and early stage businesses seeking amounts of under £2m. The paucity of venture capital finance means that business angels are also increasingly required to make follow-on investments in their portfolio companies. The public sector in various forms is also a significant source of funding in this space, both as a direct investor and also through co-investment funds which invest alongside business angel groups”

Overall, in the UK it seems clear that business angels play an important role in providing finance at an early stage. The existence of syndicates of Angels enables such syndicates to continue to provide finance in larger amounts

## 4 - Public support for business angels

In this section we examine the existing support schemes for Business Angel financing in the UK and, on the basis of available information, provide an assessment of their performance.

### 4.1 Direct support measures

This section discusses the main areas of support provided to Business Angels in the UK. The topics covered by the section include the following aspects of support:

- Tax allowances aimed at improving the supply of early stage risk capital;
- Direct support for Angel syndicates or networks;
- Other initiatives, in particular co-investment funds.

#### **Tax allowances**

The principal tax allowance schemes to support early stage risk capital are the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT). In addition, since April 2012 there has been a new

<sup>204</sup> Accessed at <http://www.bis.gov.uk/assets/biscore/enterprise/docs/s/12-539-sme-access-external-finance>

<sup>205</sup> Mason and Harrison, Annual Report on the Business Angel market in the UK, 2010

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scheme, the Seed Enterprise Investment Scheme (SEIS), aimed at the smallest companies. In all cases there are detailed rules and restrictions and investments can only be made in certain trades. Brief details of the schemes are shown below.

**Enterprise Investment Scheme** - EIS provides tax relief to individuals who invest in the shares of qualifying unquoted companies. Brief details of the scheme are shown below based on the scheme details<sup>206</sup> issued by HM Revenue & Customs, the UK tax collection department. The scheme provides the following reliefs to individuals:

- Income tax relief at 30 per cent of the cost of the shares. Relief can be claimed up to a maximum of £500,000 invested in such shares, giving a maximum tax reduction in any one year of £150,000;
- Any gain is free from Capital Gains Tax provided the shares are held for 3 years or more, and deferral relief in certain circumstances;
- If the shares are disposed of at a loss, the loss, less any Income Tax relief given, can be set against income instead of being set off against any capital gains.

Companies which can use EIS:

- Must not be quoted on a recognised stock exchange at the time the shares are issued (alternative markets such as AIM are not recognised exchanges);
- Must not be controlled by another company;
- Must be a small company;
- Must have fewer than 50 full-time employees.

Companies are not allowed to raise more than £2 million in any 12 month period from the venture capital schemes, and there are restrictions on the type of trade that qualifies.

**Venture Capital Trusts** - A VCT is a company, broadly similar to an investment trust, which has been approved by HMRC and which invests in small unquoted companies. The VCT Scheme is designed to encourage investment in small unquoted companies. Individuals invest by holding shares in a VCT. The VCT invests in a spread of small unquoted companies, enabling investors to spread their risk, just as they do by holding shares in an ordinary investment trust company.

An approved VCT has a number of tax advantages<sup>207</sup>:

- the VCT is itself exempt from CT on chargeable gains (and losses for chargeable gains purposes are not allowable losses);
- individual investors can claim income tax relief on subscriptions;
- individual investors are exempt from income tax on dividends;
- individual investors are exempt from Capital Gains Tax.

**Seed Enterprise Investment Scheme** - The UK government has planned an additional new relief, the Seed Enterprise Investment Scheme (SEIS)<sup>208</sup>. The new relief comes into effect for investments made on or after 6 April 2012. This relief is specifically targeted at Business Angels investing in very small start-ups.

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<sup>206</sup> The HMRC guidance was accessed at <http://www.hmrc.gov.uk/eis/guidance.pdf>

<sup>207</sup> The HMRC guidance was accessed at <http://www.hmrc.gov.uk/manuals/vcmmanual/VCM60020.htm>

<sup>208</sup> The HMRC guidance was accessed at <http://www.hmrc.gov.uk/seedeis/index.htm>

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The relief offers income tax relief at 50% on the amount subscribed for ordinary shares (although there are provisions to permit certain preferential dividend rights) up to a limit of £100,000. As with EIS, gains on the Seed EIS shares will be exempt, providing certain conditions are met. Additionally capital gains made in 2012/13 that are reinvested into seed EIS shares will themselves become exempt.

The target company can raise no more than £150,000 in total under Seed EIS. It must be a small company; one with less than 25 employees and assets less than £200,000 immediately before the share issue. Additionally it must have been incorporated in the two years before the share issue and be carrying on a new trade.

The UK government issued a consultation paper before finalising SEIS and published the responses<sup>209</sup>. The main reasons for introducing an additional scheme are that:

- the gap between the risk of the business proposal and the risk the investor is willing to take is larger at this stage;
- that investments were moving away from seed stage companies; and,
- although EIS works well to encourage seed investment now, the planned changes to the amount companies can raise per year (to £10 million, subject to State aid approval) could make it more difficult for seed companies in future.

### Evaluation of EIS and VCT

An evaluation of the EIS and VCT schemes was carried out in 2007<sup>210</sup> by the Institute of Employment Studies. This focused on the performance of companies, rather than on the supply of capital. The study showed that, as far as companies were concerned, the conclusions were that *“Overall, these results indicate that EIS and VCT investments have a positive effect on capacity building in recipient companies. However, in material terms, these effects remain at present very small. There is some additional limited evidence of a profit enhancing effect. However, we also note that both schemes appear to be associated with differentials in performance depending on the size, age and sector of the recipient company.”*

Around 10,000 individuals invested through EIS in 2008-09, the last year for which figures are available and around 6,300 through VCTs.

### Direct support for networks or syndicates

In Scotland, the main association LINC Scotland receives a small amount of funding from Scottish Enterprise to help set up new Business Angel syndicates. This represents seed funding and after a short while syndicates have to pay their own costs. The establishment of new syndicates is a specific objective put on LINC. In other parts of the UK, a small amount of support was received from Regional Development Agencies although these bodies have now been abolished

### Co-Investment funds

There has been increasing use of co-investment funds as a means of improving the supply of early stage risk capital.

In the UK, the earliest use of co-investment funds were in Scotland. The Scottish Government and predecessor investment agencies had made use of ERDF funding for publicly supported venture capital funds such as the Edinburgh Technology Fund (ETF in 1999 and an evaluation published in July 2001

<sup>209</sup> Accessed at [http://www.hm-treasury.gov.uk/consult\\_tax\\_advantaged\\_venture\\_capital\\_schemes.htm](http://www.hm-treasury.gov.uk/consult_tax_advantaged_venture_capital_schemes.htm)

<sup>210</sup> Accessed at <http://www.hmrc.gov.uk/research/report44.pdf>



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found that they “*had facilitated better business propositions and ensured larger turnovers than would otherwise have been achieved*”.

The Scottish Co-investment Fund was established to provide capital to companies with high growth potential. The fund invests *pari passu* with private sector investors. SCF initially appointed, (after a tendering process), approximately 24 investment partners who bring deals to SCF. Partners were appointed after an advertisement to meet public procurement rules, and include both Scottish partners and others from the rest of the UK. One of the objectives of the fund was to attract investors to Scotland and this has been achieved. Two evaluations of SCF have been published. An evaluation by CSES of SCF<sup>211</sup> in the context of EU funding showed that the funds helped the local financial community and that the survey evidence suggests high additionality from SCF – lenders would not otherwise have accessed the funds. An evaluation for Scottish Enterprise<sup>212</sup> showed that the fund “*was attaining its objectives and was held in high regard by all parties: partners, investees, non-partner intermediaries and non-partner investors.*”

The SCF has since been developed to include three co-investment funds aimed at different sizes of investments. They are:

- Scottish Seed Fund - Funding from £20,000 to £250,000 for start-up and young businesses launching new products, entering new markets and increasing employment;
- SCF - Funding from £100,000 to £1 million for deals of up to £2 million between Scottish businesses and our private sector partners; and,
- Scottish Venture Fund - Funding from £500,000 to £2 million for deals between £2 million and £10 million between Scottish businesses and our private sector partners.

In 2010-11 the programme invested £23 million in 109 companies and leveraged £53.7 million of private sector investment. In the year there were seven exits producing £10.8 million of returns

In other parts of the UK there has been a recent extensive development of co-investment funds. An overview of funds has been published by Capital for Growth<sup>213</sup>, a UK government agency. From the point of view of Business Angels, The Business Angel Co Investment Fund<sup>214</sup> (Angel CoFund) has £50m available to invest alongside BANs or syndicates into eligible SMEs. The Fund operates by investing alongside and on the same terms as syndicates.

The Fund was created by a consortium of private and public bodies with expertise in Business Angel investment. It is a quasi-private sector body with clear objectives to boost the quality and quantity of Business Angel investing in England, and to support long-term, high quality jobs in high growth companies. Capital for Enterprise staff work with the fund to encourage strong proposals for investment to come forward from both established and emerging business angel syndicates around the country. The fund was launched in November 2011 and by May 2012 had committed some £7.2m in five investments.

There is also an extensive network of venture capital funds supported by UK public funding.

<sup>211</sup> Evaluation of the Scottish Co-Investment Fund and ERDF funding by CSES, accessed at <http://www.scotland.gov.uk/Resource/Doc/209231/0055411.pdf>

<sup>212</sup> <http://www.evaluationsonline.org.uk/evaluations/Browse.do?ui=browse&action=show&id=32&taxonomy=INV>

<sup>213</sup> <http://www.capitalforenterprise.gov.uk/portfolio>

<sup>214</sup> <http://www.angelcofund.co.uk/>

# Grossing up factors

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The sample of eight countries used in this study represents 69% of 2010 EU 27 GDP and 63.6% of the 2010 EU 27 population. In estimating data for EU 27 countries as a whole, we have grossed up the sample data using grossing up factors based on these percentages. The 2010 population and GDP data has been obtained from Eurostat as shown below.

**Table 1: EU 27 GDP and population, 2010**

	Gross domestic product at market prices		Population number	
	Millions of euro			
	EU27	Sample	EU27	Sample
Belgium	354,688		10,839,905	
Bulgaria	36,052		7,563,710	
Czech Republic	149,313		10,506,813	
Denmark	235,609		5,534,738	
Germany	2,476,800	2,476,800	81,802,257	81,802,257
Estonia	14,305		1,340,127	
Ireland	155,992		4,467,854	
Greece	227,318		11,305,118	
Spain	1,051,342	1,051,342	45,989,016	45,989,016
France	1,937,261	1,937,261	64,694,497	64,694,497
Italy	1,553,166		60,340,328	
Cyprus	17,334		803,147	
Latvia	17,975		2,248,374	
Lithuania	27,535		3,329,039	
Luxembourg	40,267		502,066	
Hungary	97,095		10,014,324	
Malta	6,123		414,372	
Netherlands	588,414	588,414	16,574,989	16,574,989
Austria	286,197		8,375,290	
Poland	354,582	354,582	38,167,329	38,167,329
Portugal	172,670		10,637,713	
Romania	124,059		21,462,186	
Slovenia	35,416		2,046,976	

# Grossing up factors

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<b>Slovakia</b>	65,744		5,424,925	
<b>Finland</b>	179,721		5,351,427	
<b>Sweden</b>	349,216	349,216	9,340,682	9,340,682
<b>United Kingdom</b>	1,706,302	1,706,302	62026962	62,026,962
<b>Total</b>	<b>12,260,495</b>	<b>8,463,917</b>	<b>501,104,164</b>	<b>318,595,732</b>
<b>Sample as % of total</b>	<b>69.0</b>		<b>63.6</b>	
<b>Grossing up factor</b>	<b>1.45</b>		<b>1.57</b>	

Source : Eurostat

# Interview programme

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Member State (if applicable)	Organisation	Type of stakeholder
	EBAN, CEO	Business angels network representative
	EBAN, President	Business angels network representative
	EBAN, Board Member	Business angels network representative
	EBAN, Researcher	Business angels network representative
	EBAN, Former President	Business angels network representative
	EBAN, Former CEO	Business angels network representative
	EIF	Government authority/agency
	Programme Manager, HBAN	Business angels network representative
France	– Service de la compétitivité et du développement des PME - Ministère de l'Economie, des Finances et de l'Industrie	Government authority/agency
France	Centre d'Analyse Stratégique - Département Economie- Finance	Governmental Research organisation
France	France Angels	Business angels network representative
Germany	Federal Ministry of Economics and Technology	Government authority/agency
Germany	Federal Ministry of Economics and Technology	Government authority/agency
Italy	SDA Bocconi School of Management,/ Italian Business Angel Network	Business angels network representative
Italy	Ministero dello Sviluppo Economico	Government authority/agency
Italy	Associazione Bancaria Italiana	Government authority/agency
Italy	Banca d'Italia	Government authority/agency
Italy	Italian Business Angel Network	Business angels network representative
Netherlands	Business Angels Network Nederland	Business angels network representative
Netherlands	Agentschap NL	Government authority/agency
Poland	Association of Business Angels' Networks - ABAN	Business angels network representative
Poland	Ministry of Economy	Government

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		authority/agency
Poland	AMBER Business Angel Network; Polish Entrepreneurs Foundation	Business angels network representative
Poland	Lewiatan Business Angels and Vice President of European Business Angels Network (EBAN)	Business angels network representative
Spain	Head of Finance of DGPYME - Ministry of Industry, Tourism & Trade	Government authority/agency
Spain	Coordinator of the Annual Investment Forum and Project Manager at ACC1Ó, Generalitat de Catalunya	Government authority/agency
Spain	AEBAN and Director of Madrid+d Business Angel network.	Business angels network representative
Spain	ESBAN - Spanish representative in the Board of Directors of EBAN.	Business angels network representative
Sweden	CIRCLE, Lund University	Expert
Sweden	Swedish Venture Capital Association	Expert
Sweden	Ministry of Enterprise, Energy and Communications	Government authority/agency
Sweden	Tillväxverket (Swedish Agency for Economic and Regional Growth)	Government authority/agency
Sweden	CONNECT Skane – Business Angels Network	Business angels network representative
UK	LINC Scotland	Expert
UK	Angel syndicate	Expert
UK	Investment Director, Scottish Enterprise	Government authority/agency
UK	Senior Investment Manager Scottish Investment Bank	Government authority/agency

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