

THE ECONOMIC SIGNIFICANCE OF BUSINESS ANGELS

О.С. Верич, Е.А. Богнат

Научный руководитель – А.С. Голикова, ассистент

Полесский государственный университет

Business angels (BA) are individuals who invest in one or more high potential start-ups (becoming shareholders of the company) and also contribute their expertise in business management and personal network of contacts. Angel intervention is long-term and may take a variety of forms [1, p. 6].

Business angels invest in a wide variety of industries, though it is worth recalling that they are looking for recent business developments with a strong potential for entrepreneurial growth offering the prospect of a very substantial return on investment, better liquidity (the growth of the company increases the chances of exit, which implies a strengthening and restructuring of the capital), and the chance of living a fascinating entrepreneurial experience.

Business angels play an important role as providers of venture capital and competences at the seed and/or development stages of the business lifecycle. This role is especially important in view of both the

dwindling levels of venture capital industry investment at these stages and the growing average amount of individual deals [1, p. 7].

There is a structural need for business angel intervention because:

- It takes place in the range of equity amounts that is covered by no other source of finance;
- They contribute to the successful build-up of projects by bringing to entrepreneurs having innovative ideas of services or products things that they generally lack (money, experience, contacts). They are in fact co-creators.
- They are far more reactive than most other financial operators.

Business angels are believed to be one of the most important sources of funding for such early-stage, high-risk, highpotential ventures. However, their contribution to firms and to the economy may well go beyond that. In principal, four types of contribution can be distinguished:

1) Increasing the supply of financial capital.

In countries where evidence of the scope of business angel activity is available, the data indicates that business angels provide as much capital to firms as formal venture capital investors and finance a great many more ventures. Thus, business angels contribute directly to increasing the flow of finance to firms. Furthermore, not just the quantity of finance provided by business angels is important, but also the type of finance. By primarily providing small amounts of finance in the early stages of a firm's development, business angels play a unique role in the SME finance landscape.

2) Contributing to a venture's ability to attract more financing.

As business angels mainly invest equity capital, their investments contribute to strengthening the firm's balance sheet, in contrast to loan financing that weakens a company's finances. Business angel investment can also send positive signals to other investors and the market (provided that the firm succeeds in attracting the 'right' business angel), reducing some of the informational asymmetry and leading to lower perceived risk for other financiers. This may in turn imply a larger pool of financing opportunities for these firms, better valuations (in cases of equity) and more favorable interest rates (in cases of loans).

3) Increasing the "quality" of firms through value-adding activities.

Business angel investment is often associated with the active involvement of the investor, which can take the form of advising, coaching, providing access to the investor's network, etc. It can also be assumed that business angels add value faster and in a more flexible manner than many other investors such as venture capitalists and banks. Thus, firms that receive business angel funding potentially gain access to non-financial value, which can result in better prospects for development and growth (e.g., increased productivity, profitability, and level of innovation) compared to firms that use more traditional sources of funding.

4) Strengthening the entrepreneurial eco-system.

Scholars have started to draw attention to business angels' role in entrepreneurial eco-systems. As they are often active or former entrepreneurs themselves, many business angels are well-networked in their local communities. Therefore, when a business angel acts by connecting firms to competence, intermediaries, etc., the entrepreneurial eco-system itself may benefit, which contributes to improved conditions for firm growth in the region. An eco-system with a high level of angel investing can also be perceived as more attractive for innovative start-ups, which can lead to increased start-up rates and growth of firms [2, p. 1].

This brief overview illustrates that the contribution of business angels to funding entrepreneurial ventures can be discussed on different levels and that there are both input and effect dimensions to be considered. By the input dimension we mean the activities of business angels. Meaning what do business angels do, what is the nature of their contribution to the firms, how much do they invest and what do they invest in. By the effect dimension we mean the outcomes of business angel financing and does it have a positive impact on firms/regions/industries/countries.

Business angels networks (BANs) play a prominent role in matching the demand (entrepreneurs) and supply (business angels) sides of equity. Actually, they are a marketplace for these two categories of economic operators. Entrepreneurs and investors cannot, in general, establish the relationships leading to fruitful contacts at an acceptable cost.

Networks are providing a growing number of complementary, strong value-added services for both business angels and entrepreneurs, including:

- Business angel schools/academies that aim to boost the confidence of potential angels in the venture capital market segment;

- Investment readiness programmes to improve the quality of demand for equity (support for drafting or improving business plans, submission of business propositions to different kinds of investors, etc.);
- Improving the conditions of angel syndication (investor groupings) to build up the volume of investment and consequently finance larger business projects as well as concentrate on and capitalise upon available expertise in management and market knowledge;
- Co-investment fund development and management, whereby public partners invest in funds under the same conditions as business angels.

National federations bringing together national or regional networks exist in most European countries ([France Angels](#) in France, [Iban](#) in Italy, [Esban](#) in Spain, [BAND](#) in Germany, [SVCA](#) in Sweden, etc.). They are not in direct contact with entrepreneurs or investors. Rather, their main mission consists in advertising the economic role of Business Angels and their networks with public authorities and collecting information about the informal venture capital market.

EBAN is the pan-European representative for the early stage investor gathering over 150 member organizations more than 50 countries today. Established in 1999 by a group of pioneer angel networks in Europe with the collaboration of the European Commission and EURADA, EBAN represents a sector estimated to invest 7.5 billion Euros a year and playing a vital role in Europe's future, notably in the funding of SMEs. EBAN fuels Europe's growth through the creation of wealth and jobs. Its main objectives are to:

- Encourage the exchange of experiences and transfer of best practices among business angels networks;
- Promote the recognition of business angels networks and of the economic role played by business angels;
- Contribute to the development and implementation of local, regional and national programmes with the aim of stimulating the emergence and reinforcement of a positive environment for business angel activities [3].

In Belarus, there is only one official business angel network, BAVIN. In 2015 three crowdfunding platforms started in the Belarusian market, among them Ulej, the social platform Talaka, and a charity auction of meetings MaeSens. Approximately half of Belarusian banks are now offering loans to small and medium-sized businesses and startups exclusively for working capital, commercial mortgage, or purchasing of equipment. Information about options for credit can be found on banks' websites, as well as at the financial web portals Myfin.by, InfoBank, Benefit.by, and others. We can say that the Belarusian microfinance market is now in a stage of renovation [4, p. 65].

Список использованных источников

1. Business Angels. Summary Brief on Private Informal Venture Capital Players Information for Public Decision-makers, Entrepreneurs and Virgin Angels on the Role of Business Angels and their Networks
2. Avdeitchikova, S. The economic significance of business angels – towards comparable indicators // Ratio Working Paper No. 248
3. The European Trade Association for Business Angels, Seed Funds and Early Stage Market Players [Электронный ресурс] / Eban. – Режим доступа: <http://www.eban.org/about/who-we-are> – Дата доступа: 29.03.2018
4. T. Mets, A. Sauka, D. Purg Entrepreneurship in Central and Eastern Europe. Development through Internationalization — London: Routledge, 2018.— p. 244.