

BUSINESS ANGELS NOW ALSO IN SLOVAKIA?

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For a year now Slovenská záručná a rozvojová banka, a.s. has been operating, in co-operation with the Austria Wirtschaftsservice GmbH (formerly the Innovationsagentur, GmbH), the joint programme "i2 – Slovakia – Burza pre Business Angels"

Who are Business Angels?

The scheme operates similarly to an exchange, or bourse, by means of which the SZRB (Slovak Guarantee and Development Bank) coordinates the supply and demand of financial resources and appropriate projects between businesses and investors, intermediating their mutual contact. The reason for introducing this programme is the fact that for many small and medium-sized enterprises access to financial resources represents a long-term barrier to their development. Enterprises that are at the stage of being set up or starting business and do not have a sufficient credit history or provable success are in an even worse situation. This can be seen clearly in particular where only credit financing has so far predominated. Banks in providing loans to new businesses are prudent, because either they do not know the business, or have only little information about it, often the business does not have sufficient funds for securing a loan or its business plan carries with it high risk.

An alternative to the regular means of financing is the investment activity of Business Angels. Business Angels is a term for natural persons who bring into an enterprise with growth potential besides capital, also their own business knowledge and experience. Business Angels, otherwise known as informal investors, decide upon investing on the basis of their own personal knowledge in the respective industrial sector or field and their own estimates of the business's potential in which they intend to invest.

They invest in a targeted manner in a business at the stage when it is being set up or in a new business, whereby they multiply the possibilities of gaining further funds, for example gaining a bank loan, etc.

The financial resources that a Business Angel invests into a business are only one of their contributions. A no less valuable contribution is also for the added value, which a Business Angel brings. This added value can include the Angel's experience in the operative field of managing an enterprise, knowledge of the industrial sector or field of business and a wide range of contacts. These factors are of great use to a business and increa-

se its chances of survival, as well as improving its standing in the eyes of banks in the future.

Who can join the programme?

On the one side there is the entrepreneur who has a project prepared and an interest to provide a shareholding, or co-operation in his/her project to an investor. On the other side there is the investor, who is interested in participating in some form in realising the entrepreneur's project. SZRB intermediates a joint contact between them. In this way it gradually compiles both databases – one database of entrepreneurs offering attractive and innovative solutions but which due to the project's risk or their short credit history do not have the possibility to obtain an ordinary bank loan, and another database of investors.

Besides Business Angels, who form the largest group of investors, we can also include business and institutional investors (venture capital funds, incubators). In order for an entrepreneur to be included in a database, his/her project must fulfil certain criteria. Primarily, it must be innovative, bringing new production ideas or technologies. The most appropriate are those founded on the basis of patents or inventions. The project must have great utility for the customer, large market potential, a qualified managerial team and a clearly discernible competitive advantage.

Since commencing its operation over 60 businesses have contacted through their projects SZRB. However, after assessing the submitted business plans the majority of projects did not fulfil the innovation criterion, upon which the basic philosophy of this form of financing is founded, and therefore could not be included in the programme.

Some entrepreneurs did not have business plans prepared in respect of their projects, and so they were recommended first to draw up their plans. So far only three projects have fulfilled the criteria and been included in the programme: the production of electronic equipment for monitoring the movement of persons, a project from the field of concentrated solar panel systems



and a project from field of rule-governed information systems. Investors have been mediated in respect of these projects, but as yet no co-operation has been concluded between them. On average for one project roughly three investors are mediated. (Note: At present there is sufficient venture capital on the market. In European terms only perhaps 2 – 5% of submitted business plans gain finance for their realisation.)

The compilation of the databases is a difficult and time-consuming task. SZRB is not a classic commercial bank having its own clientele, and therefore in building the databases it needs support and help on the part of selected partner institutions, such as primarily banks, regional advisory and information centres, business information centres, the National Agency for the Development of Small and Medium-Sized Enterprise, professional organisations, associations of businesses and entrepreneurs, technical universities, etc.

The most important partner is the company Austria Wirtschaftsservice GmbH, which offers its know-how and allows it to use its database of Austrian investors. At present, this database contains more than 90 investors (72 Business Angels, 7 entrepreneur investors, 13 institutional investors) at the end of last year SZRB had tied up co-operation with several banks (Ľudová banka, Poštová banka, Istrobanka, VÚB, ČSOB) as well as non-banking institutions (the Industrial Property Office of the SR, regional advisory and information centres in Lučenec, Martin, Považská Bystrica). SZRB aims for information on the programme to reach the widest possible circle of businesses.

Today SZRB is the only bank in Slovakia mediating

investment via Business Angels. This form of financing, however, has been applied in practice since the beginning of the 20th century. It started in the USA and spread to Western Europe in the years between the wars.

Gradually, it underwent a natural development. Until recently it was more or less a spontaneous, ungoverned activity and neither the enterprise seeking an investor, nor the investor wanting to invest in an enterprise practically knew of one another's existence and interests. Therefore gradually organisations were formed that began to coordinate these activities and created a network – the Business Angel Network (BAN). In 2002 157 BAN entities were operating in the European Union (compared with only 64 in 1999). BAN is gradually expanding also into the future member states of the European Union.

According to the statistics there are at present roughly 125 000 active Business Angels in Europe and the number of potential investors is estimated to be even in the range of 1 million. From extensive research conducted in the year 2000 it was found that investments mediated to Business Angels via the BAN network in individual investments were of an amount up to EUR 500 000 (the average amount of an investment is EUR 200 000), syndicated investments could be of up to several million EUR.

Even despite the fact that the number of projects processed has not lived up to expectations, SZRB foresees that through active participation with partner institutions it will be possible to expand this programme and promote it further to the business community so as to fulfil its role – to help new businesses realise their business plans.

STATE GUARANTEE FOR NIB CREDIT LINE

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On 17 December 2003 the Slovak Guarantee and Development Bank (Slovenská záručná a rozvojová banka, a.s. - SZRB) obtained a state guarantee for a bank loan from the Nordic Investment Bank (NIB) in the amount of EUR 10 million. The loan has a maturity of up to 15 years, with the possibility of deferred repayment of the principal by up to five years from the date of the first drawing of the loan. The interest rate on the loan shall be set individually for each project.

The NIB credit line will be used to support projects improving the quality of life for residents of Slovakia, infrastructure construction, the realisation of energy industry projects, ensuring the supply of drinking water,

sewerage systems, the construction of waste water treatment plants, as well as supporting investments of Nordic countries and other projects (of the Structural Funds and the Cohesion Fund). The loan is intended for small and medium-sized enterprises, towns and villages, businesses partly owned by municipalities and entrepreneurs – beneficiaries of funds from the Structural Funds or the Cohesion Fund. The credit line may be used to co-finance at maximum 50% of a project's total costs. The minimum amount of a project's costs must be equivalent to EUR 200 000. The loan may be combined with other loans and SZRB guarantee programmes, as well as with projects financed from the Cohesion and Structural Funds.