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Business Angels: The Smartest Money for Starters?
Plea for A Renewed Policy Focus on Business Angels

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ABSTRACT

This paper develops different ways to stimulate business angel investment. Coping with the second equity gap can mainly happen by stimulating syndication and by setting up co-investment schemes. Investor readiness, corporate orientation, business angel networks, business angel academies and the integrated finance concept can be considered as key concepts in coping with the information asymmetry problem. Stimulating simultaneously these different aspects might be the best way to provide starters and young enterprises with smart money. Given the untapped potential of business angels, government initiatives in the field might realize a high value for public money.

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I. INTRODUCTION

Informal venture capital-equity investments made by private individuals using their own money, directly in unquoted companies in which they have no family connections, play a key role in the financing of emergent businesses (Mason and Harrison (1999a)). They are not looking to invest money, but to invest money and time. This input allows advice and guidance to be given to young entrepreneurs both on the technical and on the managerial aspects of running a business (Aernoudt (1999b)). Business angel money is hence smart money and crucial to the creation and development of new enterprises. Moreover, as formal venture capitalists are moving towards larger deals and shifting their investments to a later stage of development, creating a "second" equity gap, those so-called business angels become more important in the financing of seed, early stage and second round phases. Hence any policy to stimulate entrepreneurship and growth should consider business angel financing as a priority. Government policy to stimulate growth, innovation and especially the creation of new enterprises is rather focused on access to finance mainly through increasing the supply of capital. However, policies should be focused both on the supply side and the demand side and combined with a cultural change. Government should look at innovative ways to stimulate business angel financing rather than coping with market failures by bureaucratic subsidy schemes.

II. BUSINESS ANGELS: REAL ENTREPRENEURS' BEST CHOICE

The traditional pecking order theory suggests that the financing source of choice is earnings retention, followed by external debt. External equity is the last resort. This traditional approach can however be confronted by the excessive demand for external equity, especially for start-ups. This demand can be explained by the absence of interest costs on the one hand, and fixed payback obligations on the other. Indeed, even if, as is shown by a number of surveys, desired return on seed and early stage investments are excessive, varying from 25 to around 80%, one should bear in mind that these rates depend on expected revenues and do not constitute actual interest payments.

The business angel's stake in the company will depend on the perceived worth of the company and the amount of capital that s/he wants to disburse. The owners' preference for business angel financing is hence comprehensible: no fixed financial expenses have to be foreseen in the business plan; a smart partnership between the business angel and the entrepreneur might lead to higher future net value of the company as both parties are involved and committed; and the business angel financing might open doors to second round venture capital or to classical debt financing. Therefore, and despite the non-existence of empirical evidence linked to business angel financing in the matter, we might assume that the traditional finance pecking order seems to be reversed for start-ups, especially for high-tech start-ups. Business angel financing can in this sense no longer be considered as last resort as the literature tends to suggest (Aernoudt and Erikson (2002); European Commission (2002)).

Indeed real entrepreneurs consider that not all money is the same. They take into account several criteria when they are considering different sources of finance for their ventures. To achieve a successful and profitable business development it is necessary to ensure that the right type of money is matched to the real risk involved. For a start-up, with no income until the product is fully developed and the first sales are made, debt finance is rarely the best source of external finance. Debt finance is usually secured on assets. The longer or the more uncertain the exit period, the higher the collateral required. Moreover, the riskier the project, the higher the anticipated reward that is needed to attract investors. We should respect lifestyle companies but, as venture capital-backed companies have faster growth rates, policy matters should be focused on fast growing companies or “gazelles” and on convincing potential “gazelles” to grow based on a partnership relation with their main investors. Besides the high level of expected return required, the real cost of venture capital is the control and induced information requirements a venture capitalist wants to have about the company. As business angels focus more on the ‘jockey’ than on the ‘horse’ (Harrison and Mason, 2003), we can assume that business angels can be the real entrepreneurs’ best choice.

III. VENTURE CAPITALISTS PREFER LATER STAGE AND MBO

While the pecking order focuses on the demand side, the risk-return relationship concerns the supply side. On the formal venture capital scene, we see a persistent decline of the share of early investment. MBO financing still plays the most important role on the venture capital scene in Europe. This lower risk business is even not categorised as venture capital in the USA and one might ask whether banks could not finance those MBOs through more creative credit schemes. MBOs are not particularly risky, but often the buyers are not able to offer sufficient collateral. The default rate on MBO operations is estimated at 3% against 50 % for seed and early stage (Ploix (2004)). At first sight venture capitalists, in their mainstream activity, differ from banks only in that they take (limited) risk without sufficient coverage in case of failure, rather than in the overall level of risk they assume. This means that banks and venture capitalists do not complement each other as they should, implying that few finance suppliers are interested in projects combining lack of collateral with high risk, such as start-ups.

Even in the way venture capitalists evaluate projects, they do not differ from banks. The classical discounted cash-flow method, together with the use of comparables is by far the most used evaluation method (Babson college (1999)). More academic methods such as the option-based approach or the residual approach are hardly ever used. These conventional appraising methods do imply a bias towards projects characterised by a stable cash-flow projection in the short run. Start-up companies and projects with a long incubation period and a huge burn rate are therefore less attractive to the venture capitalist (Amit, Brander and Zott (1998)).

The fact that most venture capitalists perceive and appraise projects through the bankers’ eyes is not surprising. Most of the fund managers are ex-bankers making a career move towards venture capital funds, often being part of the banking group. Moreover, bankers’ are in Europe, in contrast to the US, the most important source of finance of the risk capital sector. In North America, venture capital is raised from funds with longer investment terms, mainly from institutional investors such as public and private pension funds and insurance companies rather than banks, which tend to be the largest investors in Europe (OECD (2000), Botazzi (2004)).

These factors explain of course why the risk capitalists' view differs only slightly from a banking approach. This bankers' view is confirmed when we have a closer look at the number of SMEs at start-up and seed stage that receive venture capital finance and the amounts involved. We obtain an unsettling reality. In Europe only one fifth of all risk capital within the EU goes to start-up and early stages.

We can wonder why venture capitalists have such a noticeable preference for MBOs and mature companies. Investors should, conform to the portfolio theory; spread their assets over the different stages of the companies instead of concentrating on the big deals. The problem can be tackled by applying the agency theory to the venture capital sector. Investors, and especially institutional investors, are rarely involved in the daily management of the fund. The fund manager is rewarded on basis of the carried interest principle and therefore prefers big, not labour intensive, deals with short-term exit opportunities. Consequently, the injection of - public or private - money into the market is not likely to solve the problem of shortage of risk capital for start-up and small amounts investments, on the contrary.

The Netherlands is probably one of the countries with the most developed equity culture in Europe. If, in relative terms, each of the Member States had the same investments in private pension funds as the Netherlands, an extra five thousand billion EUR could be available in EU capital markets. Moreover for decades they have been the country in Europe with the biggest share of seed and start-up. Many years ago (in 1988), the Netherlands even exceeded, proportionally, the USA. Therefore it is worthwhile to have a closer look at this country. The main reason why the share of seed capital in the Netherlands decreased in the 1990s was the concentration phenomenon in the venture capital market. While in the eighties, around a hundred funds were active, nowadays only one third remain. Moreover 5 funds account for 80 % of all deals (Brouwer and Hendrix (1998)). As management does not vary with the size of the fund, less productive activities receive lower priority. Therefore less attention is given to seed and start-up proposals.

A similar phenomenon, although to a lesser extent, was seen in the US. Using the Venture Capital fund model, simulation showed the positive impact of the fund's scale on the investment return for the managing partners. As the fund size increased, the attraction of investing small amounts of money in start-ups correspondingly diminished (Murray (1999)). Indeed, the cost of due diligence, audit and monitoring is not related to the size of the investment. Therefore, small projects are less interesting for venture capital. Hence, it is not surprising that seed investments are not the privileged customers of venture capital funds. Thus the success of the overall risk capital market implies that seed capital becomes a less and less attractive option.

This theoretical approach is confirmed when we look at the markets. Although the UK for instance still represents almost half of the EU market, studies concluded that British SMEs are faced with huge problems in their seed, start-up and fast growth phases. In the slow growth and MBO phase, there is no longer an equity gap problem

(KPMG (1999)). Correspondingly, the European Commission states in its report that it becomes more and more difficult for SMEs to gain access to smaller amounts of financing (European Commission (2003)).

Although we can agree that provision of equity finance should be sufficient to meet the needs of enterprises, there is a problem of financing for (small) starters and fast (technology) growers as the supply of risk capital is mainly oriented towards the less-risky segment of the market. Perhaps business angels can partly fill the "small equity gap", as they are more focused on small amounts. However, preliminary research seems to show a positive correlation between high performance and the size of the investment for both informal and formal capital (Mason (1999b)). This leads us to the ironic conclusion that the more the venture capital market is booming; the more difficult it is to obtain start-up risk capital.

Early stage venture capital can only increase its share in total investments, if its revenues exceed those of other types of investment. As long as the higher risk involved in start-up financing is not rewarded by a higher return, as the EVCA figures yearly illustrates, any policy intended to promote start-up financing is doomed to fail. In the last twenty years (average EVCA figures 1986 - 2003) for instance, the return on MBO operations was 9,6% against 2,3% for seed and early stage.

IV. THE MARKET FAILS AT THE LOWER END

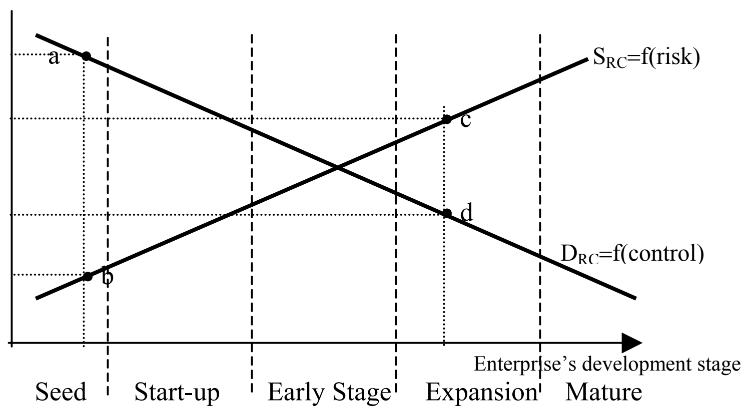
This demand and supply analysis allows us to explain why the market fails, especially at the lower end, i.e. start-up and early financing. Ironically, in the market segment where suppliers are not interested because of high costs and low returns, entrepreneurs are more receptive to external finance. In the growth phase, where venture capitalists become more interested in investing in the company, companies' enthusiasm for external finance diminishes. This real cost approach can help us in trying to understand the paradox. The different elements put together can graphically be illustrated in Figure 1.

The interest for risk capital is larger in the seed and start-up phase than for the later stage. Control is felt as less of an impediment to venture capital investment in the start-up than in a more advanced development stage and the benefits from management assistance are considered important. For the same reasons, demand for risk capital decreases with the evolution of the company. On the supply side of the market we see the opposite. Venture capitalists try to avoid the risks and prefer big, less labour intensive, deals rather than the riskier phases.

Therefore, seed and start-up investments still encounter huge problems in finding venture capital. They are in a sellers' market (a>b). The few venture capitalists operating in this segment of the market use their position as an oligopoly to request higher return premium and apply stringent rules. A survey indicates that the desired return on seed investments is estimated at 100% (Leleux (2000)) and that they are very severe in the selection and due diligence (only one out of hundred proposals is retained).

Graph 1

Supply and demand for risk capital according to enterprise's development stage



On the other hand, as venture capital markets are (again) booming and fundraising is easy, venture capitalists are "desperately" looking for projects to invest in in the expansion phase (it is estimated that venture capital funds had 60 billion dollar available for investments end 2004). In the expansion phase (fourth round financing), only a few companies are interested in opening their capital to venture capital funds. Given that most of these companies do generate cash flow, and conform with the empirically confirmed pecking order theory, companies in their expanding phase prefer self-financing and credit financing to risk capital. Risk capitalists and fund managers, sellers of money, prefer these expansion investments and given the buyers' market (c>d) they have to reduce their conditions. If venture capitalists want to find projects, they will have to accept a lower desired return and adopt an investment strategy that implies less control on the daily management. Therefore, not only the lower risks position, but also the bargaining position makes it easier for a company to obtain risk capital at appropriate conditions for expansion financing. In this sense, the internet led to more realistic expectations both for venture capitalists (for their desired return) and for entrepreneurs (for their valuation expectations) and could have a positive impact on the venture capital market for the years to come.

Nevertheless, it is still only in the (late) early stage that entrepreneurs and venture capitalists can conclude a deal at competitive market conditions. Risk capitalists should in this not try to exploit the information asymmetry problem and real entrepreneurs should seek to benefit from the opportunities offered by the venture capital market rather than citing loss of control as the reason for their unwillingness to open their capital to external investors. One could of course argue that the lower expected return only reflects the lower risk linked to the development stage of the company. However, the very high differences cannot only be explained by the classical risk premium theory. The market structure and the accuracy of the information asymmetry are other elements to be taken into account. Desired return might correlate more with the bargaining position than with the risk position of the investor. Although as far as I know, empirical research on this field is lacking, Table 1 might clarify this position.

Table 1
Enterprise's development stage and investors' desired return

Development Stage	Seed	Start-up	Early stage	Expansion	Mature
Desired return	80 – 100%	40-70%	30-40%	25-30%	20%
Market structure	mono/ oligopoly	oligopoly	competition	oligopsony	mono/ oligopsony
Risk level	very high	Rather high	normal	limited	very limited

Therefore, although entrepreneurs are equity minded in their start-up phase, they are faced with big difficulties in obtaining risk financing under acceptable conditions. Consequently, only one out of three thousand starters in Europe conclude a start-up deal with a venture capitalist, whilst one out of ten could be considered as a potential venture capital backed company (Bannock (2001)). This confirms our ironic conclusion that a booming market can coincide with huge difficulty of access to finance for starters.

This approach allows us to understand why a big share of the risk capital is oriented towards MBO financing. Entrepreneurs have no choice as both collateral and self-financing are missing. Suppliers have (almost) no risk as the track record is proven and try to realise a high return based on a good deal structure. National and European venture capital associations can continue publishing healthy growth rates for the venture capital sector as a whole. And a lot of starters remain frustrated by not being able to attract funding.

The shift of the formal venture capitalist towards the third round and MBO financing implies that business angels, mainly focused on the seed phase, have to extend their financing to the second round, in order to bridge the gap. This so-called 'second equity gap' (Murray, 1994) involves a need for bigger amounts of money for the business angel and makes it more difficult to spread his risks over a significant number of projects.

V. PLEA FOR A RENEWED POLICY FOCUS ON BUSINESS ANGELS

It is clear that despite the capital abundance the market does not function at the lower end and that business angels might be best placed to fill the small and second equity gap. However, as business angels are very different in their perception and functioning from formal investors, it doesn't make sense to try to extrapolate policy measures used to stimulates formal venture capital, such as injecting money into the markets through fund of funds or through guarantee schemes to business angels (Aernoudt (1999a)).

Stimulation of the use of informal capital in order to facilitate access to funds or money for enterprises needs a different approach.

Indeed, from what precedes, it must be clear that business angels do not need money. The fact that they have money makes them business angels. Their own capital, often the result of a successful sale, covers the availability of money. In order to limit their risk, the part of their capital that they make available for informal investments often amounts only a limited part of their assets. The amounts available to invest are sufficient to cover the seed phase of the company but may be insufficient if they are confronted with the withdrawal of the formal venture capitalists, who are obliged to deal with the second round financing.

Government should focus on the tax and regulative aspects. All administrative, tax and other regulations impeding the development of informal risk capital should be removed. However, in order to secure both, sufficient availability of funds and maximum spread of risk for the investor, new ways should be examined such as stimulating syndication and, why not, public co-investment schemes.

The main problem however remains lack of information and awareness, both from the side of the entrepreneur and the side of the business angel. Indeed, different economic studies show that markets, including financial markets, can never work efficiently as there is always an information gap. One might assume that this information gap is particularly noticeable in the field of business angel financing. Although the problem of information asymmetry as such can never be completely solved, different techniques can enhance a better mutual understanding between the different partners. Different ways of increasing knowledge and awareness amongst entrepreneurs, business angels and public authorities must be explored.

In this context a number of measures can be taken such as increasing the investor readiness, stimulating potential through big companies, revealing the business angel vocation, setting up and increasing the efficiency of networks and encouraging financiers to work more closely together. Let us have a look at each of these approaches that of course should be set up simultaneously.

A. Syndication

Co-investment amongst business angels has not been extensively studied by academic research. Kelly and Hay (1996) look at risk reducing strategies of solo versus syndicated investors and establish a link between the characteristics of the investor, the referrals and performance of the investment. The same authors in a later paper (2000) found that syndication is higher between the most experienced angels. Osnabrugge presents similar results from a study on serial and non-serial business angels (2000). Syndication is considered as a vehicle to acquire risk-reducing information, which is possible through consolidating the information possessed by informants, often co-investors. Therefore angels look for other individuals who could be co-investors and hence share the risk among (Aram (1989)). The pattern of co-investment is thus determined by the risk aversion character of the business angel.

Syndication is an increasingly relevant phenomenon within business angel investment for several reasons. First of all, the financial capabilities of solo business angels are limited, - median investment size is estimated between 60000 and 100 000 euro - and the shift of venture capital funds towards larger deals is creating a “second” equity gap. Secondly, it seems that syndicated groups invest more in early stage companies than solo investors (Kelly and Hay (1996)). Thirdly, syndicated investment with experienced investors is one of best instruments to learn the essentials of informal investing and hence to activate latent business angel’s capital (Aernoudt, Roure and San José (2005)). In this sense, the promotion and facilitation of business angels’ syndication should be high on the agenda of researchers and policy makers.

B. Co-investment Schemes

One of the main reasons to stimulate syndication is to increase the financial capacities of the solo business angel in order to allow him or her to cope with the second equity gap. In addition to syndication one might examine whether the government could intervene by adding dumb public money to the smart business angels’ money. Both liberals and socialists might be shocked for different reasons by the idea of giving money to (rich) business angels. However one should not forget that not all business angels have deep pockets and that the best way to avoid business angels quitting the investment scene is to push them to spread risks. Indeed, a lot of business angels were obliged to continue to invest in projects where they had financed the first round as no other investor was ready to take over. This led to the concentration of financial means in only a few projects and reduced the spread of the risk. In case some of these projects went bankrupt, business angels lost a lot of money and some ceased their investor activity.

One way of allowing business angels to spread the risk is by developing co-investment schemes where public money is invested together with the business angel investment and conditioned by the business angel’s decision to invest. Such a scheme was successfully implemented in Belgium at the end of 2002 and since then, most of the business angels’ deals appeal for the scheme. The scheme, called “business angel +”, consists of a subordinated loan of maximum 125 000 euro granted to businesses totally or partially financed by business angels. The capital provided by the business angel added to the capital provided by the entrepreneur should at least equal the amount provided by the public fund. Pre-selection of the project is undertaken by the business angel networks.

C. Investor Readiness

Entrepreneurs, especially those running enterprises with growth potential and who are willing to grow, need greater understanding of venture capital and specialist advice on how to structure business plans to secure external equity finance. There is evidence that some firms hold back from seeking external finance because they are unsure about the practicalities and worried about the complications (DTI (2001)). An empirical study carried out in Australia confirmed that by making new ventures investor-ready the business-investor community avoids a substantial waste of money (Douglas (2002)).

We could speak of a gap in the market akin to the classic equity gap: there is an information gap between the demand for and supply of funding, due to the fact that entrepreneurs do not fully understand the range of financial options. There seems to be a certain amount of luck involved in the search for funding. Financial institutions should help in filling this information gap of what is available and under what terms and conditions. This investor-readiness gap does not only apply to equity capital but is relevant to all forms of finances. Going to a business angel with a story written as a pitch to a public sector development agency is the quickest way to be shown the exit door. Therefore part of what needs to be done is to bring entrepreneurs to a point where they recognise how to tell the right story to the right investor at the right time.

D. Corporate Orientation

Management skills and financing are abundant in most large companies. This is exactly what start-ups and SMEs are most missing. A precondition for considering large companies as the ideal partner for SMEs and as the stimulus for regional economies is entrepreneurial orientation (Lumpkin (2002)). This embraces five dimensions, namely innovativeness, pro-activeness, competitive aggressiveness, autonomy and a willingness to take risk. Large companies should help to fill the small equity gap. We should look for innovative ways to involve large companies in this stage of financing by encouraging them to participate actively in seed funds and by involving their executives in business angel activity. Most of the executives could indeed be seen as fulfilling all the characteristics of a business angel but only a few systematically invest in starting companies. Perhaps we should find better ways of converting these virgin angels into active informal investors.

Beyond the direct impact of smart money, we should explore ways of bridging the gap between formal or informal seed financing and venture capital financing. As venture capital becomes more and more an expansion phase financing and MBO business in Europe, with only a few seed funds left we are faced with an exit problem for the first-round financiers. Seed funds are not capable of following the second round, and traditional venture capitalists consider the risk still too high at this stage.

Corporate ventures could perhaps bridge this gap by setting up co-investment schemes with seed funds, especially in sectors that have a link with the corporate investor. Currently corporate investors already represent around 6% of the annual equity raised in the venture capital market (Aernoudt (2003)), but there may be innovative ways of trying to stimulate large companies to invest in second-round financing, rather than investing in an MBO-dominated market. This can only be achieved by converting corporate investors into smart money investors, including hands-on management, rather than leaving them in their role as “followers” to the leading venture capitalist. Recent market evolutions might help this conversion. Making large companies more entrepreneurial and translating this into accurate financing for SMEs should be the real objective of corporate venturing.

Making large companies more entrepreneurially oriented should at the same time be one of the best ways of involving them in the supply of premises, not as sponsors but as partners. The private sector tends to undersupply premises for SMEs given that rents are higher for retail and residential uses. Thus the public sector often gets involved in part-financing business incubators, science parks, office parks or industrial estates. Incubators have indeed developed very quickly in Europe but have been largely integrated into a non-profit culture. Their aim is to contribute to regional or local development (Aernoudt (2004)). These first-generation incubators have still a role to play, but, in addition, real incubators should hatch primarily fast-growing companies that ensure the most added value and jobs. Incubators focused on spin-offs are in this sense crucial. Large companies could easily be involved in the financing of both structures as the traditional incubators might offer a low-risk low-return approach whilst spin-off incubators might fit into their new entrepreneurial orientation. In this context incubators should develop links with business angels and business angel networks.

E. Business Angel Academy

It is often noted that even with funds, time and experience, the three main ingredients to become a business angel, the majority of them are reluctant to make an initial investment. When you question new potential business angels, so-called “virgin angels”, they mention the lack of a structured framework. Giving them an adequate understanding of the investment process is therefore the perfect way to increase the number of active business angels. In this context the idea of a business angel academy aiming at realising this objective emerged.

The basic idea is that the investment process is not straightforward. Business angels need skills providing them with the capabilities to assess the risk of investment opportunities and manage the process. Individuals who cannot weigh the risk of an opportunity at an initial stage will not invest. In order to increase the investment activity of potential business angels, specific training mainly oriented towards virgin angels, can have a significant impact. This concept, marketed under the name business angel academy has been successfully tested in IASE Business School Barcelona (Aernoudt, Roure and San José (2005)).

F. Business Angel Networks

One of the best ways to bridge the information gap between business angels and entrepreneurs is by setting up business angel networks. The business angel networks form a platform where SMEs and business angels can make contact. This platform can function through the internet, magazines or organising fora. The networks give SMEs access to a new source of finance alongside bank financing and risk capital.

The obstacle for the development of informal investment, apart from the crucial fiscal and regulative environment, is indeed the lack of good and well-presented projects. If there is any market failure, beside the specific issue of the business angel academy, it is on the investees’ side and hence, on how to find (not to select) the potential projects. Investees have to be guided in the presentation, both written and oral, of their projects, and have to be brought into contact with business angels who might be interested in their projects. Experiences in the United Kingdom and in the Netherlands showed that this market failure could easily be remedied with very simple means and led to the establishments of networks all over Europe. Evaluation showed that the scale of the network, the regional scale of the operation, the quality of staff, the level of financial support, the location, the complementary activities and the long term support from the stakeholders are considered as the success factors for a sustainable business angel network.

G. Integrated Finance Approach

Integrated finance is a concept that aims to reduce the cost of finance for SMEs by pro-actively analysing the likely finance needs in the performance of a business plan or project. It seeks to achieve conditional offers from different finance providers against performance milestones. A venture capitalist can therefore commit himself in principle to an investment at a given point in a company's development. This, in turn, may offer comfort to a business angel who is asked to provide early stage capital. Further analysis of expenditure needs may identify requirements in principle for invoice discounting or asset finance at other points of development. This pro-active financial modelling concept has a number of advantages: it demonstrates a command of financial requirements; it secures all the elements of appropriate finance in one exercise; it should reduce cost by removing elements of uncertainty and it presents a strong image of the company, thus enhancing its prestige.

Implementing such an intelligent and analytical approach to funding SMEs is extremely difficult to achieve. It has not happened so far. Banks and other finance providers want to protect their margins and their so-called "one-stop finance" is often a misuse of the term. A proper diagnosis of financial needs by product is beneficial but a key element of integrated finance thinking is competition between providers. Many banks and finance providers already offer a complete range of products but offer them as a basket of services to customers in which some components may not be competitively priced. Hidden tariffs such as these increase costs, undermine sustainability and adversely affect cash flow.

Companies and entrepreneurs can only successfully exploit the potential of integrated finance if they are robustly prepared. A number of interventions have already been tried. One of the most successful has been the *fit4finance* assessment panels designed and delivered by Business Link Hertfordshire. Companies present their funding opportunity to a number of active finance providers including bankers, venture capitalists, grant providers and business angels. This panel-based 'trial by expert' is extremely effective in helping businesses and entrepreneurs to assess internal barriers to their access to finance, but also very powerful in releasing competition between the financiers. This movement towards a more intelligent approach to SME financing is only just beginning to gather momentum but promises to unblock many barriers preventing SMEs from fully achieving their growth potential.

VI. CONCLUSION

It is clear that the market does not function at the lower end and that business angels become more and more the first investor for starting companies now that venture capitalists are moving towards the later stage, with an noticeable MBO preference, and towards bigger deals. Therefore renewed public attention is needed for the business angel phenomenon. This should not sanction public initiatives to take over from the failing market by launching expensive subsidy schemes, but should encourage governments to look into innovative ways to make the market work. In this context coping with the information asymmetry problem has been considered crucial. Initiatives aiming at stimulating the syndication process, the investors' readiness, the location (and revelation) of the potential business angel, the involvement of big companies, the setting up and making more efficient of the business angel networks and the integration of financing resources can be considered as the best value for public money approach. If co-investment schemes are needed, the due diligence should be done at business angel level without involvement of the public financiers.

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