



WORLD BANK GROUP

Stimulating Business Angels in the Czech Republic

*Anwar Aridi, Anne Lopez, Nelson Gray
Finance, Competitiveness, and Innovation (FCI) Global Practice
October 30, 2018, Ministry of Finance, Prague, Czech Republic*

Presentation Outline

1. Introduction
2. Why Business Angels?
3. Conceptual Framework and Methodology
4. Key Findings
5. Recommended Actions

I. Introduction

Context:

- Request from the Ministry of Finance to work on the risk finance agenda
- Follow on to the WB work on the Capital Markets
- Informs the ongoing CR SME Support Strategy 2021+ with Ministry of Industry and Trade
- Supported by the EC Structural Reform Support Service (SRSS)

Key Questions:

- What do we know about BA activities in the CR?
- What are the key challenges and opportunities on the supply, demand, and framework conditions?
- How to stimulate risk finance activities?

I. Defining a Business Angel

The European Commission defines a business angel as:

“a private individual, often of high net worth, and usually with business experience, who directly invests part of his or her personal assets in new and growing private businesses. Business angels can invest individually or as part of a syndicate where one angel typically takes the lead role”.

Business angels are often referred to **as sources of “smart capital”** as they typically provide business management experience, skills, and contacts for the entrepreneur, in addition to funding.

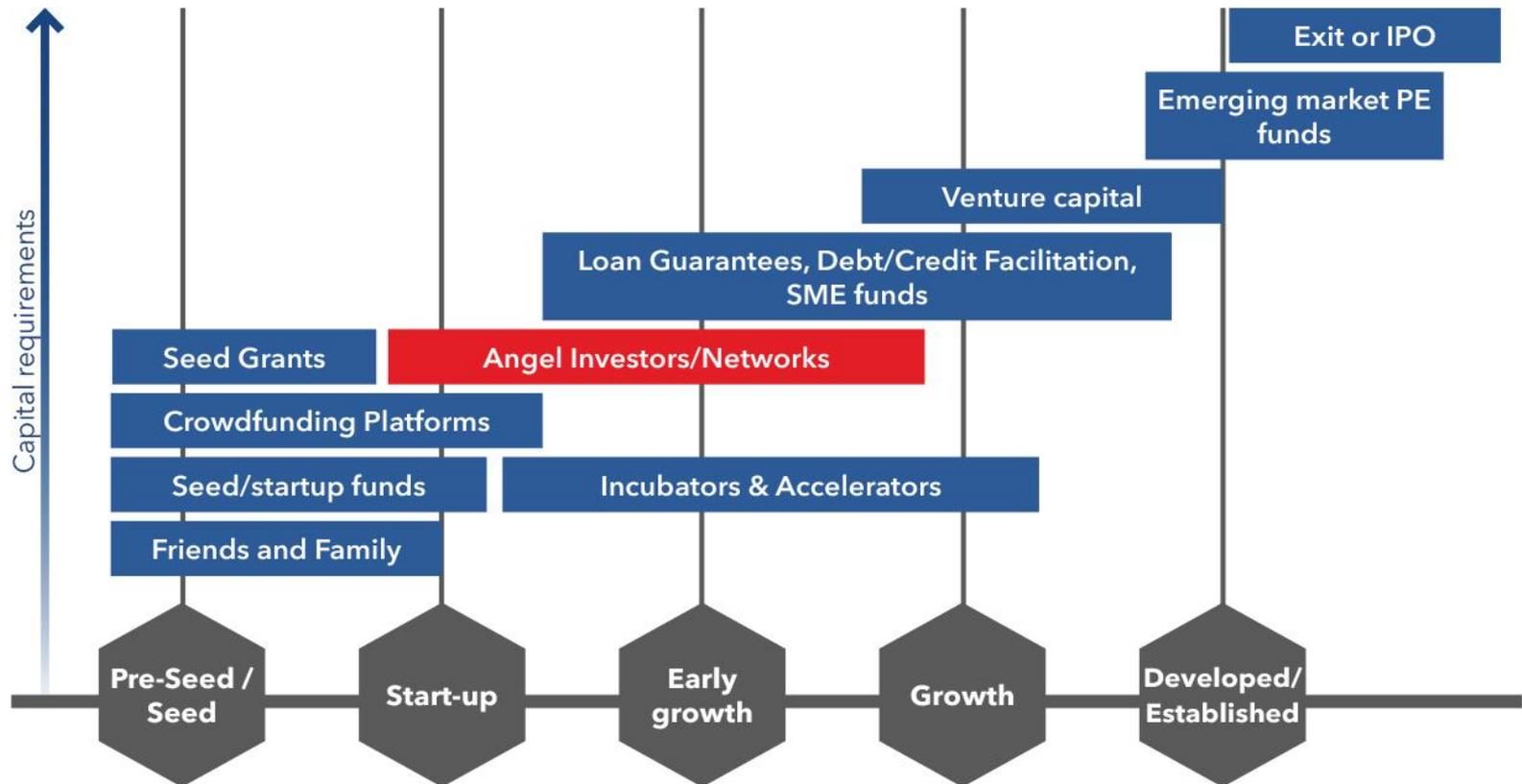
II. Why a Focus on Business Angels?

“Business angels are an essential part of the financing food chain and from public policy perspective they need to be well integrated with other sources of financing”.

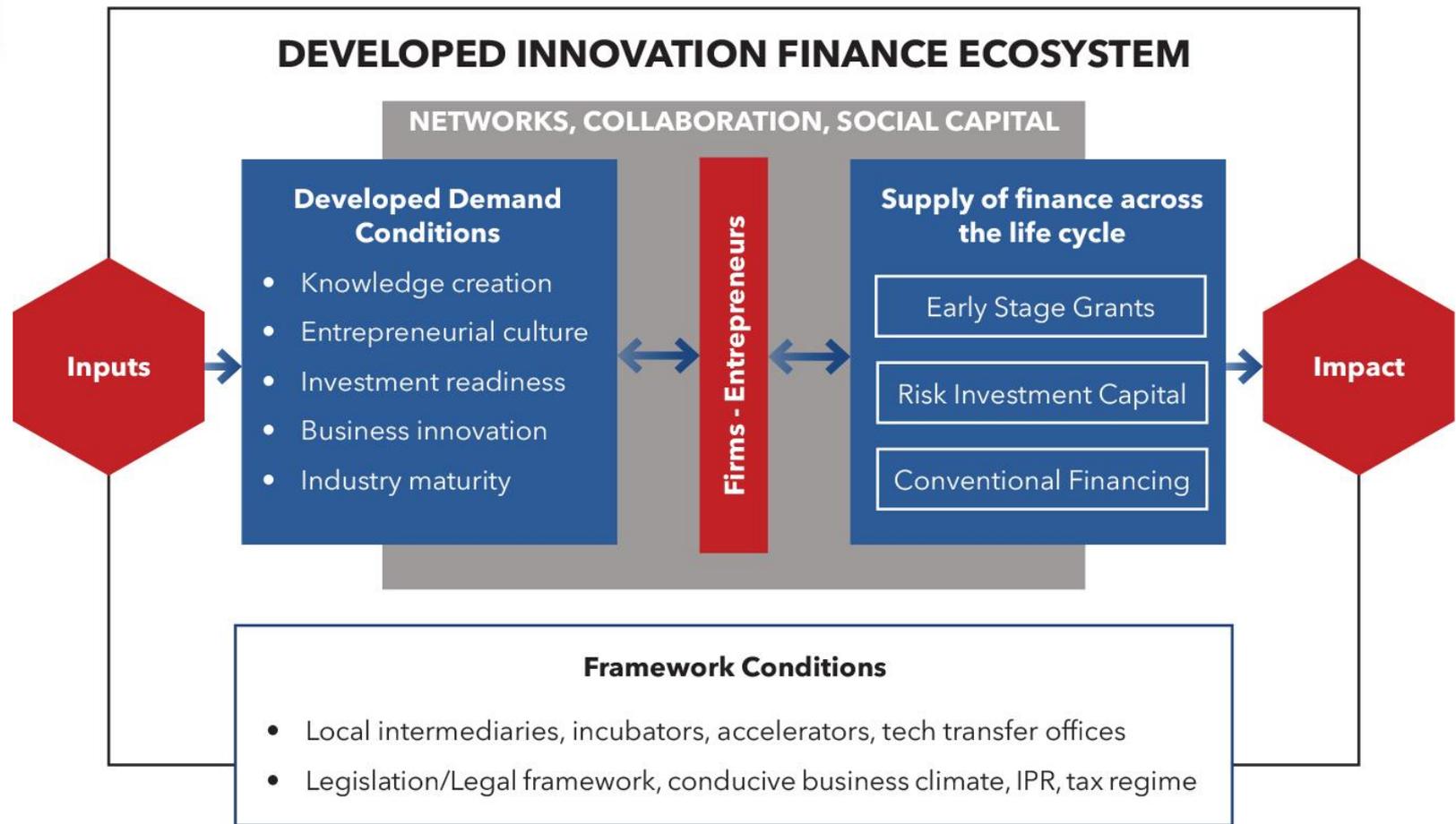
- Primary source of funding for **High Growth** potential companies
- High impact on venture success: “smart money”
- High Economic Impact
- Generates High Paid, Talent Retentive Jobs.
- Generates High Quality Deal Flow for VC / IPO.

II. The Funding Escalator

Different Funding Sources at Different Stages of Growth



III. Conceptual Framework



III. Methodology:

- **Literature review:** economic and public policy review; case studies and international experiences
- **Benchmarking, using published data sources:** Invest Europe, EC, OECD, and World Bank reports, local surveys and reports by government and others
- **Qualitative interviews:** 35 qualitative interviews with public and private stakeholders
 - Business angels and business angel networks;
 - Venture capital firms;
 - Crowdfunding platforms;
 - Incubators, accelerators, tech transfer intermediaries, co-working spaces;
 - Financial advisors and expert consultants;
 - Individual technology entrepreneurs and startups teams;
 - Government bodies and public support institutions.

IV. Findings: General Characteristics of the Ecosystem?

- Czech Republic has an “Emerging” Angel Ecosystem with potential for growth
 - neither “nascent” nor “mature”
- All key players are active at some level, including:
 - Investors
 - Founders
 - Intermediaries
 - Government
- However, the networks and players are relatively:
 - Fragmented
 - Invisible
 - Inexperienced
 - Disorganised

IV. Findings: Framework conditions

- *Regulatory Issues*: not insurmountable, CR ranks 31st out of 137 countries in GCI
- *Business environment issues*: admin. burdens for starting business, outdated company laws, expensive bankruptcy costs, lack of clarity in exit conditions, difficulty offering stock options
- *Public programs*: Lack of certainty if government investment readiness programs sufficiently address issues investors care about (investability of startup's proposition, investor engagement)
- *Intermediaries*: several operating incubators/accelerators but few offer seed funding
- *Taxation*: Absence of specific tax incentives or co-investment funds to support business angels activities

IV. Demand Side Findings

Credible deal flow with potential for Growth

- *Credible deal flow*: reasonable volume of deal flow, especially in the ICT sector - *but falls short from representing critical mass*
- *Regional and sectoral Concentration*: Apparent strengths in few sectors and concentration in few locations
- *Equity Aversion*: not a problem among tech entrepreneurs
 - Some were wary of investors that demand more than minority shares

Unfulfilled potentials:

- *Weak flow of S&T startups*: Despite good investments in innovation inputs, there were few, university-based startups/spinouts
- Missing segment of female entrepreneurs (and investors)

IV. Supply Side Findings

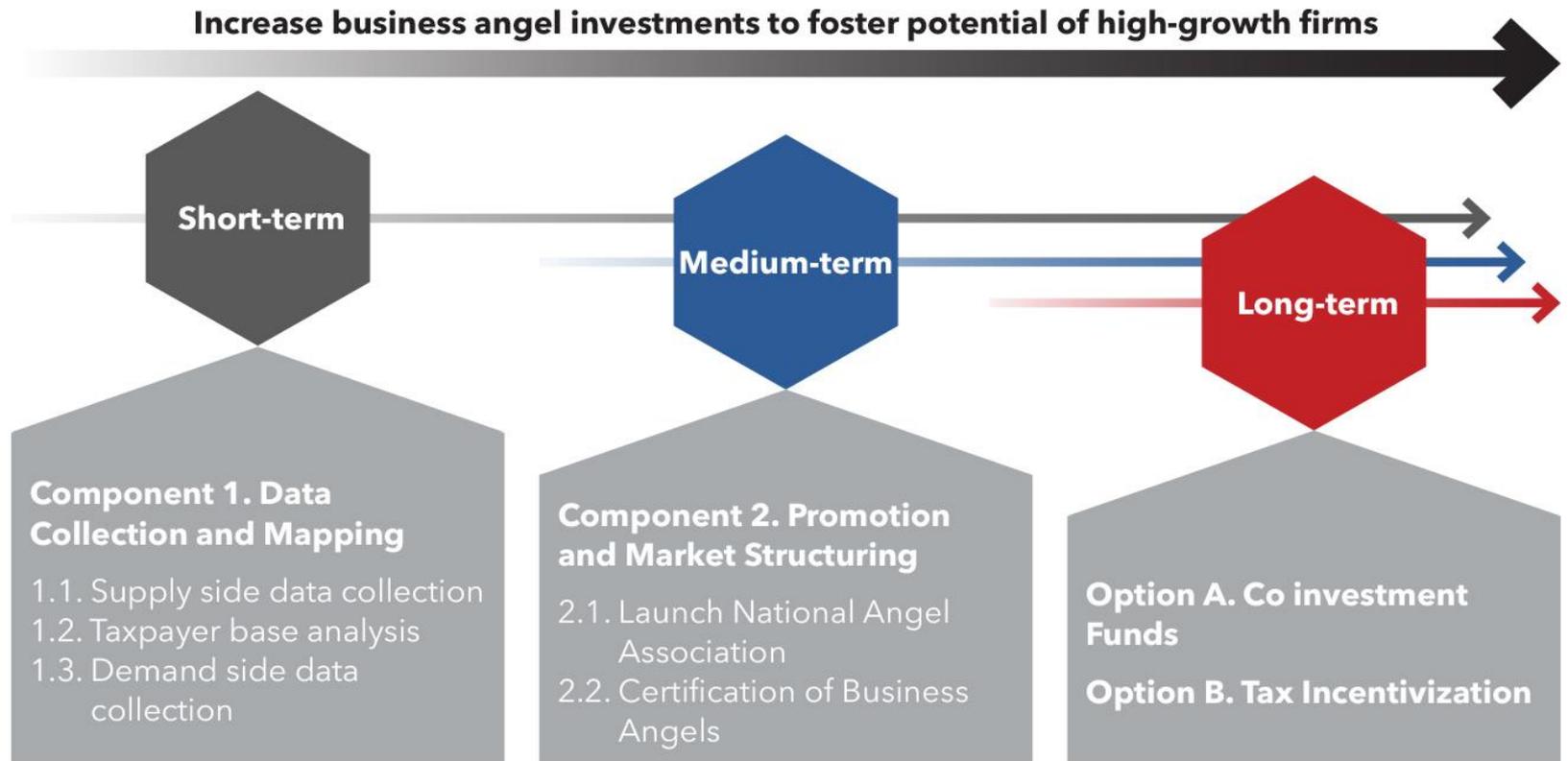
Emerging early stage investment community

- Significant emphasis on bank debt and other lending types, including crowdfunding
- There are plenty of visible VC funds. However, many are:
 - Private offices
 - Have relatively small funds (up to €35m)
 - Focused fairly on short term (<5 years) and relatively low risk / return investments
 - Primarily ICT sector focus
 - Looking to take companies international, for market and follow-on funding
 - Focused on M&A exit strategies to foreign acquirers: The new IPO market recently launched - *time will show if it's effective*

IV. Supply Side Findings

- There are some recognizable Business Angels, but they are primarily “Super Angels” acting individually
- There is little Business Angel Network or Syndicate Activity. Few are active:
 - Keiretsu Forum
 - Startup Yard mentor group
 - Some “invisible” private networks (Prague and the regions)

V. Recommended Actions



V. Short-term Actions

Component 1: Data collection and mapping to create a systematic understanding of demand and supply for angel investments.

1.1. Commission time-series data on angel investment activity to be updated annually (similar to existing venture capital market data)

1.2. Conduct a taxpayer base analysis to quantify the number of individuals (*not specific names*) in CR who have the potential to be a business angel - annually

1.3. Commission a demand side survey targeting start-up founders and entrepreneurs on an annual basis.

V. Medium-term Actions

Component 2. Promotion and Market Structuring to increase market capacity and capability of business angels, and connection between investors and founders:

2.1. Create a Czech National Angel Association (and become a member of Business Angels Europe - BAE).

2.2. Introduce a self-certification system for business angels in the Czech Republic.

V. Long-term Actions

A. CoFund

- Establish co-investment funds to encourage more individuals to become angel investors, and for existing investors to invest more because they lower the risk of investments by allowing more investments to be made and providing portfolio diversification.

B. Tax incentivization

- Introduce tax incentives to increase the number of business angels and encourage them to invest in a broader range of sectors.



THANK YOU

aaridi@worldbank.org