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FORMALIZATION OF THE INFORMAL VENTURE CAPITAL MARKET

BUSINESS ANGEL NETWORKS AND SYNDICATES

Business angels are natural persons who provide equity financing for young enterprises and gain ownership in them. They are usually anonym investors and they operate in the background of the companies. Their important feature is that over the funding of the enterprises based on their business experiences they can contribute to the success of the companies with their special expertise and with strategic support. As a result of the asymmetric information between the angels and the companies their matching is difficult (Becsky-Nagy – Fazekas 2015), and the fact, that angel investors prefer anonymity makes it harder for entrepreneurs to obtain informal venture capital. The primary aim of the different type of business angel organizations and networks is to alleviate this matching process with intermediation between the two parties. The role of these organizations is increasing in the informal venture capital market compared to the individually operating angels. The recognition of their economic importance led many governments to support them. There were also public initiations that aimed the establishment of these intermediary organizations that led to the institutionalization of business angels. This study via the characterization of business angels focuses on the progress of these informational intermediaries and their ways of development with regards to the international trends and the current situation of Hungarian business angels and angel networks.

Keywords: **business angels, investments, enterprises**

The European Business Angel Network (EBAN) in its business angel definition highlights the following features (EBAN, 2013a):

- individual investors (qualified investors, as defined by some national regulations),
- financially independent, so business angels invests their own money directly or via networks and they make their investment decisions on their own,
- they focusing on financing the seed and early stage of companies,
- they are not in family relationship with the companies they invest in,
- they make medium to long term investments,
- they respect the code of ethics,
- they provide strategic support to the companies from investment to exit, hence they can increase their survival in the market significantly.

The business angels are willing and able to provide financing efficiently for companies with relatively low capital needs in the early stages of their development and growth. They play an important role in the alleviation of financing gaps that may occur in case of these companies (Nagy, 2004). That is the reason why the definition above used by the EBAN should be expanded by the criterion that the invested company must be a new company with substantial growth potential (Gaston, 1989; Harrison et al., 2010). This criterion emphasizes the feature of business angels that they usually invest into growth-oriented, innovative companies which involve higher risks as well. Sohl (2012b) on the other hand draws the attention to the current realignment of business angel investments, especially in the US. The focus of angel investments is more and more on the post-seed stage of the companies nowadays, while in the past the emphasis was on the seed stage (Nagy, 2004; Sohl, 2012a; Sohl, 2012b).

In business angel investments the personal relationship of the investor and the entrepreneur, the trust between the two parties play a crucial role. Business angels as informal venture capital investors provide equity financing by raising the capital of the company and this way they gain a part of its ownership, while the share of the founder entrepreneurs decreases (Kosztopulosz – Makra, 2006). On the other hand business angels not only provide funds for companies, but also use their connection capital and their professional experiences to increase the value of the company, although they rarely take full control over its operation (Ácsné, 2004; Van Osnabrugge, 2000). As a result of this partnership these investments also mean the close cooperation of business angels and entrepreneurs that makes personal relationships more important.

Business angels make decisions based on their managerial-entrepreneurial experiences and their insight into human nature and the evaluation process takes a relatively short time. In their evaluation, informal venture capital investors as well as institutional venture capital investors take the emphasis on the future growth and development prospects of the companies and the past performance plays a less important role. In face of the future orientation business angels set different evaluation criteria.

The quality of business plan, business opportunities, the personality and traits of the owners are taken into consideration by the investors when they make a decision. In the ideal case the owners of the company have prior proof or conformation about the viability of their idea, but it is essential to have huge growth potential and appealing business prognosis to raise the attention of an investor.

The exit possibilities and the capital gains are important factors in the evaluation of business angels as well as for the institutional venture capital investors, but in their case the commitment and traits of the entrepreneur and the trust in the management of the company have also outstanding importance. Competitiveness, responsiveness to market changes, ambition, great professional expertise are traits that business angels seek in the management of the company and in many cases they invest into the management of the company rather than the company itself (Van Osnabrugge, 2000; Brettel, 2003; Ácsné, 2004; Sudek, 2006; Blonski, 2009; Harrison – Mason, 2003; Kosztopulosz – Makra, 2006).

Business angels usually invest locally; they invest into companies near to their residence. The strong regional commitment in business angel market is the result of the need of easy accessibility of the companies because of the personal involvement of the investors in the operation. Furthermore in the evaluation it can be an advantage that the investor knows the conditions of the local environment of the company and the local focus can also alleviate the matching process of the management and the investors because the parties can get information about each other more easily. Also, informal investors have altruistic motivations and it can be important for them to gain the respect of the local community (Makra, 2004).

Types and motivations of business angels

The business angel investors are natural persons motivated by their own individual goals. As investors, their most important motivation is to reach high capital gains, but they take into consideration other factors as well. Many researchers examined the motives of business angels (Wetzel, 1983; Sullivan – Miller, 1996). Financial and emotional reasons (for example the intention to be involved in the operation of a company, social responsibility, joy and excitement of investment) are also relevant. According to Osman (1998) the angels want to experience the joy of a successful undertaking and they want to spend their time meaningfully. Sullivan and Miller (1996) categorized the angel investors according to their motives into the following three groups:

- economic investors: economical factors are dominant, like profit maximization, higher income, increase of personal welfare, tax benefits,
- hedonistic investors: the emphasis is on the enjoyment of the investment process, they consider their activities as a hobby, they find pleasure in taking part in the work and the establishment of a young, new and innovative company,
- altruistic investors: over the self-interest they take into consideration the interests of others, the willingness to help and social responsibility are dominant in their case.

The EBAN (2013b) uses a distinctive definition for entrepreneurial angels, who are extremely wealthy and as an alternative of the trading on the stock exchange they support many companies mainly for hedonistic reasons.

As the varying characteristics show us the heterogeneity of business angels is high because of their individuality (Erikson – Sørheim, 2005). Many studies tried to group them by capturing their common features (Convey – Moore, 1998; Sørheim – Landström, 2001; Gaston, 1989), but the examinations made in different countries describe a specific region's or country's angels and they cannot be generalized. Gaston (1989) divided the angels of the US into 10+4 categories (business devil, godfather, nobleman, ,,Randy" cousin, ,,Dr. Kildare", successful corporate man, ,,Warbucks" daddy, high-tech angel, shareholder, very hungry angel; furthermore highflyer, inpatient angel, green angel, 5-10 penny angel). Coveney and Moore (1998) findings have more relevance in case of the German informal venture capital market. They categorized the angel investors according to their activities and their entrepreneurial experiences into four active types (wealth maximizing, entrepreneur, income seeking, corporate) and two potential-angel types (virgin, latent). Sørheim and Landström (2001) categorized the informal venture capital investors based on their competences and divided the angels into four groups; lotto investors, trader, analytical investors and business angels.

The angels in the categories show differences in terms of their wealth, experiences and in motivations. There are investor types that are included in all the categorizations above and only differ in their titles, for example Gaston's nobleman is identical with the entrepreneurial angel of Coveney and Moore and with the traditional business angel of Sørheim and Landström (Makra, 2002).

The first comprehensive study directly focusing on the Hungarian business angel market was the article of Kosztopulosz and Makra (2004). They attempted the qualitative and quantitative analysis of the Hungarian angel investors via questionnaire surveys. The construction of a proper sample is problematic as the angels usually try to keep their anonymity and they operate in the background. They seek out the concerned organizations, the known business angels and with their contribution they got data via respondent-driven sampling. Table 1 contains the descriptive of their sample and the results of similar studies made in Sweden and Germany as benchmarks.

In international comparison the Hungarian angels shows more homogeneity in terms of their gender, qualification and profession than the investors of the benchmark countries. In terms of demographic characteristics according to the EBAN's data in 2010 in Europe 5 % of the investors was female while 13 % in the US. In the sample of Makra and Kosztopulsz male investors dominated in 100 %. In average the Hungarian angels are younger. Most of the angel investors have entrepreneurial experiences, but the international empirical evidences shows that investors without such experiences with managerial background also can provide strategic support for companies. The high qualification of the angels is in connection with these evidences. In case of Hungary the qualification of informal investors was outstanding.

Table 1

Demographic characteristics of business angels

Characteristics	Hungary	Sweden	Germany
Size of sample	14	253	232
Gender	100% man	96% man	95% man
Average age (year)	44	56	48
Entrepreneurial experience	93%	90%	55%
Qualification	86% higher education	69% higher education	–
Average number of investments by angels in the last 3 years	4.9	5.6 (last 5 years)	3.3
Average size of investments	15 million HUF (0,06 million Euro)	0.07 million Euro	0.5 million Euro

Sources: Author's compilation (Kosztopulsz – Makra, 2004; Månsson – Landström, 2006; Stedler –Peters, 2003)

An average Hungarian angel invested into 4.9 companies in a 3-year long period before the survey, which shows higher activity in Hungary than in Sweden and in Germany. The average size of an investment in 2004 in Hungary was calculated with on a 308.6 HUF/Euro exchange rate 0.049 million euro that was below the average of the other two countries. This investment size is far below the 100-200 thousand euro average measured in 2011 in Europe (CSES, 2012).

Table 2 shows the similarities and differences in the motivations of business angels in different countries. Because of the missing data in the comparison instead of the Swedish angel's motivations table 2 includes data about the EBAN and French angels. In Hungary as well as in the EBAN the most important factor was the chance of high profit, but the professional challenge played also an important role. Furthermore many investors fund companies with high potential growth for the pleasure of investment, altruistic aspects are less important. On the other hand the angels in Germany are motivated mainly by altruistic factors like the passing of their experiences, the contribution to success and the opportunity to support a company. High profit prospects are secondary for them. The French business angels are mainly altruistic and hedonistic investors, high profits are less important for them. The spurring effect on the economy that they have by funding innovative firms is also crucial for them.

Table 2

Ranking of motives of business angels

Rank	Hungary	Germany	France	EBAN
1.	high returns	passing of experience	added value	high returns
2.	professional challenge	high returns	entertainment, adventure	personnel satisfaction
3.	enjoyment, hobby	contribution to success	helping others	portfolio diversification
4.	future dividend	personnel challenge	spurring the economy	spurring the economy
5.	support of young enterprises	support of ideas	high returns	self employment

Source: Kosztopulosz (2004); Stedler – Peters (2003); EBAN (2009)
Note: green – altruistic, blue – economic, yellow – hedonistic motivations

Institutionalized business angels – networks and syndicates

The information gap between entrepreneurs and investors can be reduced by the involvement of intermediary organizations that leads to the „formalization" of the informal venture capital market. In the second half of the 90's have begun the transformation of the business angel market in the US, when organized groups of angel investors appeared for the sake of making joint investments (Paul – Whittman, 2010). In addition, the intermediary institutions and services became more widespread. As a result this special and „informal" segment of the capital market made the first steps towards a more institutionalized form (Makra, 2002). The formerly fragmented market of mainly anonym, individual investors and ad hoc groups of angels gradually underwent a transformation. Not only informational intermediaries appeared on the market who could manage the problems occurred as a result of information asymmetries, but also investor groups, who made their investments together in cooperation with each other. Despite the progression of this institutionalization process there are only a few studies in the literature focusing on the current changes (Sohl, 2012a; Mason et al., 2013).

The first organized syndicates appeared in the Silicon Valley of the US. In Europe the development of these organizations had been running in a similar way, but the business angel networks became more prevalent (Mason, 2009). The operation of the networks as information intermediaries made a segment of the angel market more transparent and facilitated the matching of investors and entrepreneurs seeking funding (Sohl, 2012a). The angel networks show heterogeneity in their objectives, operation, in the provided services and it is impossible to choose a „best practice" of their methods (Makra, 2002).

Business angel syndicates

As angel investors make relatively smaller scale investments hence they can be excluded from the funding of enterprises that have larger capital needs even in if the potential investment would match the preferences of the angels. Also investing into one company a great share of an angel's funds would involve too much risk. In such cases there is the possibility that via their cooperation they make investments together (Osman, 2008). Business angels operating in formal or informal syndicates also appeared in the business angel definitions next to the individual investors (Mason – Harrison, 2008). The EBAN (2013c) uses a special definition for business angel syndicates. The EBAN describes these organizations as the association of angels, who share the risks for the sake of making larger scale and more profitable investments by uniting their experiences, competences, financial and human capital. This way they can become more effective than they could have been individually. These syndicates are also able to fund companies up to their IPO without obtaining further institutional venture capital (Mason et al., 2013).

In these syndicates there is a so called „gatekeeper" who represents the group and the type of this person affects the operation of the syndicate. The literature describes two types of gatekeepers. The professional manager takes the leadership of the group, seeks new investment opportunities, analysis them and recommends them for investment to the group. As employees they have a salary and they are entitled to a share of profit in case of successful investments. On the other hand the members of the group can also take the management of the syndicate; the members can take this role together or they can assign someone for the task, who usually doesn't receive a salary for this work (Ramadani, 2012).

The members of the group are obliged to accept the rules of the syndicate (attendance on meetings, how frequently they make investments, wealth audit, code of ethics, etc.) and this commitment is often expressed in contractual form (Mason et al., 2013).

Principally these organizations recruit new members and offer assistance in transactions, but they keep trainings and provide other services as well. The companies that seek capital introduced on their web page in the first place, than after the inspection of the gatekeeper the viable ideas are discussed by the members of the syndicate. There is a meeting for the members on a monthly or weekly basis where 2-3 entrepreneurs are invited to present their ideas (Ramadani, 2012). The members of the group evaluate the ideas and offer a term sheet for the suitable companies. The members can decide independently whether they want to invest into a company or not, and about the amount of capital they want to invest (Mason et al., 2013).

The syndicates can increase the number and the activity of business angels so the companies in need of angel capital can find more easily investors as they become „visible", and it gives the opportunity for researchers to study the angel investors as well. Despite these favorable features of syndicates many researchers debate their positive effects, because they become very similar to institutional venture capital firms and they do not have those distinctive features anymore that made them capable of financing a special area of enterprises (Sohl, 2012a).

Business angel networks have an important role in the establishment of syndicates as via their assistance the potential co-investors can find each other more easily (Osman 2008).

Business angel networks

The primary aim of business angel networks is to alleviate the matching of investors and the companies seeking financing. These networks focusing on the two factors that leads to the inefficiencies in the informal venture capital market; the anonymity of business angels and the high costs of searching and matching. Basically the networks operate as mediator agencies in the business life (Aernoudt – Erikson, 2002; Makra – Kosztopulosz, 2004). The objective of the networks according to the definition of the EBAN (2013d) is the alleviation of the matching of companies seeking venture capital and business angels.

The angel networks can be organized two different ways; there is a top-down, and a bottom-up method. The top-down networks are set up as a result of an initiation from an authority or from the government, while bottom-up method covers the initiation of the private sector (Ramadani, 2012). The more developed a country's business angel market is the more prevalent the private sector initiation is (Gullander – Napier, 2003). Both types of networks offer a platform for communication and information mediation for companies and possible investors, while keeping a part of the angel's secrecy (Béza et al., 2007; Mason et al., 2013).

Operation of networks

The networks can carry out their match making service by gathering a wide range of investment possibilities and offer them for the angel investors, this way they can keep their anonymity until the investment negotiations. It is important to see, that these networks are not financial intermediaries as they provide primarily informational intermediation and match making services (Makra – Kosztopluosz, 2004). In the same time entrepreneurs have the opportunity to make contact with more investors and so their chance of obtaining capital can increase (Mason – Harrison, 1995).

There are different methods of the intermediation process which methods are often combined with each other. One way is the electronic mediation when the investors and the entrepreneurs give their features and investment preferences and this way a database can be constructed where via computer aided data processing angels and companies can be matched. This way investors are able to keep their anonymity until the first meeting with the entrepreneur. The assumption of this method is, that angels can give particularly their investment criteria, but the investors usually are not able to describe these requirements, they can only give explicitly the terms under they are not willing to invest into a company (Makra, 2002). By sending regularly newsletter, prospectuses to angels about the investment possibilities either in written or electronic form networks can also provide information for investors. These brochures can include even the full business plans of companies. This way the angels have the opportunity to select their investment targets on their own. The third method of mediation is keeping regular investment forums, where the entrepreneurs can introduce personally their companies and ideas. In this case the angels make contact with the entrepreneurs and they settle the investment process themselves so in this case the investors lose their anonymity (Kosztpulosz – Makra, 2004; Mason et al., 2013).

Most of the angel networks provide additional services as well, that can increase the supply and demand of angel capital (Ácsné, 2004). Networks can increase the capability of companies to obtain capital by offering counseling in the shaping of a business plan and in the presentation of their ideas. For new angels, networks offer legal and tax-counseling and they can benefit from the experiences of investors with a longer track record (Blonski, 2009). Furthermore the so called „investment readiness" agendas provide complex, multi-staged financial and managerial education for entrepreneurs to make them ready for obtaining venture capital, and these programs can contribute to the development of entrepreneurial culture (Ácsné, 2004; Mason et al., 2013).

The key to the success of business angel networks is to reach the critical level of clientele to maintain their daily operation and to reach their long term goal that is the stimulation of informal venture capital market hence the networks are interested in the increase of their membership. Networks recruit their members by personally making contact with the possible investors, making display seminars, through articles and prospectuses. Cooperation with universities, research institutions, business development and financial institutions can also help to increase the number of members (EC, 2002; Makra – Kosztopulosz, 2006).

Discretion and reliability are critical for angel networks. That is the reason why many networks regulate the behavior of their members with strict ethic codes (Ácsné, 2004). The obligation of the members is restricted to keep this code (Mason et al., 2013).

Different types of networks

In terms of geographic scope there are local-regional, national and international business angel networks (Kosztopulosz – Makra, 2004).

A typical form of network is the local-regional network that is able to harness the knowledge of local environment, personnel connections and small geographical distance, hence their operation and the non-financial value added services of investors can be more effective. National networks coordinate the regional intermediary institutions where the geographical distances cause problems in efficiency (for example the German Business Angels Netzwerk Deutschland), or as a result of the small size of the informal market a national network is adequate.

The international networks have utmost importance in smaller and specific sectors, for example in case of high-tech enterprises, as they can increase the mobility of the specific investors that have the special expertise that is necessary to invest into such companies successfully. Also international networks, such as EBAN contributes to the development of national networks (Ácsné, 2004).

In the United Kingdom, where the informal venture capital market is the most developed in Europe, according to the territorial scope, financing method and the provided services there are five categories of angel networks (Mason – Harrison, 1995):

- local/regional, not profit-oriented organization,
- national level network, not profit-oriented organizations,
- regional and national profit-oriented networks with private ownership,
- institutional archangels, that are profit-oriented institutions that organizes its members into syndicates,
- profit-oriented organizations that provide assisting services.

Business angel networks can be described not only according to their territorial scope but according to their industry focus as well, as there are networks that specialized to an industry (Gullander – Naper, 2003).

The efficiency of networks also depends on their organizational framework. There are networks that operate as independent organizations. This framework is dominant in areas, where the institutional environment of companies is relatively underdeveloped. The advantage of these networks is their independency, while a drawback of this form is that it has high financial and human capital needs. Angel networks can appear as a new division of an already existing business development institution. In this case the funding costs are lower. The third type of framework is the cooperation of networks and business development organizations. In this case networks recruit angel investors and business development organizations provide information about their partner companies, this way networks are independent but still able to build an extended clientele (Makra – Kosztopulosz, 2006).

Business angel networks around the world an in Hungary

In the last years business angel networks created intercontinental organizations to share each other's experience such as the WBAA (World Business Angel Association) that was founded in 2009 and its primary objective is to help business angel networks in making contact with each other. In 2011 according to the OECD report WBAA had 15 members worldwide like EBAN and the business angel networks of Australia, New-Zealand, United States, China, Spain, Turkey, India, Chile, Germany and the United Kingdom. This OECD report shows that besides the angel market of the US and Europe the informal venture capital market of Asia and Australia developed at a steady pace as a result of the rapid formalization of the market. On the other hand in the Middle-East and African regions except for Israel the impact and activity of business angels are not significant.

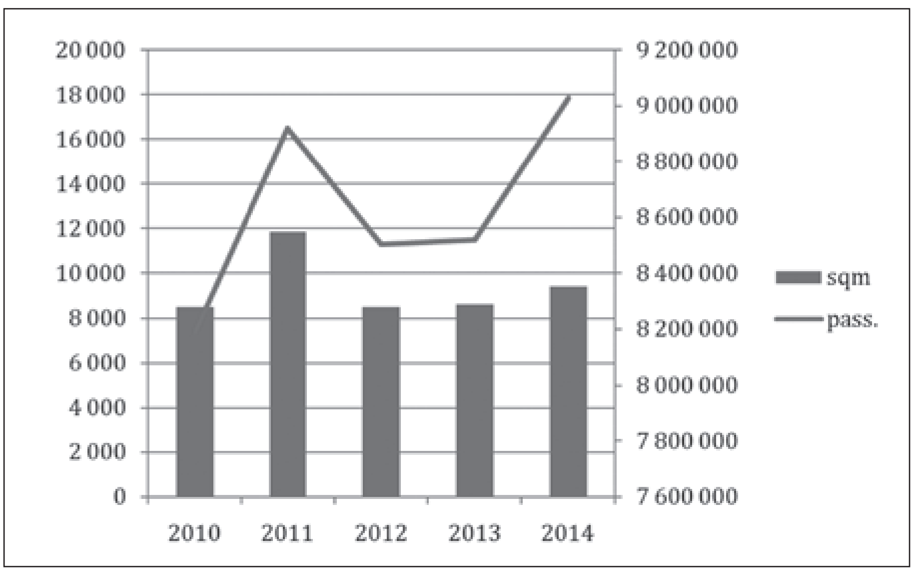
European Union takes more emphasis on the enhancement of business angel activities in order to improve the funding prospects of young enterprises with high growth potential. In the Third (1997-2000) and Fourth (2001-2005) Multiannual Business Development Programs EIF (European Investment Bank) provided financial support for the establishment of business angel networks. These agendas offered assistance in the foundation, operation of networks and in the organization of campaigns that promote and raise the awareness of angel investments. The EU also co-financed the new networks for three years, after that they had to become self-financing. The program increased the number of business angel networks, but without the support of the EU many networks proved to be incapable for operation (Ácsné, 2004).

The EIF in 2012 in Germany founded the European Angel Fund that makes co-investments with business angels (I6). The European Commission in 2013 in its green book called ,,Long-term financing of the European economy" emphasizes the role of venture capital in the economic growth, but does not mention the support of business angels (BAE, 2013). On the other hand the EC in its innovation financing agenda called ,,Horizon 2020" mentions the co-financing with business angels besides the institutional venture capital (Kramer-Eis – Schillo, 2011; EC, 2014, I1).

The EBAN was founded as an EC initiation in 1999 as an international organization in cooperation with other pioneer angel networks. The EBAN's mission is to represent the business angel networks and early stage venture capital firms. The continuously growing organization has more than 440 members; furthermore it is in connection with other organizations like government agencies that facilitate the funding of young enterprises. From 2009 institutional venture capital funds can be full members of EBAN as well and this way all the parties that play a role in the bridging of financing gaps are represented in the organization (EBAN, 2014a).

Figure 1.

The number of business angel networks in Europe 1999-2013



Source: Own illustration, EBAN (2012, 2014a)

Figure 1 shows that in the last seven years according to the estimation of EBAN the number of business angel networks increased. In 1999 when the EBAN was established the number of angel networks was 66, while in 2013 it was 468. The decrease in the middle of the decade was the result of the end of the Multiannual Business Development Programs and many networks founded in co-financing structure supported by EU funds had not been viable alone in the market. The increase after 2008 is the result of the recession of banking sector, hence the importance as alternative funding sources increased.

In Europe the business angel networks are concentrated in Western Europe where the financial institutions are more developed and where the business angel investments appeared first time, like in the UK, France, Spain and Germany (Figure 2). In these countries the number of angel networks is above 30, France is outstanding with 83 networks. From the Eastern-European region Russia has the most angel networks in spite of the fact that this financing form does not have a long history there. The other countries in the eastern region are connected to the EBAN only with one or two business angel networks.

Even though we have more information about the informal venture capital market as a result of its formalization, in order to have a more in-depth knowledge and deeper understanding about the world of business angels in Hungary as well as internationally it is inevitable to create databases that are able to support scientific researches. However, gathering data is hindered by the fact that business angels are not observable as they like to operate in the background; hence we do not have enough quantitative and qualitative information about them and it is true especially in case of the Hungarian informal investors. Hungary, unlike in the previous years, was not appeared in the above mentioned study of the EBAN in 2014, but in the absence of other data sources there is no other benchmark that could be used in an international comparison.

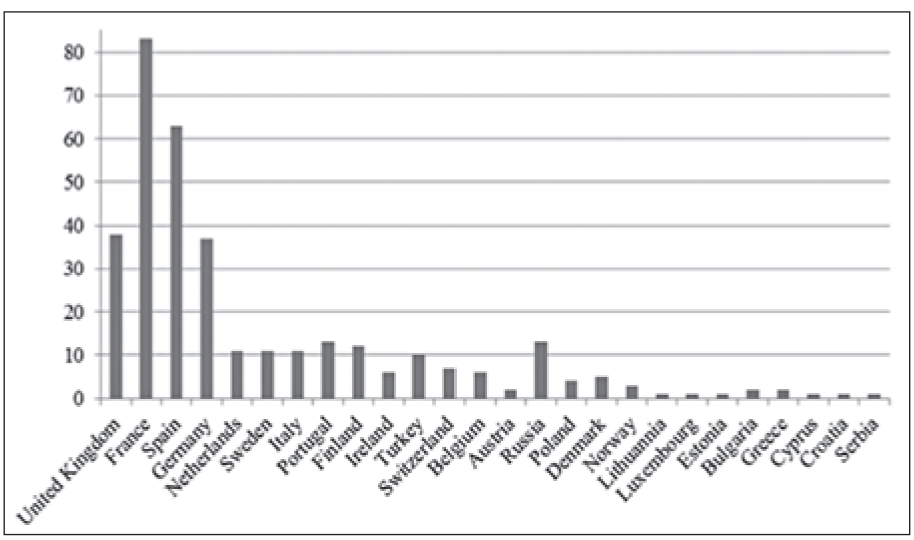
In Hungary there were attempts in the last decade for the institutionalization of the business angel market. The first endeavors that tried to facilitate the matching of angel investors and young companies with funding needs were the events of the Business Angel Club that was organized by the First Hungarian Business Angel Network that was founded in 2000 and from 2007 it had been operating as a non-profit organization. This initiation after the ceasing of government support was not viable in the market. Based on the interview with the leader of the First Hungarian Business Angel Network in the absence of government funds the Club was not able to operate in a self-financing way, as the membership fees and other type of revenues could not cover the expenses of a professionally managed organization (Miskolczy, 2014). The conclusion of the fate of the Business Angel Club was that there was no demand for such an organization.

There are other organizations in Hungary that are taking up innovative ideas, committed to help young companies and they are able to match business angels with the proper enterprises. Such organizations are those institutions that support syndicated investments as well and they appeared in the EBAN's European Business Angel catalogue (EBAN, 2014b). Furthermore the European Angel Fund that has international importance appeared in Hungary in 2011 (Mason et al., 2012).

In Hungary the business angel market is still underdeveloped and researchers and market participants do not have enough information about it. The Business Angel Club that was re-launched in 2012 and was renewed in the summer of 2014 may have a chance to increase the activity in the market. It operates in the framework of Hungarian Business Angel Association which is a bottom-up organization initiated by a community of private sector participants. The goal of the renewed Association is different from the Clubs' objective, as the Association aims to draw in investors into the informal venture capital market, who are currently not business angels on their own admission (potential investors, successful mid-level businessmen, business owners). In order to succeed in this goal first of all the topic of informal investments must be evangelized and the interested parties' aware-

Figure 2.

The number of business angel networks in Europe by countries in 2013



Source: Own illustration, EBAN (2014a)

ness should be raised about the perspectives of this funding form. It is also important to clarify which type of companies and projects are able to obtain angel capital. According to the opinion of the leader of this initiation the first step along the road is to create a committed team that is willing to implement innovation and new methods, but based on his experience the Hungarian environment is very skeptical towards informal investments contrary to the neighboring countries where similar initiations and networks were implemented and established. The current short term objective of the Hungarian Business Angel Association is to expand its membership to a level, where the membership fees can cover the expenses of a professionally managed and organized community. The mission of the Association is to alleviate the problem of funding gap by providing access to funds for new ideas and innovative companies. These types of investments and initiations play a crucial role in the economy, as the formalization and the increased effectiveness of the business angel market could spur the development of the startup ecosystem. Currently the question of joining to the EBAN is not on the agenda of the Association, so far it has focused on building the grassroots of the industry and on the solidification of the professional discussion of the participants. The gap in the Hungarian chain of funding sources made the appearance and the development of formalized angel investors necessary, as their appearance is in the interest of many participants and they are inevitable in order to create a sound startup ecosystem (Miskolczy, 2014). Becsky-Nagy and Erdős (2012) in their research found that according the Hungarian spin-off enterprises the barrier of the development of the informal venture capital market is the low number of business angels and the lack of networks. The viability of the current initiations on the long run is unsure yet. In many countries among them the surrounding countries of Hungary there are existing and successfully operating business angel networks, but so far in Hungary these networks could not succeed permanently. An explanation for the underdevelopment of Hungarian networks could be that the Hungarian business angels do not operate individually, instead they found venture capital firms or they join to subsidized venture capital firms. In the JEREMIE venture capital program there is also a co-investment fund that makes joint investments with other investors, in many cases with business angels that could incentive informal investors to make partnerships with venture capital funds and enjoy the benefits of this type of cooperation rather than joining angel networks. This reasoning can explain the problematic operation of Hungarian business angel networks, however further researches are necessary to support this hypothesis.

Conclusions

The current international trends shows that, the informal markets of business angels become more and more formalized in the developed venture capital markets. The operation of privately founded bottom-up organizations is more justified than the top-down networks that are created as government initiations. The involvement of the public sector can lead to temporally biases in the market and could result in the establishment of organizations incapable for operation. The international and Hungarian evidences shows that, on the long run after the ceasing of public interventions only the viable organizations are able to keep operating on the market.

While the institutionalization of the market alleviate the information asymmetries of the venture capital market and can increase the its activity, the traditional business angels who operate in an informal way are necessary to keep those specific features that make them capable of funding young enterprises with huge growth potential successfully.

There were many attempts in Hungary to create a business angel organization, although in the past these attempts were mostly in vain and they could reach only meager and temporally successes. However, the current changes in the Hungarian informal venture capital market are promising and there is a chance that bottom-up organizations will increase the activity in the market, but compared to the business angel market of the US and Western-Europe Hungary is still underdeveloped and it is in its infancy. The indirect government interventions and the development of startup ecosystem could create a more effective informal venture capital market.

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