



BUSINESS  
ANGELS  
INVESTMENTS

R.N.MACEDONIA

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# POLICY AND FINANCIAL ANALYSIS

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# INTRODUCTION

Business angels activities have been noticed in the last years in N.Macedonia. Besides existing on paper (the first network appeared in 2011), there have been real investments done in startups in the Country.

Business angels are wealthy individuals who invest their personally gained wealth into startup companies. They invest their money into a number of startups, taking equity in return. Since the startups are known by their potential for fast growth, but also know by "fail fast" rule, the business angels enter the "lottery game".

Once they are in, by giving smart money (sharing connections, knowledge, mentorship, etc...), the business angels strengthen their chances for the perfect match. If the startup succeeds, for the equity taken, the business angel can multiply a return of the money invested by many times. The success of one startup can return all the money invested in all the other startups that failed.

Starting from the fact that there are a lot of wealthy individuals in N.Macedonia, means that there is a lot of potential for new access to finance for startups. Noting that there have already been some angel investing done in the Country, means that BA's investing is not science fiction.

However, a few questions occur, whenever analyzing the regulatory climate for BA investing. There is still no publicly available data on regulation for potential obstacles for BA investing. Are there any? What are the challenges that Business Angels face? Can and should the Government do something in order to stimulate this kind of access to finance for companies? What is EU recommending? What can we learn from other countries in this area? etc...

In this paper the policy measures and the financial impact are analysed based on publicly available data. Countries that are analysed are:

- Bulgaria - EU and regional country that is stimulating Business Angels investments
- Slovakia - EU country that has not adopted any significant measures for Business Angels investments
- Portugal - EU country that managed to overcome economic crisis through economic measures that stimulate this type of investments and in a few years recorded increase of Business Angels investments by EUR 11 million.
- N. Macedonia - policy and financial analysis of the climate for Business Angels investments.

**This Paper is done in order to stimulate changes in the existing Policy in N.Macedonia, in order to remove investing obstacles and pave the way on adopting stimulative measures.**

## SHORT SUMMARY

BEFORE STARTING TO WORK ON A STRATEGY THAT STIMULATES BUSINESS ANGEL INVESTING (CO-INVESTMENT FUNDS, EASED PROCEDURE FOR SPV'S RECOGNIZED BUSINESS ANGELS NETWORKS, TAX INCENTIVES ETC...), **CURRENT REGULATION OBSTACLES MUST BE CORRECTED.**

BUSINESS ANGELS MUST BE GIVEN REGULATION MECHANISMS ON PROPER LEGAL ROADS FOR INVESTING

# BUSINESS ANGELS ACTIVITY IN R.N.MACEDONIA

Three business angel networks exist in North Macedonia:

- Association of Business Angels\***
- Ceed Business Angels Club\***
- Macedonian Business Angels Network - I2BAN\***

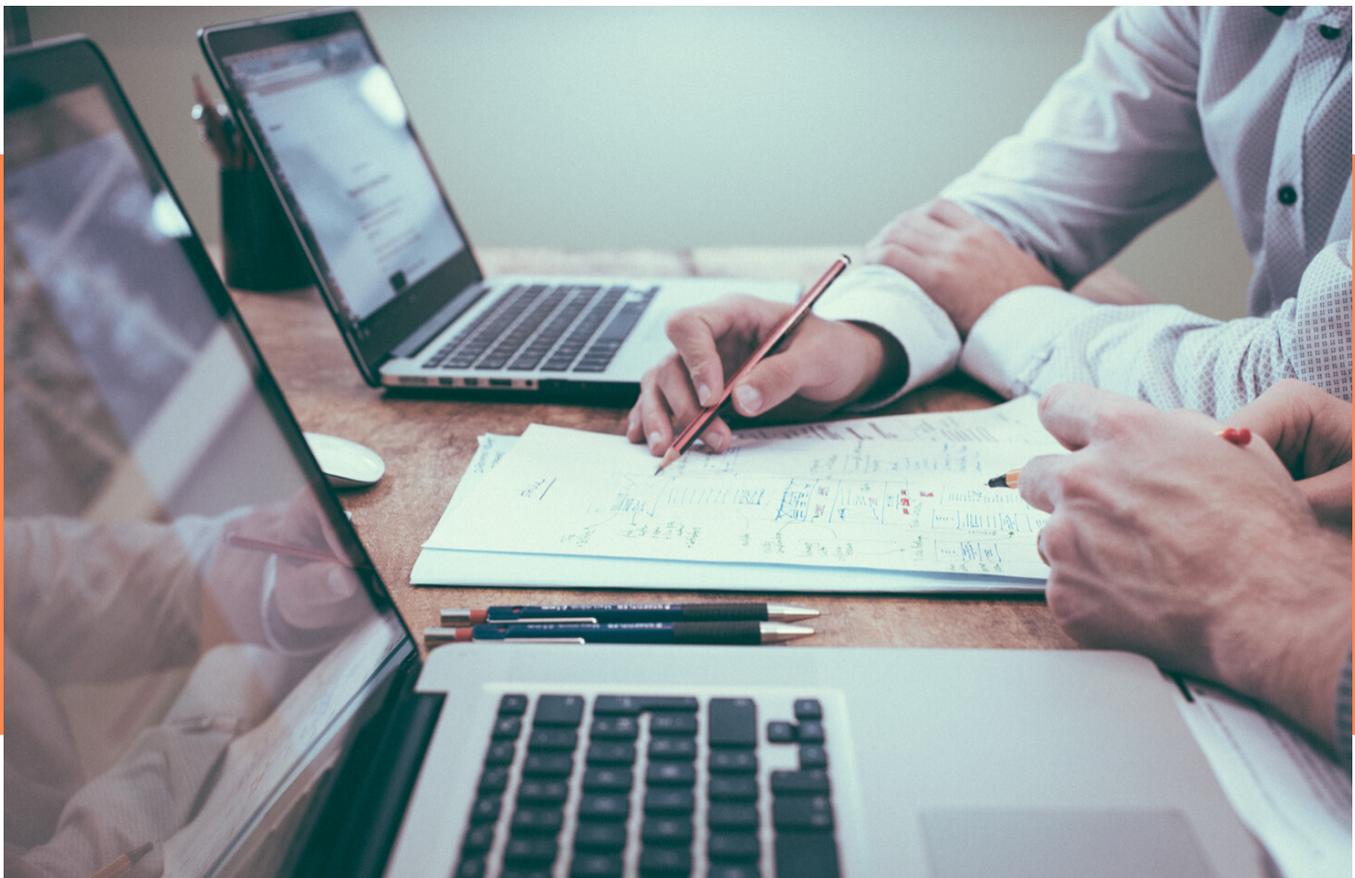
**Association of Business Angels** is lead by its president Mr. Tose Kocevski.

The Association has around 15 business angels as members, and has invested in around 5 startups. However, there is no publicly available data as to who are the members, which are the start-ups (there is info that all of the 5 start-ups are in ICT sector).

In an interview done by a Macedonian portal with the president of the Association Mr. Kocevski, in these 5 startups, **a total amount of 300.000 eur has been invested as BA's investment.**

In this interview, Mr. Kocevski has been quoted to have said that he believes there is a lot of potential for Business Angels activity here, but there are a lot of constrains in terms of regulation.

Article 29 from Law on Trade Companies is mentioned as a constrain, as well as the non-existing tax incentives for BA's.



*Note: There is no publicly available data about the investments made by the I2BAN organization*

**Ceed Business Angels Club** is lead by Mr. Jovan Madzovski - co-founder of the club.

This BA's club is founded in 2014. Up until today, it has around 20 business angels as members, and has invested in 3 start-ups (where one startup had a second round of investment as well).

According to the data available on the web-site of Ceed BA's Club\*, the start-ups where they have invested are: Brainster, Multipractic and Yanika (a startup based in Slovenia).

In a conversation with Mr. Madzovski, **a total amount of 250.000 eur has been invested so far.**

In every investment done by an angel investor who is a member of this club, the club itself invests money together with the angel investor, as to stimulate investing and share risk.

Usually an equity between 10%-40% can be taken from the company in return for the investment made.



*Startup companies where Ceed BA's club has invested*

When discussing on policy, the opinion of Mr. Madzovski is that the Government of N.Macedonia can stimulate and increase business angel activity.



“One of the important things that can come from the Government, is to establish a co-investment fund for the Business Angels. Another thing is to ease the procedure for creating a simple SPV's (special purpose vehicle's) where the BA's can join their finance and invest through SPV (right now the regulation on creating a private fund is very complex and strict). The third and final incentive can be tax simulations for Business angels who are members of recognized BA-networks (as to avoid any manipulations)”

\*<http://ceed-macedonia.org/ceed-macedonia-business-angels-club/>

\*<https://www.facebook.com/angelinvestitormk/>

\*[https://www.facebook.com/Business-Angels-Network-of-Macedonia-i2ban-234234466606898/?ref=br\\_rs](https://www.facebook.com/Business-Angels-Network-of-Macedonia-i2ban-234234466606898/?ref=br_rs)



# EU ON N.MACEDONIA'S ACCESS TO FINANCE

*Abstracts from "European Commission – North Macedonia Report 2019" and "SME Policy index for Western Balkans 2019 (Chapter North Macedonia – Small business profile)"*

## Overview

SMEs in North Macedonia are the major employers accounting for more than two third value added and three quarters of employment, the share of SMEs in the economy is well above the respective EU averages of 57% and 66%.

The banks investment activity through loans has increased. This along with the turnaround in the rejection of loan applications is partially due to an improved economic situation and outlook, high banking liquidity and further improved bank' profitability. **However, there is a significant lack of alternative financing sources such as equity and business angels funding for new and growing firms.** Around one-third of all business loans go to SMEs, compared to just under half across the other Western Balkan economies.

Venture capital is in its infancy, although the development of the sector is part of the Government Innovation Strategy 2012-2020. Overall, investors' appetite remains low and equity investments in the economy remain limited with barely any active equity funds present. There are two local business angels' networks in North Macedonia but investments are negligible both in number and size. One key public funding source for start-ups is the Fund for Innovation and Technological Development (FITD).

As stated above, **bank lending remains the main source of private sector financing, with other financing instruments being modest or absent.** And despite a relatively well-developed legal framework, lending to the SMEs remains below potential and could be supported by helping SMEs anticipate risk and overcome collateral constraints. **The take up of alternatives to bank financing are also low, partly due to an inadequate legal framework as well as low awareness and understanding of non-bank financing products**

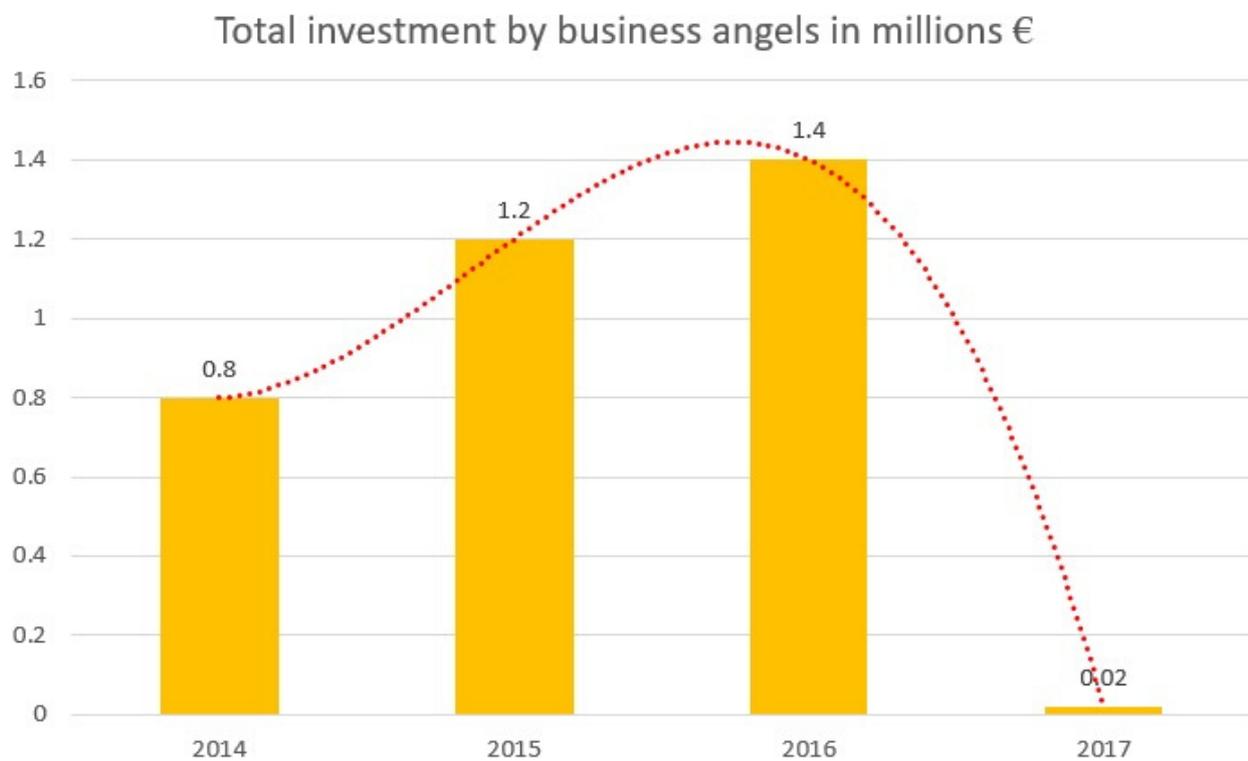
## Recommendations to the Government of N. Macedonia by EU

**Increase awareness of the various financing instruments.** Making information on financial instruments available to small businesses would help increase uptake of non-bank financing by **widening knowledge about opportunities other than bank credit.** Awareness could be raised via a central information platform (e.g. online) that is easily accessible and has clear guidance on the various aspects of access to finance, including explanations or learning tools to help entrepreneurs understand the range and applicability of different financial products



# FINANCIAL STATISTICS

## Total investments by Business Angels in N.Macedonia



There is no data available for the investments done by business angels, reported to the European Business Angels Network up until 2014.

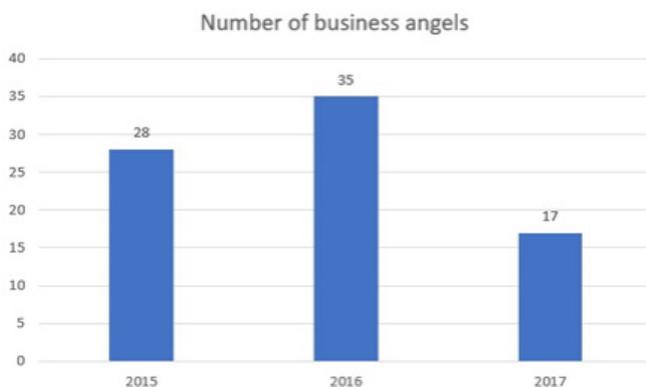
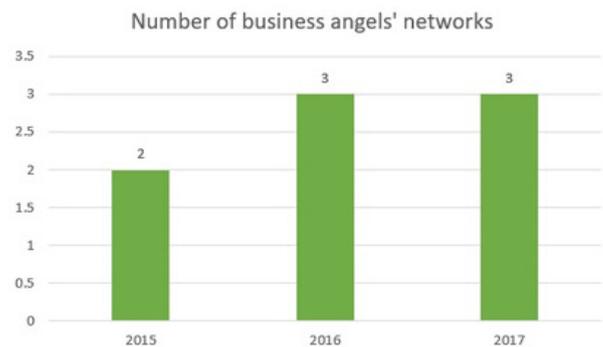
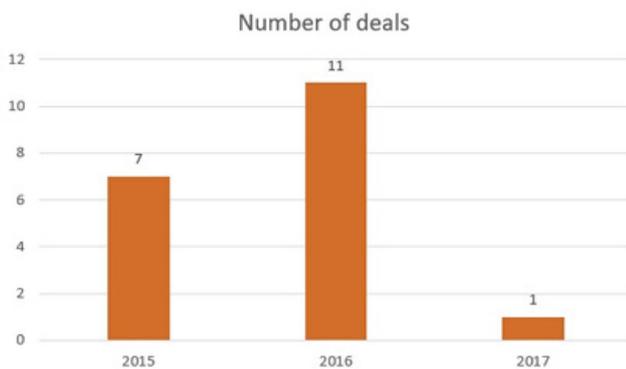
In 2014, N.Macedonia reported to EBAN a total of investments in amount of EUR 0.8 million.

After that, in the next two years, there is a steady ascending line, of growth in the investment numbers, where in 2015 the number is EUR 1.2 million and in 2016 is EUR 1.4 million.

Last known data reported to EBAN is the total investment in 2017 where a noticeable drop is evidenced. The reported investment amount is EUR 0.02 million.

In accordance with the policy analysis further, there aren't any significant measures adopted by the Government in order to stimulate this type of investing.

### Charts overview of the trend of the number of average number of deals, number of Business Angels and Business Angels networks

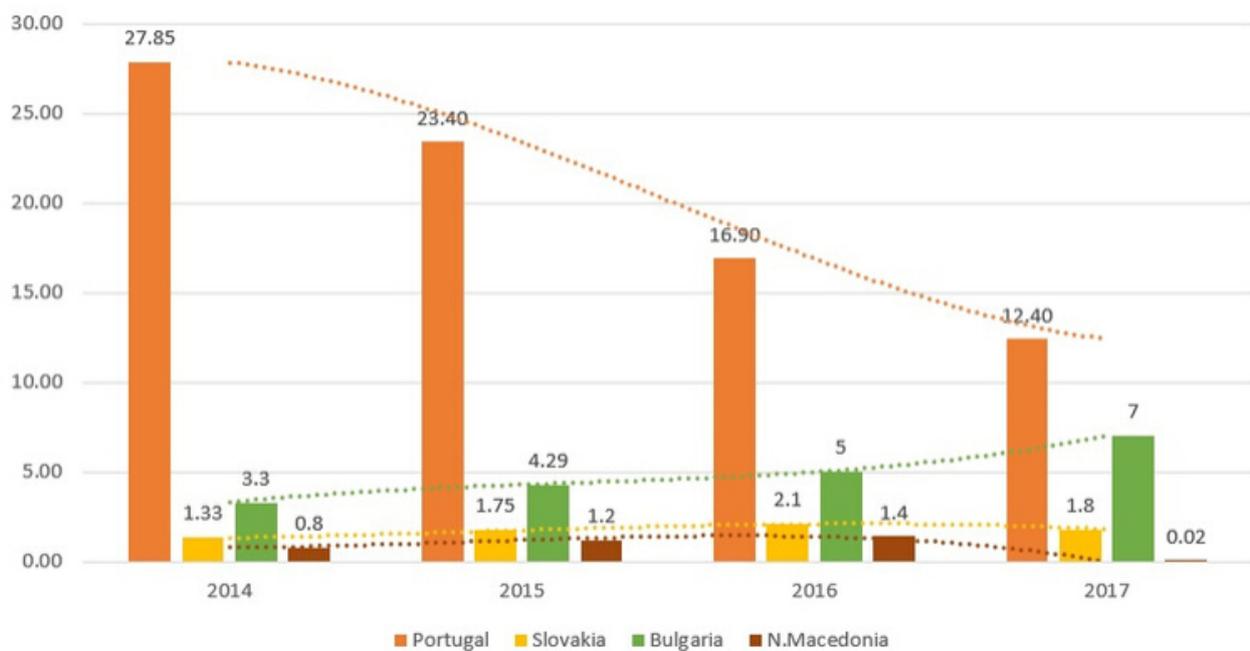


There is data only for 2015; 2016 and 2017 reported to the EBAN regarding the numbers of the BA's, deals and BA's networks. From the charts, the number of networks in 2017 is 3, however the 3rd network needs to be checked since in N.Macedonia only 2 networks have activity that is more publicly known.

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of BA networks	n/a	2	3	3							
Number of deals	n/a	7	11	1							
Number of Business Angels	n/a	28	35	17							
Total investment by BAs in millions	n/a	0.8	1.2	1.4	0.02						

# FINANCIAL COMPARISON

Total investment by business angels in millions €



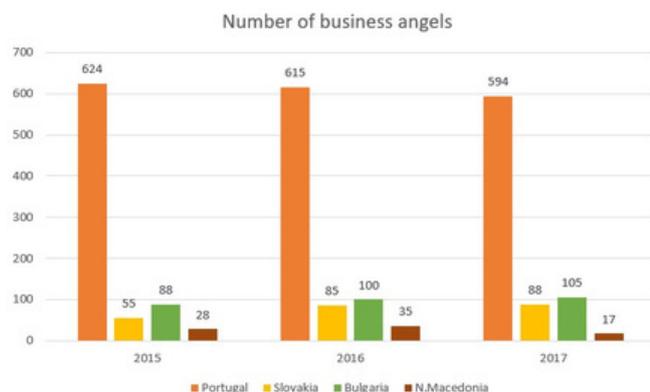
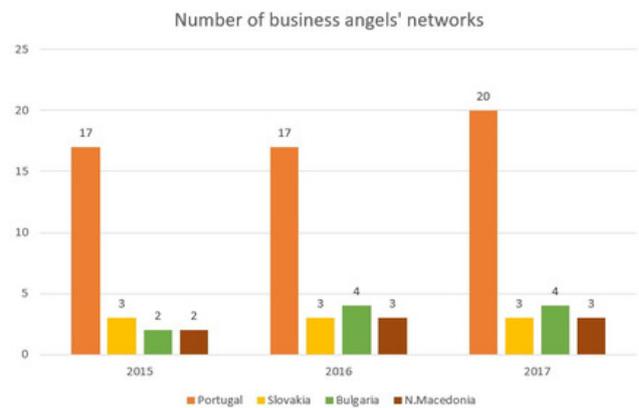
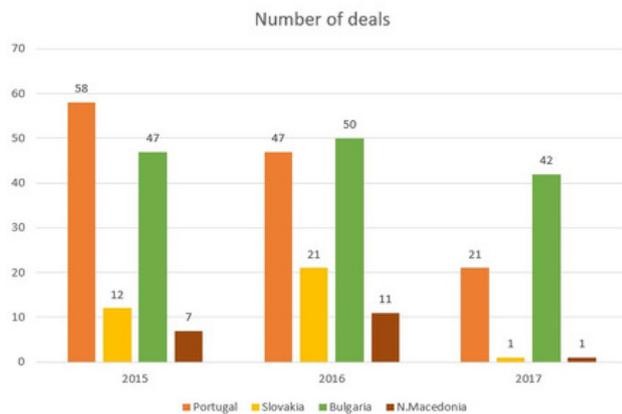
Definitely Portugal is leading in the total investments made by business angels by a far number.

In Slovakia, Bulgaria and N. Macedonia, even though there were no significant policy interventions, N. Macedonia is positioned last.

In accordance with the EBAN statistical reports, in 2015 only the countries: Latvia, Kosovo, Cyprus and Croatia had less amount of investments made by business angels in comparison with N. Macedonia. **Where in 2017, we are at the bottom of the list.**

**It is easily noticeable that startup companies in N. Macedonia are losing lots of opportunities on new access to finance, in part due to some policy obstacles and no policy stimulations.**

**The potential of new money going to startup companies, has essential importance, especially since BA investing is seed capital and it is crucial for the early stages of the start-ups development phases.**



*“Comparison of the number of Business angels, networks and the number of deals”*

*Note:*

*The statistics are extracted from the "EBAN Statistics Compendium" for all available years (see references)*

# COMPARATIVE ANALYSIS



## PORTUGAL ON POLICY

### History

Following the onset of the financial crisis in 2008 a number of EU countries with high debt levels were forced to seek bailouts from the EU, ECB and IMF. In that condition they had to make dramatic spending cuts. The austerity measures that were implemented led directly to the deterioration of the financial environment. The consequence was a decline in both bank lending and venture capital investing which, in turn, resulted in depressed economic activity levels. **The consequence is that business angels as source of finance for entrepreneurial businesses in such countries, have now become even more significant.** With the help of the European Business angels network (EBAN), and the Portuguese Business angels federation, the Portuguese government was presented policy measures and results of a wide range of co-investment funds and tax incentives in Europe.

### Chronological Overview

**2000** - First BA Network was launched in 2000 (Business Angel Club )

**2006** - several BANs are launched. Five of them create FNABA (Business Angels Federation)

**2007** - Portugal organizes the 7th EBAN Congress in Estoril (Lisbon) and the First World Business Angels Leaders Forum that decides to create the World Business Angels Association

**2008** - Business Angels are officially recognized in Portuguese law

**2009** - Portugal (FNABA) is a founder member of WBAA

**2010** - Portuguese Government decides to implement a 20% Tax relief for Business Angels, which was approved by parliament in March 2010

**2011** - starts the implementation of the 42 Million Euros Business Angels Compete Co-Investment fund, with 2,5 million Euros already invested in the first quarter 2011

## Policy Measures

2008 - 2011 the Government created a triple Business Angel Programme

- 1. Business Angel Certification**
- 2. Business Angel Tax Break (Fiscal Incentives)**
- 3. Business Angel Co-Investment Fund**

### Certification Process

#### Through an accredited BAN:

BAN must be accredited by IAPMEI (state agency for stimulating entrepreneurship)

BAN certifies the BA as a real BA

BA presents official certificates showing that they do not have any outstanding payments to the Tax Department or Social Security

BA declares (s)he is a BA, (s)he intends to make investments and has enough own resources to make those investments

#### Through the security exchange Authority (CMVM):

BA must create its own investment company

Must show that has enough resources and experience in investing in start ups

Must pay annual fees to the CMVM

Must do annual reports for CMVM

Must have an insurance specifically for this purpose

### BA Co-investment Fund

BA COMPETE co-investment fund is introduced through compete program (through European funding). A total of 267 angels are involved. Their total investment capacity is €42m, with €28m from COMPETE. The funding from COMPETE to the IVE (investment vehicle entities – companies opened by BA's for investing) is provided as a 10 year loan. However, there is no interest or capital return guarantee. Business angels are not personally liable for repayment of the amount of the loan to the IVEs. The maximum loan per IVE is 65% of their total investment requirements up to a maximum of €500.000 for each IVE.

### BA Tax Relief

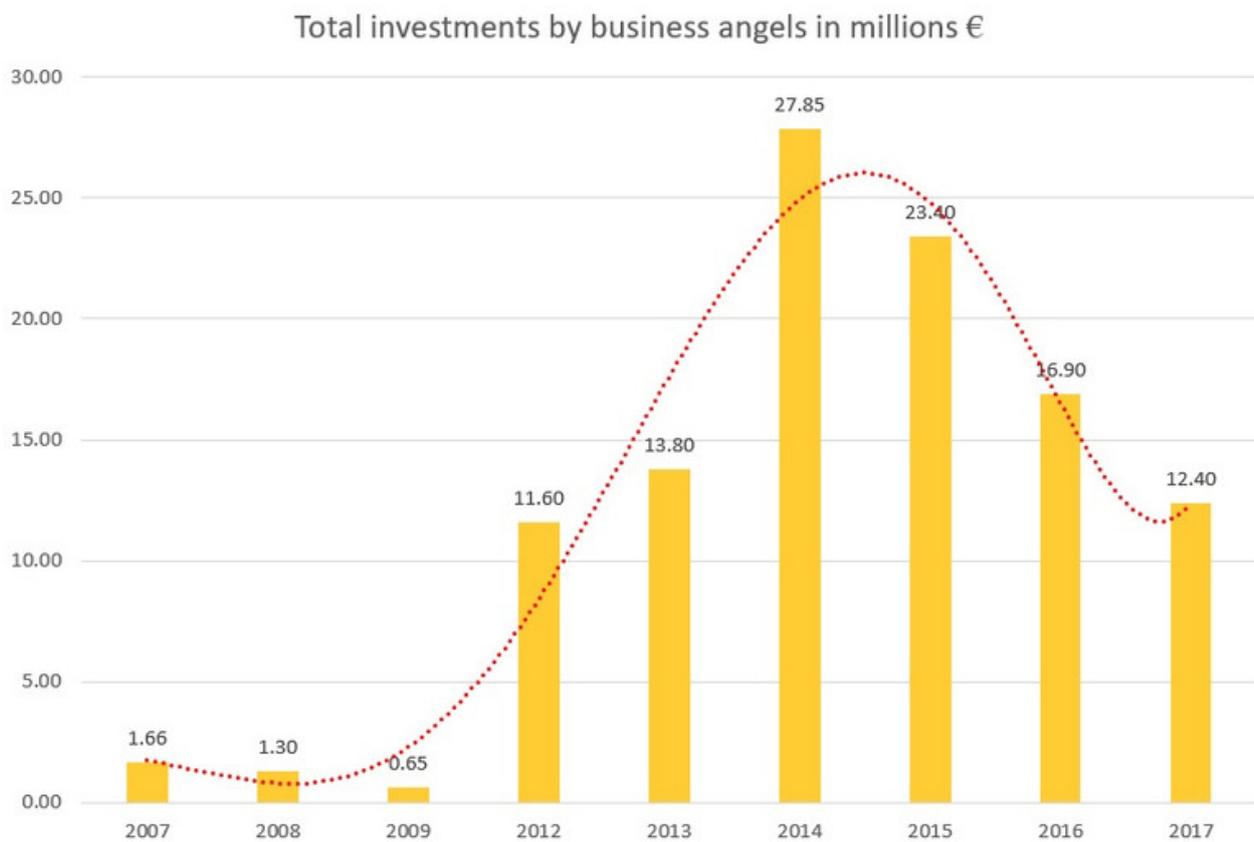
“Reinvestment relief” and “tax relief on the amount invested” showed as most important types of tax incentives. According to the findings - the one fiscal measure that attracted little support was tax exemptions on income from dividend income. As angels are investing for capital gain rather than income.

Note: Find some of the Portuguese BA's here:  
<https://angel.co/portugal/investors>



# FINANCIAL STATISTICS

## Total investments by Business Angels in Portugal

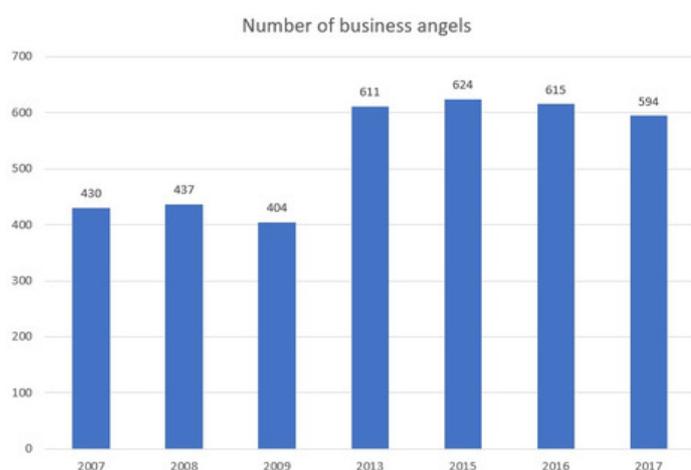
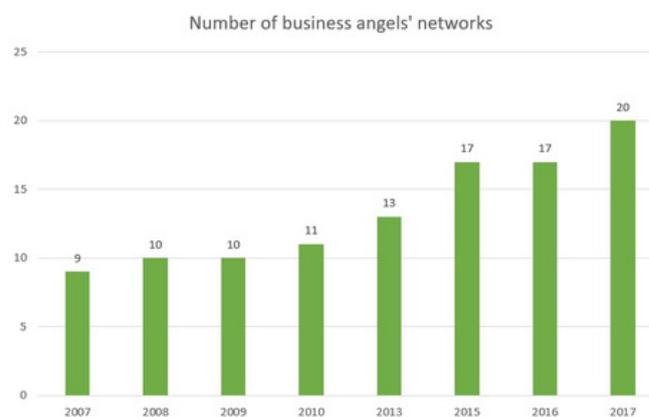
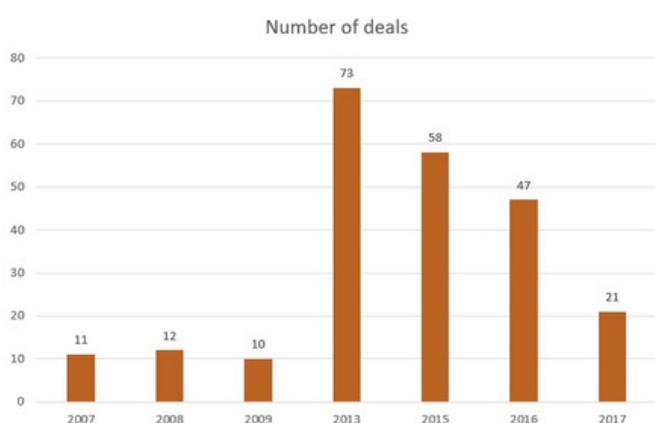


Deriving from the charts it can easily be noticed that there is a steady line of Business Angels investing until 2009.

After 2009 until 2014 a big positive change happens in the curve. The total investment by business angel's in 2009 amounts to 0.65 millions, then in 2012 the total investment by business angel's amounts to 11.60 million. **Almost 11 million EUR more within a few years.**

There is a big probability that this occurrence happened because of the triple BA program, especially the adopted co-investment fund between the country and the Business Angels

### Charts overview of the trend of the number of deals, Business Angels and Business Angels networks



With the positive trend of the increase of the investment amount done by Business Angels, the trend of the number of Business Angels and BA's network is pretty steady throughout the whole period.

Years	2007	2008	2009	2012	2013	2014	2015	2016	2017
Number of BA's networks	9	10	10	n/a	13	n/a	17	17	20
Number of deals	11	12	10	n/a	73	n/a	58	47	21
Number of BA's	430	437	404	n/a	611	n/a	624	615	594
Total investments in millions by BA's	1.66	1.30	0.65	11.60	13.80	27.85	23.40	16.90	12.40

Note: Statistics comprised in accordance with the publicly available data by EBAN



# SLOVAKIA

## History

Slovakia joined the European Union in March of 2004. Slovakia is a high-income advanced economy. It is also the world's largest per-capita car producer with a total of 1,090,000 cars manufactured in the country in 2018 alone and the 6th largest car producer in the EU. The OECD in 2017 reported: "The Slovak Republic continues exhibiting robust economic performance, with strong growth backed by a sound financial sector, low public debt and high international competitiveness drawing on large inward investment". The Slovak economy is one of the fastest growing economies in Europe and 3rd fastest in the euro zone.

## Overview

**Business angels – much like the startup ecosystem – are at an initial stage** in the Slovak Republic. There are three business angel networks (BANs): 42 Angels, Business Angels Club Slovakia, managed by the Young Entrepreneurs Association, and Tatrabank's angel network managed in partnership with Crowdberry.

There has been no support from the government for business angels so far and the statistics about investment activities are missing. It is thus difficult – apart from anecdotal evidence – to assess the impact of business angels so far. Likewise, success stories are hardly found.

**The Slovak government attempted to reduce the early-stage equity gap through a venture capital fund that was managed by the Slovak Business Agency.**

Additionally, two venture capital funds - Neulogy Ventures and Limerock - targeting early-stage investments were created with the help of EIF (European Investment Fund). This initiative, with the help of the Slovak government, had a very positive impact in the market, bringing private and public money to the early-stage ecosystem. It also brought transparency, as all deals are public and there is some competition to get the best deals.

Seeking equity financing is currently not a common process for SMEs in the Slovak Republic. The few enterprises having used equity finance received money from informal sources like friends and family members (36% of SMEs) rather than through formal structures like banks (21%), according to the survey conducted for this study. Business Angels and public equity funds were only used by a small proportion of SMEs in the country (approximately 3% and 2% respectively). This is an indication that the equity market is underdeveloped in the country.

Jaroslav Luptak, an investment manager, from Neulogy Ventures is quoted to have said that there are very few business angel investors who are active in Slovakia, however, more and more successful entrepreneurs are getting involved with startups as mentors and/or investors.



As we have state previously the business angel environment in Slovakia is almost non-existent. Some initiatives to create an organized network of BA have not yet been able to provide visible results. A few business angels in Slovakia created the Slovak Business Angels Network (SBAN) in 2011 with the support of SBA and the Young Entrepreneurs Association of Slovakia. The SBAN brings together Slovak investors and managers, who are willing to develop the area of business angels and support entrepreneurship. However, actual investments have not been reported (though 60 have been rejected) and SBAN is mostly providing mentoring and consulting support to potential entrepreneurs.

## **Policy Measures**

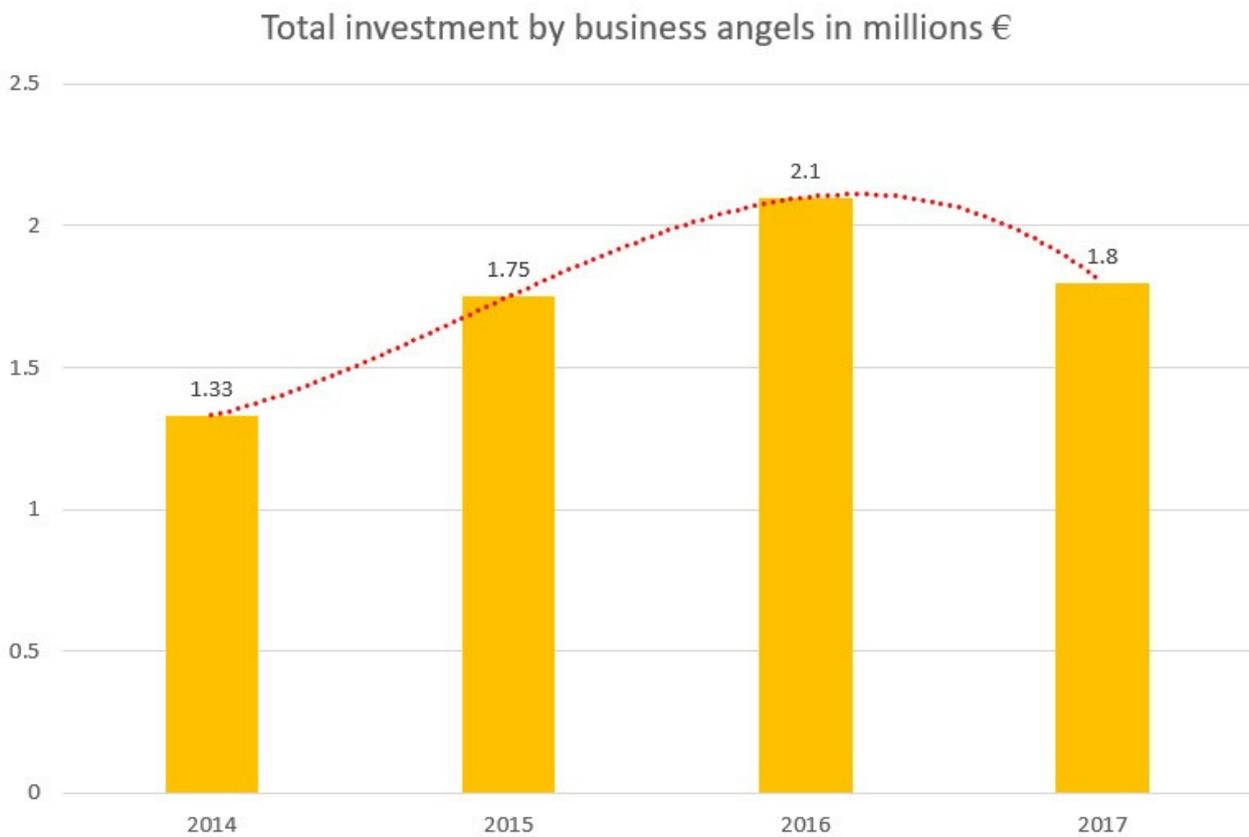
There is no available data on policy measures that stimulate angel investing in Slovakia.

*Note: Find some of the Slovakian BA's here:*  
<https://angel.co/slovakia/investors>



# FINANCIAL STATISTICS

## Total investments by Business Angels in Slovakia



There is no data available for the investments done by business angels, reported to the European Business Angels Network up until 2014.

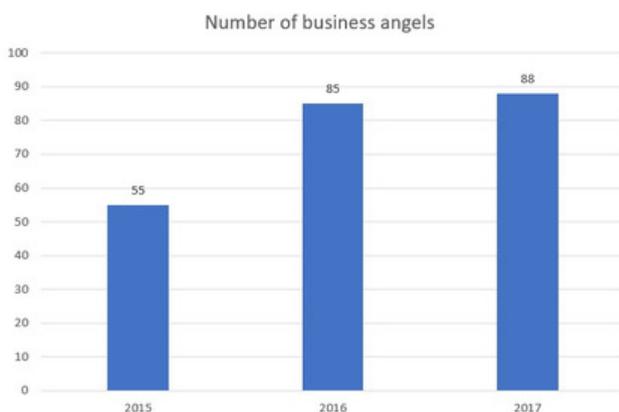
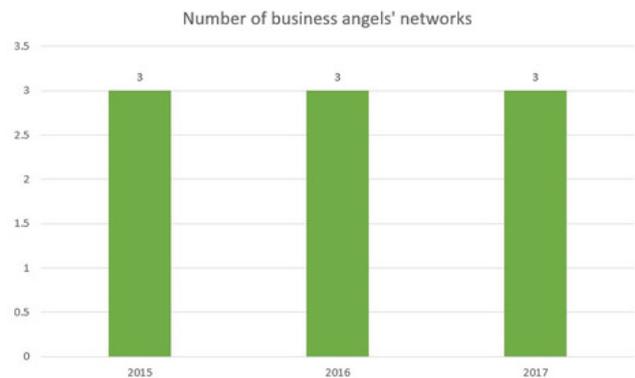
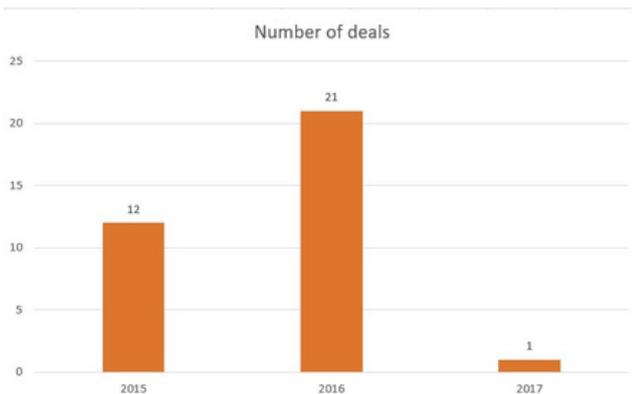
In 2014, Slovakia reported to EBAN a total of investments in the amount of EUR 1.3 million.

After that, in the following years there is an ascending steady line until 2016, and following decrease in 2017.

In accordance with the policy analysis and actual activity on the part of Business Angels investments, not much has been done. In 2011 a few business angels in Slovakia created the Slovak Business Angels Network (SBAN), but no investments have been reported.

### Charts overview of the trend of the number of deals, Business Angels and Business Angels networks

Even though only one investment was reported to EBAN in 2017, the same investment amounted to EUR 1.8 million, which rises the average in the total investment chart



There is a rising trend of increase of the number of Business Angels in Slovakia, however in 2017 only one investment is reported to EBAN, even though a number of 88 Business Angels are recorded. The number of BA networks, starting from 2015 is at a constant 3.

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of BA networks	n/a	3	3	3							
Number of deals	n/a	12	21	1							
Number of Business Angels	n/a	55	85	88							
Total investment by BAs in millions	n/a	1.33	1.75	2.1	1.8						

Note: Statistics comprised in accordance with the publicly available data by EBAN



# BULGARIA

## History

Having endured the so-called Great Recession of the late 2000s, Bulgaria has managed to quickly restore its positive growth levels in contrast to other Balkan countries. Becoming a member of the EU in 2007 has undoubtedly assured the rapid growth of the Bulgarian economy in recent years. So much in fact that its currency is the strongest and most stable in Eastern Europe today. **This rapid growth can be attributed to a multitude of factors, although key indicators for Bulgaria's economic success are its support of SMEs, particularly startups, its support for Business Angel networks and the implementation and use of convertible notes, bonds and loans**

## Overview

SMEs are the backbone of the Bulgarian 'non-financial business economy'. They account for 62.2% of value added and 75.4% of employment which is well above the EU average. By implementing the Small Business Act of the EU, the Bulgarian government has been most active in the fields of responsive administration, access to finance, internationalization and the 'Think Small First'\* principle.

In the area of access to finance Bulgaria performs broadly in line with the EU average and has continuously improved since 2008. The banks investing activities through loans has increased, but in terms of alternative founding, Bulgaria is somewhat lacking in business angels for new and growing firms and venture capital investments.



Milen Ivanov from the CEO Angels Club is quoted to have said that although statistics are non-existent by his own estimate business angels usually invest approximately ten to fifteen thousand euros per investment, with larger packages of investments being rarely included with an investment of up to fifty thousand euro. Mr. Ivanov has also stated that the trend of business angels requiring a large equity or stake in a company is shifting. If that is the case, we can expect an increase in business angel investments in Bulgaria in the near future.

*\*The definition of the "Think Small First" principle implies that policy makers give full consideration to SMEs at the early policy development stage.*

The European Commission in its 'Evaluation of EU Member States' Business Angel Markets and Policies Final Report' from October 2012 has stated that there are no exact methods to estimate the number of Business Angels in a specific Member State due to the fact that Business Angels rarely operate ('invest') together and in instances where they form networks or clubs it is nearly impossible to gather information about their members.

The Bulgarian Association of Business Angels (BABA) is a national organization which strives to support and develop the Bulgarian entrepreneurial ecosystem through the powerful support of business angels. BABA is a member of the European Trade Association for Business Angels, Seed Funds and Early Stage Market Players (EBAN). The creation of BABA is a positive trend in Bulgaria. According to their own documents BABA works in collaboration with the government to help create legislation that supports business angel investments in Bulgaria.

In 2012 the Eleven Start-up Accelerator in Bulgaria was set up with a total of 12 million euros committed by the EU. This holding fund is co-funded by the State budget in the amount of 15%. Although Eleven was originally funded exclusively with public funds (European and Bulgarian), **the success of the fund and its engagement with business angels has resulted in Eleven being able to leverage an additional 55% from private investment.** Business angels have also contributed in the success of this program by making investments. Bulgarian Eleven Start-up accelerator was also selected as one of the top 10 seed accelerators in Europe for 2015.

## Policy Measures

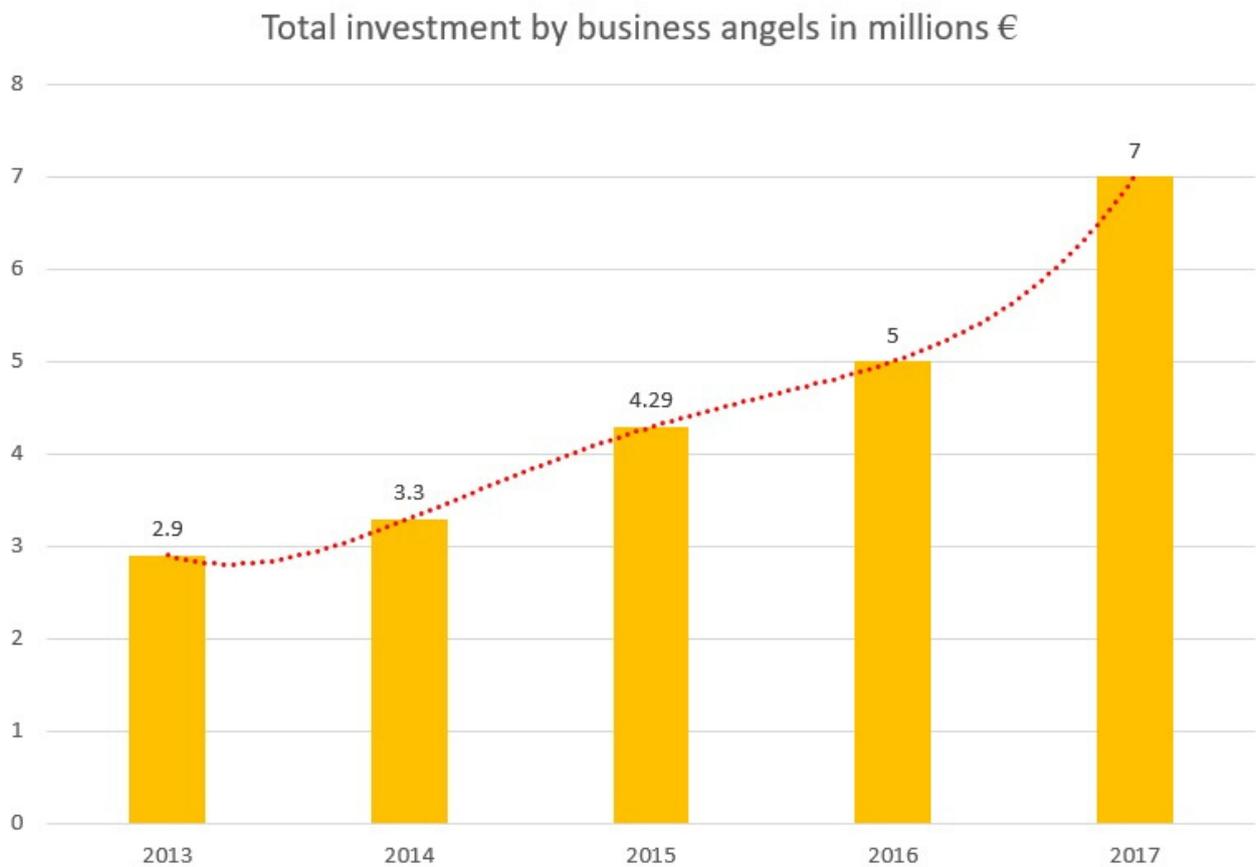
There is no available data on policy measures that stimulate angel investing in Bulgaria

*Note: Find some of the Bulgarian BA's here:*  
<https://angel.co/bulgaria/investors>



# FINANCIAL STATISTICS

## Total investments by Business Angels in Bulgaria

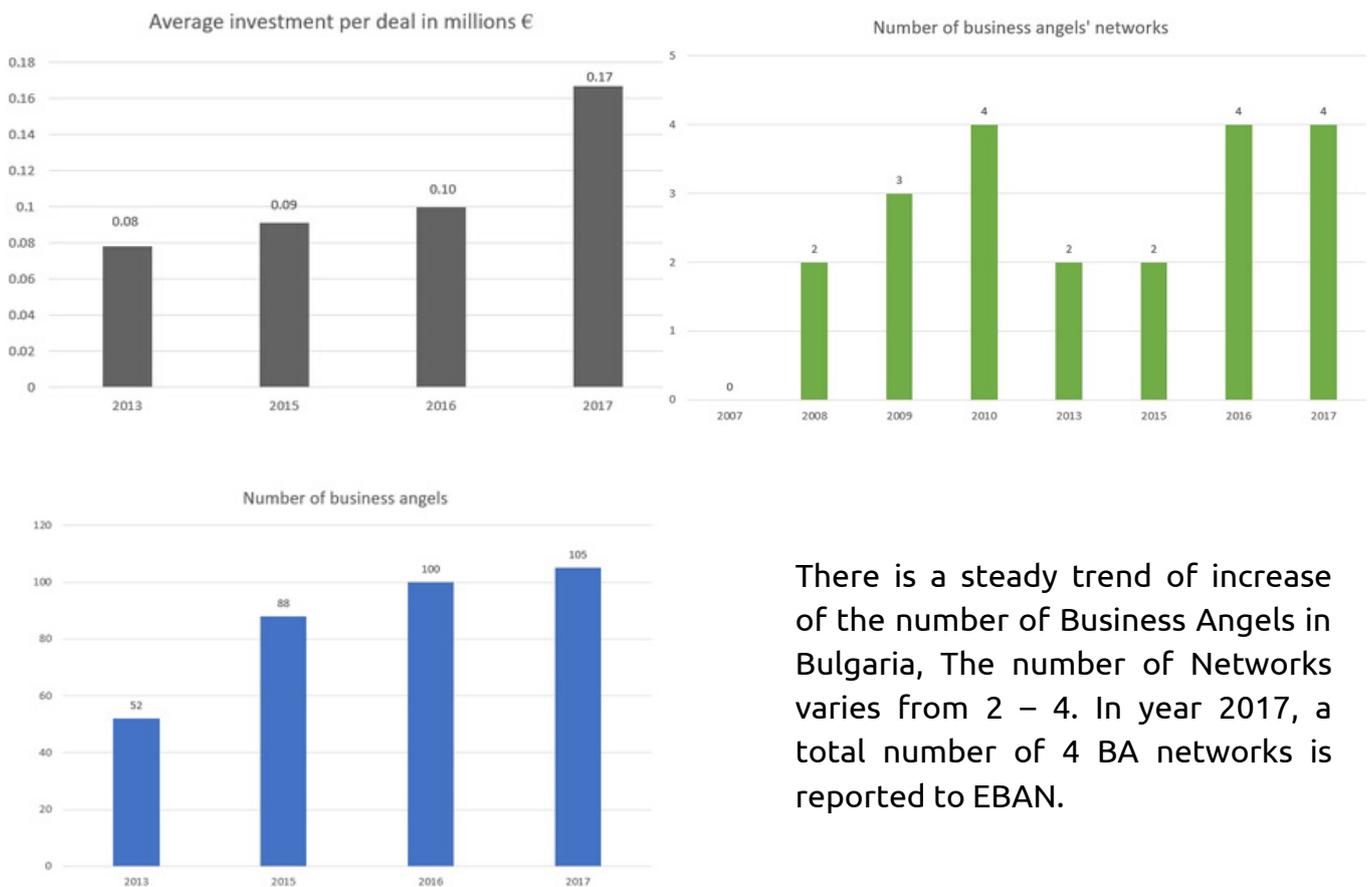


There is no data available for the investments done by business angels, reported to the European Business Angels Network up until 2013.

In 2013, Bulgaria reported to EBAN a total of investments around EUR 3 million. After that, in the following years, there is an ascending line, of growth in the investment numbers. Last known data reported to EBAN is the total investment in 2017 which amounts to EUR 7 million.

In accordance with the policy analysis, Bulgarian Government is well aware of the importance of the BA's investing and **has adopted mechanisms like the convertible loan for the angel investors to invest their money.**

### Charts overview of the trend of the number of average number of investments amount, number of Business Angels and Business Angels networks



There is a steady trend of increase of the number of Business Angels in Bulgaria, The number of Networks varies from 2 – 4. In year 2017, a total number of 4 BA networks is reported to EBAN.

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of BA networks	0	2	3	4	n/a	n/a	2	n/a	2	4	4
Number of deals	n/a	n/a	n/a	n/a	n/a	n/a	37	n/a	47	50	42
Number of Business Angels	n/a	n/a	n/a	n/a	n/a	n/a	52	n/a	88	100	105
Average investment per deal in millions	n/a	n/a	n/a	n/a	n/a	n/a	0.06	n/a	0.05	0.05	0.07
Total investment by BAs in millions	n/a	n/a	n/a	n/a	n/a	n/a	2.9	3.3	4.29	5	7

Note: Statistics comprised in accordance with the publicly available data by EBAN

## SUMMARY

Countries that have adopted measures for stimulating BA's investment, have increase in BA's investment (Portugal and Bulgaria) and /vise versa/ countries that have not adopted significant measures for stimulating BA's investment, have lower BA's activity (Slovakia, N.Macedonia)

EU is stating that bank landing remains the main source of private sector financing in N. Macedonia and is **recommending widening knowledge and awareness about opportunities other than bank credit.**

N. Macedonia already has three BA networks, which have been investing in startups

A decision of whether we accept foreign practice and accept EU recommendations to work in this area is pending.

# POLICY AMENDMENTS RECOMMENDATIONS

*One of the important activities in 2018 related to regulation and Business angels was the initiative lead by Mr. Zoran Shapurikj, Minister in charge of Regulation for Improving Investment Climate. This initiative was widely known and recognized. This initiative was for creating a "lex specialis", a standalone separate law for Business angels in North Macedonia. However, there is no available data, as to what happened to this initiative. There is no available data as to whether any official conclusions or recommendations came out from this initiative.*

## **Potential regulation obstacles for BA's Investing**

Before implementing strategy on stimulating Business Angels investments, a check on current regulation needs to be made, in order to determine if potential obstacles exist. Obstacles that can overturn the investor in his pursuit.

The following articles are noted as possible obstacles:

### **ARTICLE 29 paragraph (2) - 4**

In accordance with the Law on trade companies - **Article 29 paragraph (2)-4:**

"A Company can not be founded by:

*A person who is a part of the ownership structure in a limited liability company (LLC) or a limited liability company founded by one person, where the company has a blocked account, while the blocking of the company is ongoing, until liquidation or bankruptcy proceedings has been initiated"*

It refers that **if a business angel has invested in a startup**, where the startup failed i.e. has over-indebtedness and its bank account is blocked - then the **business angel investor can not found another company, nor invest in one while in establishing process.**

This article was voted as a precautionary measure, for businessmen who would try to deliberately take their company into over-indebtedness state, and not fulfill obligations towards creditors.

However, the main accent is to be put on the CEO's. The CEO's are the ones who run the company on a daily basis. And whenever over-indebtedness state occurs the CEO is the one that must foresee it. The investors, as founders are not much aware of the daily running of the company.

Having in mind that startups are companies that have a high chance of failing, than this is a risk for investors that can overturn them.

**We are suggesting a change in this article, that will exempt founders who own less than 30% from the ban.**

Recommended amendments text for Article 29 paragraph (2)-4:

"A Company can not be founded by:

*A person who is a part of the ownership structure in a limited liability company and, has 70% equity or more, where the company has a blocked account, while the blocking of the company is ongoing, until liquidation or bankruptcy proceedings has been initiated"*

## **CONVERTIBLE LOAN**

Convertible loan as a tool is widely used by Business Angels. Convertible loan allows the investors to pick whether they want to become a part of the ownership structure in the future, when they can really assess the Company value. Since BA's investing happens in the early seed phases of the company, it is hard to make the choice on whether it is smart to take equity right away.

In accordance with our current regulation, convertible loan is not an option for BA investors.

**Convertible loan does exist in our regulation, it is regulated in the definitions section in the Law on Trade Companies as follows:**

*"A loan that is converted to equity in a process of increasing the share capital, is when the loan is solely given by the one and only founder in LLC (LLC of 1 person)".*

This means that, only in cases when a company is founded by only one founder convertible loan is possible. Whenever a loan is given by the sole and only founder to its company, the founder can decide whether to convert this loan into equity through a procedure of increasing the initial capital. Investors who would like to use this mechanism are not able to.

This would help by adopting amendments that will enable convertible loan only for investing cases. (Amendments will not be adapted for convertible debt that is based on different grounds (debt based on invoices, regular loan, credit etc), therefore only use this as an option for investors)

Recommended amendments text for definitions section on convertible loan in the Law on Trade Companies:

***"A loan that is converted to equity in a process of increasing the share capital, is when the loan is solely given by the one and only founder in LLC, the loan is given by an existing founder or a third party, and it is strictly given under a convertible loan agreement"***

### **Amendments for the procedure in front of the Central Registry:**

Necessary documents for the Central trade registry procedure for cases of converting a loan into equity by a procedure of increasing the share capital:

1. Founding Agreement (refined text)
2. Decision under article 252 of Law on trade companies
3. Decision for converting loan into equity
4. Decision for increasing the share capital
5. Offers/Statements on taking/accepting
6. List of people entering in the ownership structure
7. Statement under article 32 of Law on trade companies
8. Statement under article 29 of Law on trade companies
9. Bank proof of the made payment
- 10. Convertible loan Agreement (only this document is new requirement)**

### **Convertible loan Agreement mandatory content (Must be concluded in written form and notarized):**

1. Amount of payment
2. Period in which the loan can be converted (max 3 years)
3. Amount of equity taken in case of converting
4. Signed by the investor and the founder/s

If the loan is not converted within 3 years, then it is treated as a regular loan

### **Tax implications:**

Regular loan is taxable under current regulation. The share capital of a company is not taxable under current regulation.

When a company has an income based on a loan, that this occurrence is taxable.

When a company has an increasing of its share capital than this occurrence is not taxable

The implication is whether the income in the company should be treated as loan or as increasing of share capital, since it is not known whether it will be converted.

### **Options on how to resolve this in cases of convertible loan:**

1. The Public revenue office can charge the tax as a regular loan, but if the loan is converted into capital within the stipulated period (max 3 years), then return of tax is stipulated.
2. The Public revenue office can prolong the tax charging within the converting period. If the loan is converted, there is no tax. If the loan is not converted, then it is treated as a regular loan, with regular tax.

# ABBREVIATION LIST

1. BA - Business Angel
2. BAN - Business Angel Network
3. IAPMEI - Portuguese Agency for Competitiveness and Innovation
4. CMVM - Portuguese Securities Market Commission
5. BA COMPETE - Portuguese co-investment fund between the Compete EU project and Business Angels in Portugal
6. IVE - Investment Vehicle Entities (legal entities created for the purpose of investing)
7. EBAN - European Business Angels Network
8. SBAN - Slovakian Business Angels Network
9. BABA - Bulgarian Association of Business Angels
10. I2BAN - Innovation to Business Angel Network

# REFERENCES

"Financing innovative start-ups in Portuguese context: what is the role of business angels networks?" by José Bilau & Soumodip Sarkar 2015

"EBAN Conference 2011, Luis Costa presentation IAPMEI"

"2018 SBA Fact Sheet Bulgaria from the European Commission"

"Inclusive Entrepreneurship Policies: Country Assessment Notes Bulgaria 2018"

"Understanding the Nature and Impact of the business angels in Funding Research and Innovation – Final Report (EC)"

"Evaluation of EU Member States' Business Angel Markets and Policies Final Report (EC) in 2012"

"Specific Support to Slovakia – Boosting the Slovak startup ecosystem (EC) year 2017"

"Using Financial Instruments in the Slovak Republic in the 2014-2020 Programming Period (EIB)"

"European Commission – North Macedonia Report 2019"

"SME Policy index for Western Balkans 2019 (Chapter North Macedonia – Small business profile)"

Links:

<http://amcham.com.mk/WBStorage/Files/BusinessAngelsINFO.pdf>

<http://ceed-macedonia.org/ceed-macedonia-business-angels-club/>

<https://faktor.mk/kocevski-biznis-angelite-vo-makedonija-se-sposobni-za-investiranje>

<https://www.aleksov.mk/mk/preckibainvesticii/>

"EBAN - Statistics Compendium" - Based on the information provided by business angel networks having responded to survey in 2008

"EBAN - Statistics Compendium" - Based on the information provided by business angel networks having responded to survey in 2009, 2010, 2014, 2015, 2016 ,2017

Links:

<http://www.eban.org/wp-content/uploads/2013/10/EBAN-Statistics-Compendium-2009.pdf>

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