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The Importance Of Angel Investors In Financing The Growth Of Small And Medium Sized Enterprises

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Abstract

Angel investors are very important for small and medium sized enterprises because they provide more than money. They are hands-on investors and contribute their skills, expertise, knowledge and contacts in the businesses they invest in. They are wealthy persons with great business experience. They are willing to invest and offer their wealth and knowledge to owners of small and medium sized enterprises and to entrepreneurs to start or develop their businesses. One of the attributes of angel investors is that they like to remain anonymus. Due to this attribute, a lot of ideas can not be accomplished. To eliminate this, many countries establish angel investor syndicates (groups) and networks. These syndicates (groups) and networks facilitate the process of matching entrepreneurs and angel investors.

Keywords: angel investors, small and medium sized enterprises, development stages of small businesses, motives of investing, angel investor groups, angel investor networks

Introduction

Financing is a very critical issue for the survival and development of small and medium sized enterprises (SMEs). Angel investors play a key role in financing small and medium sized enterprises, especially those which are innovative and with high growth potential. SMEs in their development pass through several stages. The basic stages through which pass these enterprises are (Preston, 2004): a) *Seed stage*: the entrepreneur has an idea or concept for potential profitable business, which needs to be developed and proven. In this stage as financing sources can be used savings of founders, family and friends (also called as 3F Money); b) *Start-up stage*: the idea has been already developed up to the level which allows commercialization preparations. This stage lasts for less than a year. In this phase as financing sources can be used the angel investors means; c) *Early stage*: in this stage, production and distribution of a specific product or service takes place. This stage lasts up to five years, and business can be still unprofitable. Usually, in this stage, formal venture capital can be used as financing sources; d) *Later stage*: In this stage, the enterprise is already mature and profitable, and it continues broadening. With a continuous high growth, it can be become publicly famous in a period from six months up to one year. Initial public offering is a ideal opportunity to generate additional funds.

One of the greatest contributions given by angel investors is that they prefer to invest in seed-stage, start-up-stage or early-stage enterprises (see the example of Google in the table 1). In USA, 55-72% of angel investors invest in start-up stage or early-stage enterprises. The situation is similar in United Kingdom, where 50-65% of angel investors invest in aforementioned enterprises. On the contrary to USA and United Kingdom, in Sweden angel investors prefer to invest in later stages of development of enterprises (Freear, Sohl and Wetzel 1995, p.90).

Table 1. Google chronology of financing (1998-2008)

Investor	*Year*	*Dollars*
Sergey Brin and Larry Page (founder)	1998	Credit cards limit
Andy Bechtolsheim (business angel)	1998	100.000
Friends and family	1998	900.000
Venture capital	1999	25.000.000
Initial public offer (IPO)	2004	1.670.000.000
Market capitalization	2008	162.080.000.000

Source: Meyer 2008, p.10

Many angel investors prefer early-stage enterprises because they are the only enterprises where angel investors can have an important and active role before they are opt out from the market. Some others prefer start-up and early-stage enterprises because they represent a real challenge for them; in fact, they appear to be “something more than gambling”.

The term “angel investor” comes from Broadway, during the end of the 19th century where the rich investors secured means to the directors to finance production of new musicals and plays. Besides financial benefits their motivations rested also in their love for the theatre and the opportunity to meet and socialize with famous actors, screenplay writers and producers. These investors secured high-risk capital and were motivated by something larger than money. Even today, screenplay writers, actors, producers and musicians often depend on the altruism of others to promote their projects and careers.

Besides Broadway, angel investors became a critical source of financing risky, but promising ideas and projects. Just to illustrate, in 1874, Alexander Graham Bell used funds from angel investors to found Bell Telephone; in 1903 five angel investors helped Henry Ford, the automobile industry magnate with 40.000 $; in 1977 a angel investor invested 91.000 $ in Apple Computer; in 1978 a angel investor initiated the founding of the chain of markets of Body Shop. In recent times, many companies such as Amazon.com, The Mining Company, Go2Net, Firefly etc. owe their survival to angel investors, to their funds and their expertise and experience (Van Osnabrugge and Robinson, 2000, p. 41-43).

In the literature there are several definitions for angel investors that do not differ from each other drastically. According to Fiti et al., (1999, p. 144), angel investors are individuals that have available financial means and are ready to invest in entrepreneurship ideas. This encompasses retired managers who have prior retirement and have been rewarded with large leaving payments or compensations etc. as well as entrepreneurs and managers that have gotten rich in their business, but are not more active. Mason and Harrison (Mason and Harrison, 2008, p.8) define angel investor as "an individual, acting alone or in a formal or informal syndicate, who invests their own money directly in an unquoted business in which there is no family connection and who, after making the investment, takes an active involvement in the business, for example, as an advisor or member of the board of directors."

So, ***angel investors*** represent private investors who, during their active work, have gained wealth and experience and are ready to invest them in new small and medium enterprises in order to help the young entrepreneurs and receive profit simultaneously.

Angel investors have usually had a successful career, but now because of their age or some other reason they cannot devote themselves to their business anymore. In their thoughts there is always one motto present "there is still more to be earned". This attitude of theirs can always be accompanied by the possibility of losing a lot of money, but that does not prevent them from accepting the challenge.

The Angel Investors Profile

Although the population of the angel investors is quite diverse, their profile is not difficult to describe. In almost every research conducted regarding angel investors the same or similar demographic features emerge.

Gender

Studies conducted in various countries confirm that most of the angel investors are male, for example, in USA – 95%, in Great Britain – 99%, in Germany – 97%, whereas in Hungary 100% are male (Kosztopulosz, 2004, p. 4). This can be a result of the small number of women that have created successful enterprises, or have been on top positions in large companies.

Age

Angel investors belong to the age category of 40-65 years. It is assumed that by this age the entrepreneurs have gained enough experience, as well as gathered enough money and all that's left for them is to choose: whether to be "relieved of their duties", or to become angel investors by which they become economically active. Hill and Power (2002, p.25) have concluded this in their research: "The average age of the subjects is 49 years. To be specific, 54% were between 46 and 55% years old; 25% were between 36 and 45 years old; 13% were between 56 and 65 years old; 4% were between 66 and 75 years old and 4% were between 25 and 35 years old. None of the subjects claimed that they are older than 75 years old.

Education

Angel investors are typically people with a university diploma and/or professional qualifications. Nevertheless, angels with masters and doctorates are rare. According to many researches, about 75% of the angel investors have a university degree, and about 20% of the angel investors have enrolled in university but have not finished their studies (Mason, 2006).

Occupation

Angel investors come from various professional fields. According to Alterovitz and Zonderman (2002, p. 51), 25% of angel investors have worked in finance, as financial directors, accountants etc; 20% worked in the machines and equipment sector; while the other 55% come from areas such as medicine, production, construction biotechnology etc.

Despite the aforementioned demographic features, the angel investors have also other particular features. The more significant ones are the following:

Rich Individuals

Possessing wealth is one of the main preconditions of becoming an angel investor. Angel investors invest 10.000£ per deal (sometimes even more than 10.000£) and generally have a portfolio of 2 to 5 investments. In the US one in every three angel investors has a net-profit of 1 million $, whereas in Great Britain 19% of the angel investors are millionaires (Mason, 2006, p.5).

Investing Personal Assets

The fact that angel investors invest personal assets distinguishes them from institutional funds of high risk capital, whose funds come from sources, such as pension funds, banks, university endowments, insurance companies and other foundations, that have legal obligations of cautiousness, that is, to invest in less risky ventures.

They Make Risky Decisions

Most of the angel investors have a vast and often successful experience in managing companies. Having this in mind, they are ready to make different decisions, which often carry a large dosage of risk. By investing in new companies, the angel investors get a taste of "the old way of life" back. But, we must not forget that, even though they were once successful entrepreneurs, or were executives of large companies, the angel investors, do not always posses the required knowledge and skills for successful management of the companies.

They invest locally

Angel investors prefer to invest in enterprises in the vicinity of their home, usually within a 50-100 miles radius or 1-2 hours of driving by car. Just to illustrate, in Great Britain 67% of the angel investors invest in enterprises that are 100 miles from their home or working place, whereas in Norway its 48% (Reitan and Sørheim 2000, p.12). Angel investors prefer to invest nearby so that they can visit the firm in which they have invested and see how things are going up-close.

Companies That Are Not Quoted In The Stock Market

Angel investors invest in companies that are not quoted in the stock market. Because of the high risk of investment most of the angel investors invest only 5-15% of their assets in such companies. In this way, if the investments fail, which they often do, the losses will not affect their lifestyle drastically.

Main Types of Angel Investors

In the researches regarding angel investors, their diversity in types is large, consisting of 3-10 and even more types. For example, Gaston (1989) count ten types, Benjamin and Margulies (2000) nine types, Mason (2006) three types, Evanson (1998) five types of business angels.

Main division is as follows: active, latent and virgin angels (Mason, 2006; Ramadani, 2009). *Active angels* are people who have great experience in investment and continue to seek investments permanently. *Latent angels* are passive investors who have experience in investments, but have not invested in the past three years. *Virgin angels* are people who want and seek to invest, but have not made their first investment yet.

Coveney and Moore (1998) identify three types of business angel: Entrepreneur angels, income seeking angels and wealth maximising angels. The characteristics of these types of business angels are presented in **table 2**.

Table 2. Types of business angel

Characteristic	*Entrepreneur angel*	*Wealth maximising*	*Income seeking*
Total funds invested	590.000 £	131.000 £	35.000 £
No of investments	3.4	2.1	1.5
Personal net worth	74% > £1m	43% > £1m	35% > £1m
Reason for investing	returns/fun	returns	job/income
Average total amount invested	174.000 £	54.000 £	24.000 £
Average initial			

amount invested	111.000 £	21.000 £	17.000 £
Average number of rounds	2	1.75	1.5
Average number of co-investors	2.3	2.5	3.0
Average size of equity stake taken	38%	31%	20%

Source: Coveney and Moore 1998, p. 8

Sørheim and Landström (2001, p. 355) have identified four types of angel investors (lotto, trader, analyst and real angels) in their research in Norway, taking as criteria the investment activity and the competencies of the angel investors. *Lotto-angels* are characterized by the following: Investors with a limited managerial and entrepreneurship experience; Insist on realizing less income and wealth in comparison to other investors; Invest a small share of their fortune in companies that are not highly ranked in the stock market; Media are a significant source of information. Very few, if none, use the networks to find information about investment possibilities; their involvement in the companies they invest in is very little; do not invest in cooperation with another investor, but do so alone. *Trader-angels* are characterized by the following: Investors that have a high level of investment activity, make an average of 4,5 investments in a period of 3 years; Have a limited managerial and entrepreneurship experience; Investors that insist on realizing high income and wealth; Invest a significant portion of their fortune in companies that are not highly ranked in the stock market; Their involvement in the companies they invest in is relatively limited; The investment period lasts less than 3 years. *Analyst-angels* are characterized by the following: Investors that possess great managerial and entrepreneurship experience, but have a low level of investment activity; Invest a small portion of their fortune in companies that are not highly ranked in the stock market; Their friends and colleagues represent a significant source of information; Realize their investments in cooperation with other investors; More than 2/3 of these investors invest regionally, in a period of three years. *Real angel investors* are characterized by the following: Investors with a very high level of investment activity, realizing an average of 7,3 investments in a period of three years; Investors with a large managerial and entrepreneurship experience; A large number of these angel investors invest in cooperation with other informal investors; A large percentage of these angel investors function as leaders; Personal and business networks are their primary source of information, whereas media are rarely used as a source of information; Generally, for these angel investors the investment period lasts longer in comparison with the other three types of investors; They play an active part in the companies they invest in, as members of the board or advisors.

Benjamin and Margulis (2000) identified nine types of business angels: value-added investors, deep-pocket investors, consortium of individual investors, partner investors, family of investors, barter investors, social responsible private investors, unaccredited private investors and manager investors.

From this, it can be seen that angel investors are categorized in many types, according to certain criteria and methodologies. For entrepreneurs, it is crucial to realize the variety of angel investors, simply because by knowing the features of specific types of angel investors they can select a better investor for their new and small enterprises.

Investing Motives

It was already mentioned that angel investors are fairly rich people, who during their working lifetime, apart from earning an immense wealth; they have earned a solid knowledge and experience in the business as well. Most of them have been on leading positions or they have managed their own business. Having in mind that they have had a dynamic life, retirement or any other circumstance that has made them quit dealing actively with business has evolved several problems to them. It is difficult for them to adapt on the new way of life, namely being passive. Based on this fact, they try to find possibilities to invest again and put themselves in function again. The question “what motivates these people to enter in business again, precisely, to invest in new and risky businesses” is essential, and entrepreneurs must know its answer. The motives that make angel investors invest in new, risky ideas and projects can be various, as for example, expectations for big profits, sense of social responsibility, helping young entrepreneurs to set up their companies etc. On the other hand, some angel investors invest simply for the reason of fun and pleasure. In a research carried out by Newcastle Business School, it is concluded that money is not the single motivations for angel investors. Stephanie Macht (2007), one of the authors of this research project, says: “Although two thirds of angel investors said that gaining return on investment was important to them, more than half also said that the enjoyment of supporting the entrepreneur through their knowledge, skills and network of contacts was a strong motivation for investmentt”.

Figure 1. Angel investors' motives of investing in France

Source: France Angels 2004, p.22

Similar reasons for investing were evidenced also from the research made by France Angels in 2003, as for example: the chance to add value (to their wealth and to the company they are investing in), helping the entrepreneurs in setting up their own business, contributing with their knowledge and experience in reaching local economic development, the chance for reemployment, etc. (see **figure 1**).

Angel investors basically invest a small part of their wealth in new small and medium enterprises, so that in case they lose the invested money, this would not drastically influence on their way of life. They feel a great pleasure when they see that small enterprises which they invest in are working better, when they see that the entrepreneur accepts their advices, which contributes in reaching good financial results. But, it is worth of mentioning, angel investors are not philanthropists. Angel investors are motivated primarily by the chance to increase their wealth, by the chance to make profit out of their investments.

Table 3. Angel investors' motives for investing

Motives for investing	*Males*	*Females*
Supporting the new generation of entrepreneurs	2.10	2.68
Personal satisfaction from involvement in entrepreneurial businesses	1.45	1.47
Growth potential	1.50	1.58
Helping their friends to set up their businesses	2.60	2.89
Making revenues – now or in the future	1.80	1.95
Supporting the production of goods and services which are useful for the society	2.20	2.84
Fun	1.95	2.32
Positive impression, reputation in the community	2.60	2.89
Other nonfinancial motives	2.70	2.95
Tax incentives	2.05	2.16

1 = very important, 2 = important, 3 = not important

Source: Harrison and Mason 2005, p. 14.

Most of the researches certify the fact that angel investors, in average, expect a return rate of 20-30% from their investments. Bob Bosman says: “I want to earn more. In the new small enterprises, I see opportunities that provide me with good profit. But, also the entrepreneur has benefits from this. When starting a business, it is necessary to go over many difficulties, to negotiate with different people. It is hard for him. I have already gone through that and I can help him with this“(Ramadani, 2009).

A good part of angel investors basically invest for nonfinancial reasons. Altruism represents the key factor for angel investors to invest in new enterprises. They feel an obligation to transfer their gained knowledge and experience to the new generation of entrepreneurs, so that they, too, succeed with their idea to make successful businesses and gain big wealth. Berry Moltz, a famous angel investor and cofounder of the organization Prairie Angels, says: “During the past, as an entrepreneur, I have achieved great successes, but I have also had failures during my work. Now I want to transfer my experience to the others, to help people not to make the mistakes I have made. I have failed sometimes, and I don't want others to fail, too. Now I want to try myself as a counselor of young entrepreneurs in order to help them make their dream come true” (Ramadani, 2009).

Some angel investors, simply, invest in order to stimulate and develop the entrepreneurship in the region where they live, and through this, they can provide more working places and economic prosperity.

In a research, an interesting case regarding reasons which motivate angel investors to invest in new projects was noted. Some angel investors are motivated by an event that has happened in their life. An angel investor's wife had died from breast cancer. Her husband, an angel investor, together with other angel investors, his friends, have financed a research for possible invention of cure against cancer (Hill and Power, 2002).

Starting from the fact that there are different angel investors, their reasons for investing are different as well. So, we have seen that some angel investors are motivated by the chance to gain profit, some others are motivated to help others found enterprises and successful businesses.

Angel Investors Syndicates and Networks

Angel investors' syndicates are associations of angels, who combine their capital, experience and knowledge in order to share risk and invest in better and bigger deals.

The syndicate, which was established in Silicon Valley in 1995, named as Band of Angels, is considered as the first angel investors' syndicate. Then were formed and other angels' syndicates, such as Tech Coast Angels (1997), Sierra Angels (1997), Common Angels (1997) and The Dinner Club (1999). In the U.S. there are about 200 angels' syndicates. They are grouped according to sectors in which they invest, investors' gender, etc. such as health care angel's association, female-angels' associations, national association of cohesion and meeting the angel syndicates, in order to transfer knowledge and experience, lobbying, data collection, etc. (Mason, 2006).

Angels' syndicates have appeared since individual angels found advantages of working together, greater flow of investment opportunities (deals), better evaluation of investment opportunities (due diligence), ability to make more and larger investments, and other benefits.

Angels' syndicates can be managed in two ways. They can hire a professional manager, or may choose one or more members of the syndicate who will manage them. A professional manager manages all things of the syndicate, such as looking for interesting deals, analysing and evaluating them and if there is an interesting deal, he recommend the syndicate to invest on it. Manager for his work done in the syndicate can be paid through salary, participates in part of the profits of a successful deals, or a combination of these two ways of compensation. Syndicates managed by their members elect the most prominent members to manage the syndicate's issues. The members elected to manage the syndicate's issues in some cases are compensated for their work, but in most of cases, they manage the syndicate's issues without any compensation. These members are bound to find interesting deals, to evaluate them and to present them to the other syndicate's members eventually to invest in them.

Angel syndicates organize meetings once a month, while some of them have meetings every week. They are more in the form of a joint dinner at which syndicates' members discuss specific investment opportunities, their characteristics, etc. At these meetings could be invited 1-3 entrepreneurs who will present their business plans, under which angel investors would decide to invest in their enterprises.

Angel investors, besides forming syndicates to raise their relevance and efficiency establish their own networks as well. Angel networks are organizations whose main goal is to connect owners of small and medium enterprises and angel investors, or they are organizations which facilitate the process of connecting entrepreneurs and angel investors.

There are two approaches for establishing networks of business angels, such as:

- Top-down approach,
- Bottom-up approach.

Top-down approach is used when public authorities initiate the establishment of the network. For example, the Danish government has initiated a National network (DMBA), and after that DMBA helped the building of several regional networks. In cases where the private sector initiates the establishment of a network, that approach is known as bottom-up approach. Such is the case with the Danish biotech network. Angel investors of existing regional networks identified a lack of investment opportunities in bio-technology sector, and therefore developed a new network with his specific activities and own management team (Gullander and Napier, 2003).

SMES' BENEFITS FROM ANGEL INVESTORS

Many researches certify that angel investors play an important, vital role in financing small and medium enterprises and the development of the entrepreneurship. The importance of angel investors for the development of small and medium enterprises is evident in the following:

First, the amount of finances which is invested by angel investors, or being planned to be invested, is significant. According to Jeffrey Sohl (2003, p.29-35), manager of Centre for Venture Research, there are 300.000-350.000 active angel investors in USA, who invest 30 billion $ per year in around 50.000 projects. In the United Kingdom, there are 20.000-40.000 angel investors who invest 0.5-1 billion £ per year in 3.000-6.000 companies. He has estimated that the ratio between potential and active angel investors is 5:1.

Second, many entrepreneurs are interested in the so called “smart money”, which would mean that angel investors in companies do not invest only money, but expertise and know-how as well, and due to this reason, angel investors are more and more “interesting” for entrepreneurs in comparison to other sources of capital.

Third, angel investors have a lot of experience in the business. During their work, angel investors have earned many relationships, namely have created a network of contacts like successful entrepreneurs, bankers, insurance companies, accountants, etc. Once they invest in small and medium enterprises, they use these contacts in order to help these enterprises to develop and reach positive financial results. This will make their dream come true.

Table 4. The role of angel investors in the development of famous companies

Company	*Angel investor*	*Business*	*Investment*	*Value at exit*
Apple Computer	unknown	Computer Hardware	$ 91,000	$ 154 million
Amazon.com	Thomas Alberg	On-line bookshop	$ 100,000	$ 26 million
Blue Rhino	Andrew Filipowsky	Cylinder for replacement propanium	$ 500,000	$ 24 million
Lifeminders.com	Frans Kok	Internet E-mail Reminder service	$ 100,000	$ 3 million
Body Shop	Ian McGlinn	Body care products	£ 4,000	£ 42 million
Ml Laboraties	Kevin Lich	Kidney medical treatments	£ 50,000	£ 71 million
Matcon	Ivan Semenenko	Bulk containers	£ 15,000	£ 2.5 million

Source: Amis Venture in Munck and Saublens 2006, p. 65.

Fourth, the importance of angel investors for small and medium enterprises is linked to succession. It often happens that after retirement or death of the owner of the enterprise, a part of his successors do not want (or cannot) carry on the same business. According to a research made in Australia, 63% of businesses are in hands of the succeeding first generation, and only 7% of businesses are led by the third and 4% by the fourth generation, respectively (Abernethy and Heidtman 1999, p.53). In such cases, business will survive, if it is successful or it has the needed potential to be successful, thankful to angel investors.

However, the size and power of angel investors is not identified and understood yet, although it is of special importance for the small and medium enterprises and the entrepreneurship in general. Therefore, angel investors have recently started creating their groups (syndicates) and networks. These groups (syndicates) represent associations of angel investors and they gather their capital, experience and knowledge in order to share the risk and invest in greater and better deals. On the other hand, angel investors' networks represent organizations, whose initial aim is to connect owners of small and medium enterprises with angel investors.

The Concept of Angel Investing In Macedonia

Angel investments in developed countries contribute to creation of so-called "success stories" that were a sufficient motive to transition countries to start thinking about this kind of investments. Angel investing, although in much smaller scale, recently became a reality in countries in transition. It is important to note that data on angel investments in most transition countries are missing or there are only some uncertain, inaccurate estimates of their representation and modes of action. In the last years, angel investors have started functioning in the countries in transition as well, but with very slow steps. EBRD in the transition report – Finance in transition listed some reasons for this situation: undeveloped market of capital (stock-exchange), small number of domestic and foreign investors, bigger risk for investment, untrained and inexperienced management, corruption, inefficient regulative, unfavorable tax treatment for this kind of investment, bureaucratic-administrative obstacles, etc. (EBRD, 2006).

Without an appropriate economic, legal and social environment, the development of angel investments is impossible. In other words, every country should create a positive and effective environment that is ready to accept this way of financing, i.e. angel investing and be a catalyst for its growth and development.

Environment that is created in developed countries and is suitable for adoption and development of this type of investing, according to Schőfer and Leitinger (2002), is consisted of the following elements: *economic environment* (large market, high growth in sales and profits, strong financial markets and stock exchanges, high yields for investors, supporting infrastructure in services, good economic and technological education of the people, availability of the key production factors on qualitatively high levels); *legal environment* (corporate and tax laws encouraging entrepreneurial activities and the foundation of companies, only few limitations for the founding process of companies, simple, but severe admission and disclosure rules for stock exchange listings, liberalized investment guidelines for institutional investors); *social environment* (attractive climate for researchers, interesting research results and scientific discoveries, intensive cooperation between universities and the economy, preparedness to take risks as entrepreneur and as money investor, social acceptance of failures) and *entrepreneurial spirit* (cooperation in partnerships instead of the philosophy of “I am the master of my house”, strong orientation on growth instead of “small is beautiful”, preparedness to share risks and profits, courage for being an entrepreneur, creativity, initiative, open-mindedness).

The financial system in Macedonia is shallow and unbranched and is characterized by limited access of SMEs to financing sources needed for their growth and development. Angel investors as an important source of financing is almost completely absent in the Republic of Macedonia. Consequently, our small and medium enterprises are deprived from "one of the most favorable and most qualitative financing sources for their growth and development" (Fiti, 2007, p.215). Until now, in Macedonia is registered only one angel investors’ network, called I2BAN. This network was established on May 2011 as a part of USAID Competitiveness Project. I2BAN aims towards: a) Bringing together the most renowned and prominent business-people in

Macedonia and connect them with the best investment opportunities in start-up businesses; b) Building new venture investment culture in Macedonia by creating more financial sources for start-up companies. The vision of I2BAN is to become the leading angel network, investor club and seed investment platform in Macedonia for innovative startup companies (www.i2ban.mk). I2BAN already has 10 members - business angels and dozens of proposals for business that are currently being evaluated.

In order to promote the role and meaning of angel investors in Macedonia, following measures are needed:

- *Raised awareness for the benefits from angel investors* – Considering that in my country angel investors are not really known, it is needed to hold seminars, workshops, consulting, etc., their introduction in the curricula of faculties, publishing of scientific and professional papers, where in an explicit way all the advantages and disadvantages of this way of financing will be explained.

- *Development of stock exchange* – If the stock exchange is not developed enough, if angel investors' shares are not easily sold so that they make profit of their investment, they would not be interested to invest in new businesses. When it comes to the Macedonian Stock Exchange, it is featured with a low turnover and low capitalization. This comes as a result from the undeveloped economy, as well as from the insufficient level of information which is available for potential investors. The Macedonian Stock Exchange should collaborate, namely connect with other regional stock-exchanges, and develop the "over-the-counter market" which is characterized by more liberal conditions for quoting for new SMEs. Through this step, listing of successful SMEs will be available. Moreover, MSE should offer a special service which would collect the purchasing and selling prices of shares from different dealers and represent them to the potential investors. Later, investors would close their transaction through computers, without being linked to brokers. For example, NASDAQ, Reuters, Telerate, Bloomberg work based on these principles.

- *Encouragement of rich people to become angel investors* – There is a group of rich people in Macedonia. Those people should be encouraged to invest a part of their wealth in new small businesses. In almost all countries in which angel investors are active, a good stimulating measure for including rich people in angel investing was tax incentive or tax-cut in the first years of investing.

- *Affirmation of angel investors from other sources of financing* – Commercial banks, formal venture capital, and other different funds should affirm angel investors as a specific and especially important source of capital, because they offer a great help in setting up new enterprises. These enterprises, once they are "up", will demand finances from these sources during the later stages of development, providing them with a profit from interests, provisions, etc.

Conclusion

Angel investors are private investors, who, during their active working lifetime, have gained wealth and experience. They are ready to invest in small and medium enterprises in order to help young entrepreneurs and, normally, to make profit for themselves. They are especially important during the seed stage and start-up stage of development of small and medium enterprises. As patient investors, they direct the entrepreneur toward the right path in developing the enterprise while providing venture capital and knowledge for the investee-enterprises. Angel investors are playing a more and more important role in financing many new businesses, even though in comparison to other sources of financing, they individually invest relatively small amounts of capital in the early stages of enterprise development.

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