



JRI news release

Promoting the Activities of "Business Angels" in the Kansai Region — Supporting Venture Businesses in the Early Stages —

March 24, 2003

Kansai Economic Research Center

Economics Department

The Japan Research Institute, Limited

<http://www.jri.co.jp/>

For more information on the content of this report, please contact

Tomoyuki Yokota, Senior Researcher

Kansai Economic Research Center, Economics Department

Tel: 06-6243-7380 E-Mail: yokota.tomoyuki@jri.co.jp

Overview

1 . Although venture companies have yet to be established in large numbers in the Kansai region, budding examples are to be found in a wide range of fields. If the region is to realize its full potential, it will be necessary to facilitate the establishment and growth of venture companies and create role models for success.

The seeds of venture business in the Kansai region could be multiplied by identifying and providing support to entrepreneurs with promising business plans in their 30s and 40s, during the "seed" (business concept verification) and "startup" (product development) phases. The greatest obstacle facing venture entrepreneurs is fund procurement during the early stages.

2 . In the United States, business angels (individual investors investing in venture companies) have played an important part in fund procurement by venture companies in the seed and startup phases of development. In the United States, business angels first came to public attention owing to the necessity of supplying risk money to venture businesses originating in universities, and computer network-based systems for the matching of individual investors with venture companies have grown up. The model for these business angel networks was initially created by a non-profit organization with strong links to universities, and the networks have spread from there.

3 . Japan has many potential business angels and indeed they are becoming an important presence. Investment by business angels has seen rapid growth since the second half of the 1990s, and interest is growing among groups ranging from smaller companies involved in *noren-wake*, i.e. setting someone up in business by

giving them a share of the goodwill, a practice that has existed in Japan since the Edo Period, to small investors and successful venture businessmen.

4 . The number of potential business angels in the Kansai region is estimated at 3,000 persons who could invest as much as ¥16.6 billion a year. Business angels are already forming groups and holding regular business conventions and the volume of investment is also growing. Further promotion of these activities is needed.

5 . The identification of promising venture companies relies on information, best gathered through close links with the local community. If venture businesses are to be fostered in the Kansai region, it is vital that business angels in the region identify and incubate promising seed- and startup-phase venture companies and bring them together with venture capitalists.

6 . If the number of business angels is to be increased, it will be necessary to establish an angel market and reduce risk. The author proposes four specific measures to this end: (i) the creation of a business angel network, (ii) the reform of the stock option taxation system, (iii) the expansion of the business angel taxation system, and (iv) more extensive use of venture funds.