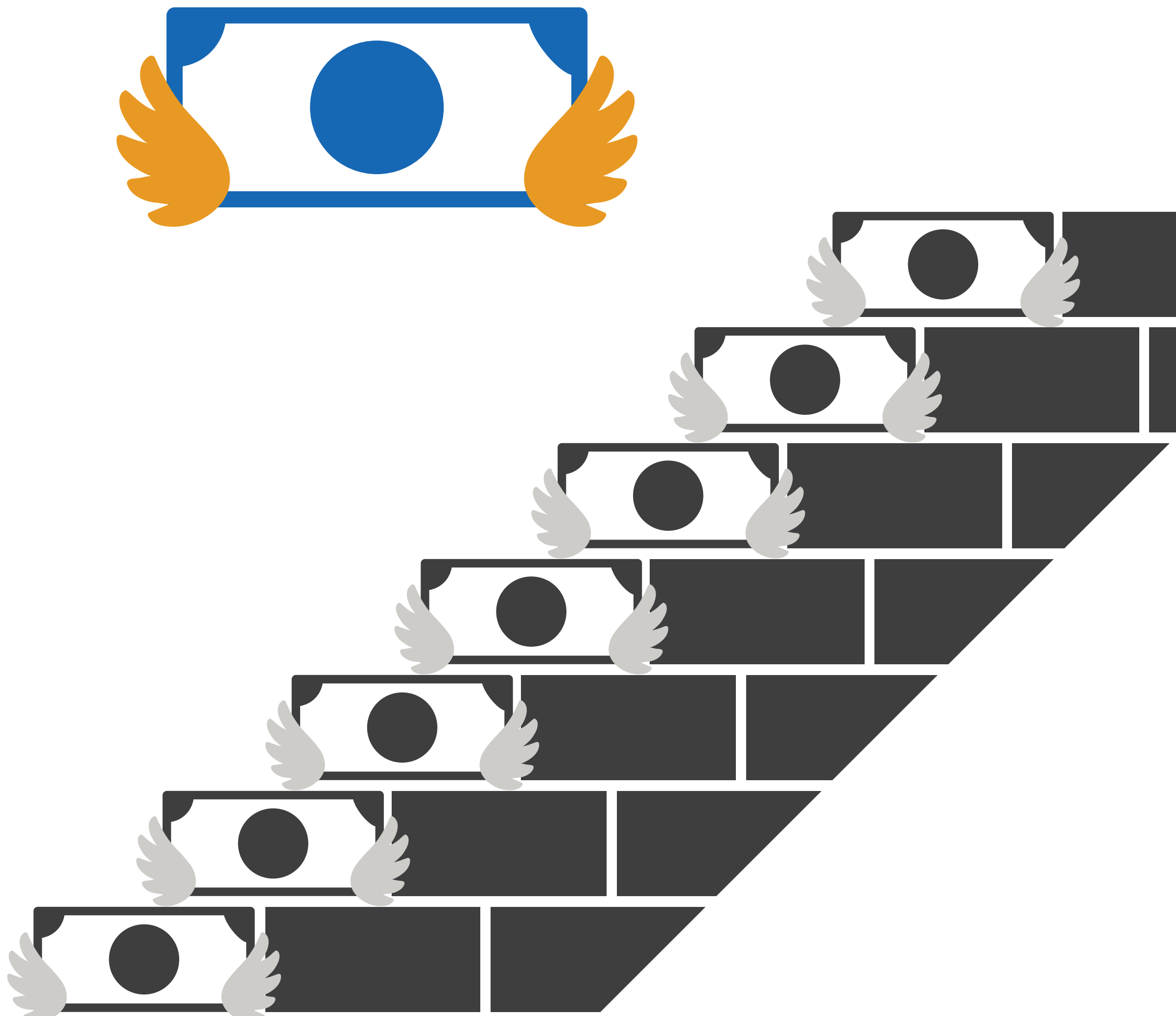
Angel Networks in Emerging Markets:
A Guide for Development Institutions



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ACKNOWLEDGEMENTS

The authors offer deep gratitude to Natasha Dinham and Aunnie Patton Power of the Bertha Centre at the University of Cape Town for their extensive collaboration on this guide and the accompanying case studies, and to Cathy Clark of CASE at Duke University for her expert guidance and feedback throughout this project. The authors wish to acknowledge the engagement and insights of the many practitioners who informed this work – a full list can be found on page 34. Special thanks to the leaders of the organizations featured in the case studies for their time, thoughts, and transparency: Israel Pons of Angels Nest, Alfredo Montoya of Colaborativo, Roeland Donckers of iungo capital, Tomi Davies of Lagos Angel Network, and Stephen Gugu and Jason Musyoka of ViKtoria Business Angels Network. And to David van Dijk of the African Business Angels Network and Isabelle Chaquiriand of Xcala for their extensive insights and introductions.

This project was funded by the USAID Partnering to Accelerate Entrepreneurship (PACE) Initiative and was conducted by CASE at Duke University in collaboration with Millbrook Impact and the Bertha Centre at the University of Cape Town. The findings of this report are the sole responsibility of Duke University and do not necessarily reflect the views of USAID or the United States Government.

Executive Summary

Supporting angel networks is a worthy component of the private-sector engagement toolbox to drive economic development.

5 Opportunities for Development Institutions

1. FUND NETWORKS
2. DE-RISK ANGEL INVESTMENTS
3. SUPPORT THE SUPPORTERS
4. EDUCATE INVESTORS
5. SHINE A LIGHT

Entrepreneurship is a key driver of economic development – when new businesses launch and grow, they create jobs, address customer needs through market-based solutions, and drive demand for other products and services from a supply chain. With this knowledge in mind, USAID and other development institutions have increasingly dedicated resources to bolstering entrepreneurial ecosystems in order to fuel these economic ripple effects. USAID's Partnering to Accelerate Entrepreneurship (PACE) Initiative has been partnering with intermediaries, such as accelerators, incubators, and other technical assistance providers, since 2014 to catalyze the growth of such small and growing businesses.

Even as these ecosystem-building efforts generate progress, accessing sufficient financial capital remains a critical challenge for entrepreneurs at this early, high-risk stage. Increasing the flow of private capital into early stage enterprises to help them bridge the pioneer gap is a key pillar of PACE's work to drive broader economic development in emerging markets. This guide was commissioned by PACE to **identify specific leverage points for USAID and other development institutions to support an instrumental source of early-stage capital – local angel investor networks.**

Angel investing is inherently independent, individual, and local, making angels elusive to identify, track, and engage. Fortunately, many angels choose to join an angel network, which brings together member investors for mutual benefit. Angel networks cultivate and activate new angel investors, increasing the pool of private early-stage capital available in a region. They create efficiencies for entrepreneurs trying to identify sources of early stage capital and for investors trying to identify promising new enterprises. Finally, angel networks aggregate private, early-stage investment in a region – taking a practice that is usually discreet and untracked and making it more visible.

With angel networks forming and growing in emerging markets, there are opportunities for development institutions to work with these networks for common purpose: increasing regional private sector investment into entrepreneurship to drive economic development.

To that end, this project investigated angel networks operating in a set of regions of interest to USAID –Latin America, Middle East/North Africa (MENA), and Sub-Saharan Africa. We interviewed network staff, investors, and regional angel network trade associations in these areas, and conducted deeper case studies with five networks in order to explore and illustrate a range of business models and angel engagement strategies. The case studies can be found at http://bit.ly/EmergingAngels.

We found angel networks in emerging markets face a number of **economic context challenges** specific to their emerging economies, and **business model challenges** that all angel networks face, but that may be exacerbated in emerging markets. This guide details a host of **strategies** angel networks in these markets are utilizing to surmount these challenges, and provides examples gleaned from our interviews and case studies. Our research also identified three **best practices** evidenced across the most promising networks.

For development institutions seeking to support angel networks in emerging markets, we recommend five specific opportunities: **fund** networks, **de-risk** angel investments, **support the supporters** – angel trade associations, **educate** investors, and **shine a light** – lend visibility and convening capacity. To aid development institutions in identifying opportunities to support angel networks, we provide three **assessment tools** that can be incorporated into their processes.

We hope this guide goes beyond simply sharing knowledge about angel networks. We aim to provide frameworks and tools for USAID and other development institutions to assess networks, gauge their strengths and strategies, and understand the challenges they face. Most importantly, we hope development institutions will use this guide to select from a set of specific support mechanisms to help angel networks succeed.

Introduction and Project Overview

Credit: ManPro

Kenyan entrepreneur Linus Wahome began working on ManPro, a digital construction management platform, in 2018. He bootstrapped the company for a year, successfully building an MVP, but still needed to address gaps in the product-market fit. He was almost out of resources to continue development when he met ViKtoria Business Angel Network (VBAN) investors at an accelerator event.

This meeting led to the beginning of a due diligence process and a $200,000 USD investment commitment, half from VBAN angel members and half from Pangea Accelerator, a Norwegian-based accelerator supporting startups in Africa. The investment would be released to the company in tranches – $20,000 at the initial investment close in October 2019, with the remaining to be invested as ManPro met development milestones.

After the initial investment, ManPro focused on product development and piloting. The investors actively advised the company, holding weekly workshops on strategic options and business development. "Post-investment we made tremendous progress," said Wahome, "the investment gave us piece of mind to focus on the business. We have limited experience, so the hands-on guidance of the investors was extremely helpful, and one investor had a company that worked with us to pilot the product."

They were on track to meet their sales launch milestone in March 2020 when the COVID-19 pandemic hit, forcing ManPro to halt sales and marketing plans. Instead, the company continued to work on product development for the next three months, enhancing their platform with additional features, including MPESA integration to allow digital payments going forward. After launching sales in July 2020, ManPro signed two of the largest real estate developers in Kenya, and is optimistic about the traction these prominent brands will generate.

"ManPro would have definitely gone under by now if we did not have the financial and strategic support from VBAN," said Wahome. "It is that investment plus that of the co-investors that enabled us to weather this COVID storm with still a bit of runway remaining. And the strategic input on product development was invaluable – with that experienced help, we were confident that we were building the right technology the right way."

> Angel capital is adequately suited to offer the initial support structure that's requisite to most nascent businesses. The world over, this has been the script that has led to a thriving entrepreneurial economy.[1]
>
> **Jason Musyoka**
> VBAN Manager

THE ROLE OF ANGEL INVESTING IN ECONOMIC DEVELOPMENT

Over the past decade, USAID and other development institutions have increased their support for entrepreneurial enterprises, with the understanding that entrepreneurship is a key driver of economic development in a region. When new businesses launch and grow, they create jobs, address customer needs through market-based solutions, and drive demand for other products and services from a supply chain. Knowing this, development institutions have funded and supported business accelerators and other entrepreneurial intermediaries that help enterprises launch and grow successfully, as a way to foster an environment inviting to entrepreneurs to start a business and create these economic ripple effects.

But launching and growing a business is inherently risky and difficult. It is particularly difficult for new enterprises to access sufficient capital as they validate their business model – this is termed the "pioneer gap," the gap between when a venture launches but is not yet considered investable and when the venture is at a later stage where it is able to access traditional investment capital. Development institutions have targeted the pioneer gap as a particularly critical point for intervention. USAID's Partnering to Accelerate Entrepreneurship (PACE) Initiative aims to catalyze private-sector investment into early-stage enterprises and identify innovative approaches that help entrepreneurs bridge the pioneer gap. In fact, private sector engagement is fundamental to USAID's goals to foster market-based solutions in-country that end the need for foreign assistance over time.

1: Interviews with Linus Wahome in May and August 2020; Jackson, Tom. "Kenyan construction startup ManPro raises $200K funding round," Disrupt Africa, November 21, 2019 (https://disrupt-africa.com/2019/11/kenyan-construction-startup-manpro-raises-200k-funding-round/)

In assessing trends in private-sector engagement in emerging markets, USAID has seen an uptick over the past decade in angel investment activity. Angel investors can play a pivotal role in the pioneer gap, by supplying needed early-stage capital and mentoring to new entrepreneurs. The presence of angel investors is a signal of a promising entrepreneurial ecosystem. However, the work of angel investing is inherently independent, individual, and local, making angels elusive to identify and track. Fortunately, many angels choose to engage with an angel network, which brings together member investors for mutual benefit.

A GUIDE TO ENGAGING WITH ANGEL NETWORKS FOR DEVELOPMENT OUTCOMES

With angel networks forming and growing in emerging markets, there are strong opportunities to support these networks to drive private sector investment in entrepreneurship. Knowing this, USAID's PACE Initiative commissioned this guide to identify opportunities to partner with and support angel networks to increase the supply of early-stage private capital in emerging markets. This guide provides recommendations and tools for USAID, development institutions, bilateral and multilateral donors, and other investors to engage with and support angel networks in emerging markets in order to leverage local, private capital to fuel early stage enterprises.

We also hope this guide will be useful for intermediaries working in these markets, including the subjects – the angel networks deeply committed to supporting entrepreneurs, accelerating impactful innovations, and growing economies in a locally appropriate and sustainable way. We suspect these key players will recognize (or be quite familiar with!) the challenges angel networks face, as well as many of the mitigating strategies. We hope the frameworks and best practices identified in this guide will be helpful in assessing their essential ecosystem building work and communicating their needs to supporters as they continue to evolve their own entrepreneurial business models.

There are three parts to this guide.

1

Part 1: Angel Investing 101 provides baseline knowledge and context about angel investing, including the role of angel capital in an entrepreneurial ecosystem and how angel networks typically operate and invest.

2

Part 2: Angel Networks Growing Wings in Emerging Markets provides an overview of the status of angel networks in the target regions selected by USAID – Latin America, Sub-Saharan Africa, and portions of Middle East/North Africa. This section then identifies the challenges angel networks are facing in these markets. An in-depth discussion on the key strategies angel networks are using to address these challenges follows, as well as best practices that emerged as we assessed diverse networks across these markets.

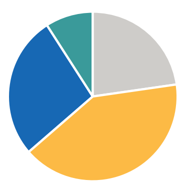
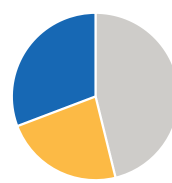
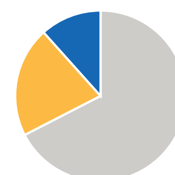
3

Part 3: Next Steps for Development Institutions lays out a set of recommendations for USAID and other development institutions and supporters to engage with and aid the growth of angel networks in emerging markets. While there is no formulaic solution to developing successful angel networks (which are entrepreneurial enterprises in and of themselves!), we provide a set of tools to assess network strategies and identify partnership opportunities.

SCOPE OF WORK
an interview-based approach in three geographic regions

Our investigation focused on a set of regions identified by USAID: **Sub-Saharan Africa, Latin America**, and **Middle East/North Africa (MENA)**.[2] Given the relatively nascent stage of angel investing in the markets we investigated, there is limited data available on the amount of angel investing occurring, and virtually none on the impacts of this activity. Therefore, after conducting an angel investing landscape review, we took a qualitative approach, focusing on interviews with angel network staff, regional angel association representatives, and other intermediaries (such as accelerators) engaging with entrepreneurs and investors. These interviews allowed us to better understand the key business model characteristics, stage, size, and investment activity of angel networks in the regions, and to engage in discussions of their challenges, strategies, goals, and support needs.

Angel Networks by Stage and Region

		LATAM	MENA	SSA
STAGE	Nascent/ Inactive; Early; Scaling; Mature			
ANGEL NETWORKS IDENTIFIED[2]	**ACTIVE**	**17**	**7**	**13**
	Total	22	13	43


Angels Nest


Lebanese Women Angel Fund


Lagos Angel Network

2: The identification and landscaping work focused on countries within these regions where USAID is actively engaged.

We then selected five networks to explore more deeply and profile through case studies. We intentionally selected models that represented different approaches to angel activation and ecosystem engagement. These case studies provide concrete illustrations of network variables, business models, strategies in action, and opportunities for support. The individual case studies can be viewed at http://bit.ly/EmergingAngels, and examples from these cases as well as other networks interviewed are found throughout this guide to illustrate strategies and best practices. A quick snapshot of each case study can be found below:

Lagos Angel Network

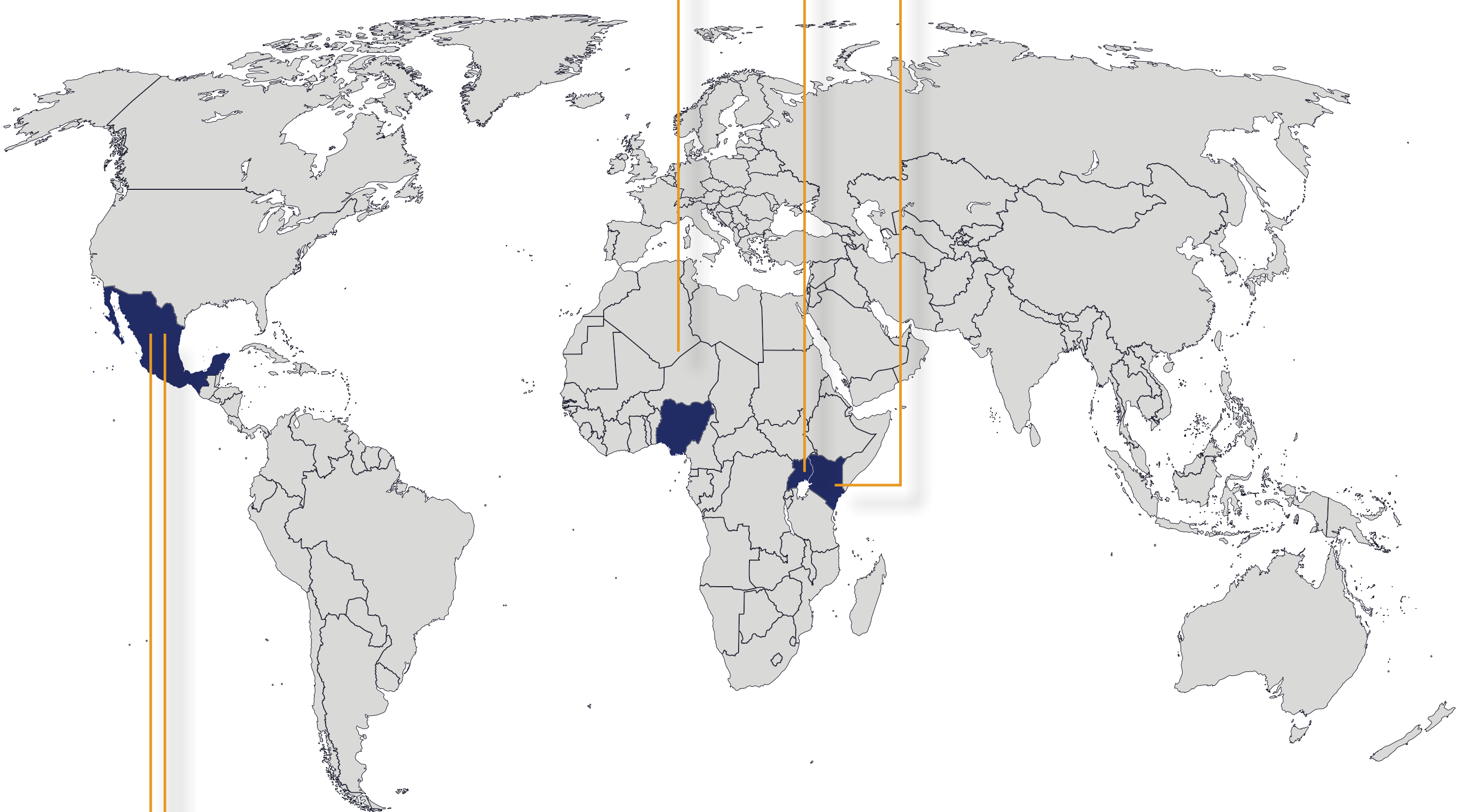
Nigeria | Founded by well-known and respected Nigerian entrepreneurs and angel investors. With the help of development funding and key partnerships, they have leveraged their reputations and skills to build one of the most active angel investor networks on the continent.

iungo capital

Uganda | An innovative approach aligns the motivations of a for-profit fund, non-profit technical assistance provider, and local angel investors to meet the finance and support needs of East African Small and Medium Enterprises. Although it does not manage a formal angel network, iungo capital fund only invests in companies for which they have identified a local angel willing to co-invest and serve as a mentor.

ViKtoria Business Angels Network

Kenya | Embedded in a start-up support organization in East Africa, VBAN uses its deep networks to attract angel network members and build quality pipeline for investors. A dedicated Network Manager provides hands-on support to members at every step of the investment process.



Angels Nest

Mexico | Operates one of the most active angel networks in Latin America. Lowers barriers to entry by not collecting membership fees. Hosts an online platform for angels and cultivates international partnerships to activate additional capital. Aligns networks goals and revenue with the interests of investors and entrepreneurs.

Colaborativo

Mexico | Runs several, connected entrepreneurial services to promote sustainable development in Latin America – accelerator, online community platform, angel network, and fund. Takes friends and family investors identified by entrepreneurs and mentors them through the investment process, with the goal of making it so easy and fun the investor wants to continue to make additional angel investments, activating new capital for the region.

PART 1: ANGEL INVESTING 101

This section serves as a primer for readers unfamiliar with the practice of angel investing and the organization of angel networks. Understanding the structure of formalized angel network investing as it has evolved in developed markets over the past forty years is necessary context for the exploration of angel networks in emerging markets, as these networks are emulating and evolving this "traditional" model. Page 10 includes a glossary of common terms related to early-stage investing used throughout this guide. Those who already have knowledge about early-stage angel investing and angel network characteristics may wish to jump directly to Part 2.

DEFINING ANGEL INVESTORS AND THE TYPICAL BUSINESSES THEY INVEST IN

Business angel investors are individuals who invest their personal financial capital, as well as expertise and social capital, into early stage private companies, or "start-ups." In an entrepreneurial ecosystem, they play a critical role in helping young companies grow. Since start-ups are not yet profitable, and may not yet be earning revenue, their opportunities to access growth capital are limited – they are typically unable to access loans from banks or other financial institutions, and their capital needs may be below the threshold of most venture capital funds. Angels can fill this capital gap by providing the necessary cash to launch or grow such businesses.

Importantly, the angel's role goes beyond simply providing capital – traditionally they also volunteer their expertise to the enterprise founder through mentorship or coaching, often serving as a formal advisor or board member. They also leverage their own social capital to enhance the company's progress. For example, they may make introductions to potential customers or investors the company would otherwise have difficulty accessing. These "soft" contributions to the enterprise increase the likelihood of success for the business and therefore the angel's return on investment.

Thus, a common profile of an angel investor is a previously successful entrepreneur or business leader who has generated sufficient wealth enabling them to support new entrepreneurs with both financial capital and business expertise. Such individuals know and enjoy the risks and challenges of the entrepreneurial process and bring relevant experience to bear.

	PIONEER GAP			
ENTERPRISE DEVELOPMENT STAGE	**BLUEPRINT**	**VALIDATE**	**PREPARE**	**SCALE**
ALIGNED CAPITAL SOURCES	**Angel Investors** Founders Friends and Family Competitions Accelerators Grantors	**Angel Investors** Grantors Early stage venture capital funds	Venture capital funds Institutional investors	Venture capital funds Private equity funds Institutional investors

The Blueprint to Scale spectrum is a useful way to understand the stages a new enterprise goes through as it develops: from the Blueprint for a new business model, to Validating the commercial viability of the business model, to Preparing the firm to support sustainable scaling, and finally to Scaling operations to reach many more customers. Along this continuum are aligned capital sources typically available to enterprises in each stage. By providing critical early capital as well as valuable business and market expertise, angel investors play a key role for enterprises in the Blueprint and Validate stages. Other capital sources are limited at these early and high-risk stages of a business. For those enterprises that are able to successfully navigate the "pioneer gap" and grow, traditional institutional investment is more accessible.

Credits: From Blueprint to Scale, produced by Monitor Group in Collaboration with Acumen Fund; CASE Smart Impact Capital

THE NATURE OF ANGEL INVESTING
high risk and highly local

Early-stage investing is extremely high-risk. By definition early-stage enterprises do not yet have a track record of success and are still iterating on the business model, so it is difficult to judge which businesses will ultimately succeed and which will fail.

Angel investors typically invest equity in a company – in exchange for their investment, they receive an ownership stake in the form of stock in the company. The worth of their stock depends on the amount invested relative to the valuation – the negotiated value of the company prior to the investment. Since the value of an early stage company can be difficult to determine, especially if it is pre-revenue, investments are often made in the form of a convertible note, short-term debt which converts to equity in a later investment round. While a convertible note is officially a debt instrument, the terms do not include cash principal or interest payments; it is fully intended to convert into stock at a later date, and any accrued interest rolls into principal at that time.

These private equity investments are not liquid, meaning they cannot be readily converted to cash. For an angel investor to realize a return, there must be an exit event that provides the angel an opportunity to sell their stock at a gain. The company must either access additional investment, participate in a merger or acquisition, have an initial public offering (IPO) of stock, or generate enough revenue to pay back the angel by buying back their stock. Such exit events have no set timeframe; they are subject to the success of the company, its continuing growth prospects, and/or strategic value to an acquirer, all of which determine its value in the marketplace. While a typical return goal in developed markets is three to five years, exits can take much longer – ten or more years – or never happen at all if the company has limited growth or fails.

With angel investors bringing valuable market and business development expertise as well as the needed early stage capital to their investments, a critical mass of angel investors can be a pivotal component to a thriving entrepreneurial ecosystem.

Given the high risk of angel investing, it is generally considered an appropriate strategy only for high net worth individuals who can afford to put the entire investment at risk and who have relevant business expertise to assess company strategies, growth opportunities, and leadership. Therefore, most developed countries limit such investing to "accredited" or "sophisticated" investors.[3]

In order to decrease the risk of their investments, angels often focus on markets and sectors that they know very well, either through previous business or investment experience. Angels then conduct due diligence on the company, assessing its management, market, and business model, a process which can take weeks to months. Assessment of management's capabilities and character is particularly critical for a nascent business with little track record, so spending time with the entrepreneur is a key element of angel investment due diligence. Given the high-touch nature of the due diligence effort as well as the post-investment support, angel investing is considered by most to be, at its best, a local endeavor.

ANGELS JOINING TOGETHER
the efficiencies of angel networks

Angel investors may be active on their own, operate in informal networks, or be organized into formal groups or networks to invest together. Engaging with a network provides a number of advantages for angels:

- **Enhanced deal flow** (companies with an investment opportunity) through the broader connections of the network members
- **Shared due diligence effort** as multiple angels can work together to evaluate companies
- **Improved due diligence and post-investment company support** through tapping different or complementary expertise among the network
- **Portfolio diversification and risk reduction** through investing smaller amounts into more companies (while the group of angels, in aggregate, can still meet the individual company's capital needs)

3: Regulatory definitions of accredited or sophisticated investors vary between countries. In the United States, for example, the Securities Exchange Commission requires net worth above $1 million or annual individual income above $200,000 (or joint income with a spouse above $300,000).

- **Investment education and mentorship**, which is especially valuable to less experienced angels
- **Social benefits** of working together to support entrepreneurs – a process that active angels find enjoyable and rewarding

Formal angel networks also benefit entrepreneurs. Networks are more visible than individual angels, giving entrepreneurs a clearer pathway for engaging with potential investors. Formal networks can also provide entrepreneurs with more opportunities for valuable connections and expertise. Finally, the networks can make the capital-raising process more efficient for entrepreneurs, as they aggregate capital from multiple investors through one due diligence process.

ANGEL NETWORKS TAKE FORM FROM FIVE VARIABLE CHARACTERISTICS

MANAGEMENT

LEGAL STRUCTURE

MEMBERSHIP

FINANCIAL RESOURCES

INVESTMENT PROCESS AND STRUCTURE

The Kauffman Foundation's guidebook to developing an angel organization describes five key characteristics of angel groups. Network leaders can choose from different options within each category to organize their group:[4]

- **MANAGEMENT.** Groups may be member-led, relying largely on members volunteering time, or manager-led, with a paid manager to lead the work of the group.
- **LEGAL STRUCTURE.** Groups can have an informal affiliation (i.e., no legal entity), or be a nonprofit or a for-profit corporation or partnership.
- **MEMBERSHIP.** Groups may be quite selective, screening for prior experience, or relatively open (potentially providing training for the inexperienced). Groups may be capped at a limited number or open to growth. Some groups allow only individuals while others are open to affiliate members such as funds, corporations, or service providers. The appeal of some groups is focus on a particular sector, while others welcome members with broad sector interests.
- **FINANCIAL RESOURCES.** Groups may charge a membership fee to members, charge application fees to companies, sell sponsorships, charge transaction fees or management fees to members, or raise grants to support the organization's costs.
- **INVESTMENT PROCESS AND STRUCTURE.** After conducting due diligence together, group members may invest individually, or they may make group investments, either by pooling their capital to invest in a company as a single entity, or pledging or committing capital to a pooled fund with capital deployment decided by a vote or investment committee. The network may also have preferred investment structures and terms.

These organizational and process choices have implications for costs, efficiency, consistency, longevity, and organizational culture. They may be combined in various ways depending on the goals, interests, resources, and circumstances of the leader and the group, and may evolve over time. Thus, formal angel networks' structures and business models vary – there is no single, most successful model, nor is there a set formula to determine the most appropriate form for a given market.

4: Preston, Susan L., Esq., Angel Investment Groups, Networks, and Funds: A Guidebook to Developing the Right Angel Organization for Your Community, August 2004. Note that this framework is also used in a companion guide for emerging and frontier markets: Creating Your Own Angel Investor Group: A Guide for Emerging and Frontier Markets. Washington, DC: World Bank, 2014. License: Creative Commons Attribution CC BY 3.0

ANGEL NETWORKS FACE TWO MAIN CHALLENGES TO SUCCESS

While angel networks provide many benefits for both angels and entrepreneurs seeking early stage capital, they face some inherent challenges.

- **CHALLENGE 1: Achieving a Sustainable Business Model**
  Even in developed markets, the angel network business model is difficult. Whether they are organized as nonprofit or for-profit, rarely do they operate, or even aspire to operate, at a profit at the organizational level. The goal is usually to cover costs while increasing the potential for positive investment returns for the individual members.
- **CHALLENGE 2: Attracting and Activating Angels**
  Related to achieving a sustainable business model and fundamental to the network's reason for existence is attracting and activating angels to make investments together. A core group of experienced angels is critical for activating capital. Yet, experienced angels may have adequate deal flow and connections to fellow investors on their own, and thus choose not to join a network, depriving such groups of operating capital, investment capital, and expertise. High net worth individuals with less experience may be more likely to join a network, but it may take considerable education and time to develop their confidence to make a first investment.

KEY SUCCESS FACTORS OF ANGEL NETWORKS

Successful angel networks develop a positive reputation of actively investing meaningful financial and social capital in the companies they work with. This generally requires:

- **A COMMITTED LEADER (OR LEADERS)** with relevant experience and business savvy to attract prospective members to the network
- **A BUSINESS MODEL THAT SUPPORTS THE BASE COSTS** of the network, usually through a critical mass of dues-paying investors alongside sponsorship or other revenue sources
- **ADEQUATE QUANTITY AND QUALITY OF DEAL FLOW** brought to the network to evaluate
- **ACTION-ORIENTED NETWORK CULTURE** that expects and inspires members to actively invest in and support companies
- **CRITICAL MASS OF MEMBERS** that are experienced in entrepreneurship or investing, or are given opportunities to learn or be coached by other members to gain the confidence and skills necessary to invest
- **TRUSTING RELATIONSHIPS AND REWARDING SOCIAL EXPERIENCES** among network members. Given the high-risk nature of angel investing, the importance of trust-building cannot be over-emphasized. This requires management resources and time. Rarely will an investment happen without consistent opportunities for members to engage with one another and learn about each other's skills and commitment.
- **POSITIVE FINANCIAL RETURNS** over time, to reward investors and enable them to continue investing financial capital

ANGEL NETWORK IMPACT ASSESSMENT AND THE CHALLENGE OF LIMITED DATA

Tracking the investment activity and impacts of angel networks can help economic development institutions and policymakers better understand the status of entrepreneurial ecosystems, the financial capital and support available for start-ups (or lack thereof), and the ultimate impact of angel investing. It can also help angel investors and entrepreneurs understand funding trends and best practices. However, angel investment data is notoriously limited due to lack of reporting requirements and competitive issues.

Angel investing data tracked by the U.S. ACA's Angel Capital Institute:

Investment activity measures

- Number of deals
- Average dollar amount of deals

Investment characteristic measures

- Stage/Round of deals (Seed or Series A)
- Average amount of the company's full funding round
- Pre-money valuation of the companies
- New or follow-on (additional investment into an investee company)
- Structure of the deals (preferred stock, common stock, convertible note, other)

Investment demographic measures

- Industry of investee companies
- Location of deals (U.S. states)
- CEO gender*
- CEO ethnicity*

*Relatively recent additions, given increased interest in broadening access to capital.

As private investments into private companies, angels have minimal reporting requirements; there is no inherent or public institution that gathers or reports on angel investing data. While networks often ask members to commit to sharing their investment information, angels may or may not be diligent about doing so. At the network level, since data collection and tracking is time-consuming and tedious, it is usually not a high priority for groups with limited resources and staff capacity.

It is also important to note that early-stage companies often do not want to share their capital investment amounts publicly, seeing it as a competitive indicator. Thus, any data gathered is usually only reported in aggregate or averages for the network. Yet if amounts are not high, networks may not be inclined to share their investment data publicly at all, even in aggregate, as it would reflect poorly on their activity level and discourage entrepreneurs and prospective members from engaging with the network.

Given these challenges, data collection and reporting has become a key role of **angel network trade associations**, membership organizations of angel networks in a defined geography – a region, country, or multiple countries. With a mission to promote and increase support for angel investing, it is in the interest of these trade organizations to track and report on the angel industry, to identify trends and best practices for their members, and to make the case for regulatory and other industry support.

For example, in the US, the Angel Capital Association (ACA) and its educational affiliate, the Angel Capital Institute, conduct surveys of member networks' aggregate investing activity and share findings in their quarterly and annual "Halo Reports." The Angel Capital Institute reports on aggregate investment data (see box), and recognizes the top ten angel networks by number of investments made. These metrics help the ACA demonstrate the role of angel networks in entrepreneurial business growth, help angel networks assess how their performance compares to their peers, and highlight investment trends and best practices. Notably, the ACA focuses only on investment data; it does not regularly gather data or report on the number or demographic characteristics of active angel investors.

EARLY STAGE INVESTING TERMS

- **ANGEL INVESTOR**: individual who invests personal financial capital, as well as expertise and social capital, into early-stage private companies
- **ANGEL NETWORK**: a formal organization of angel investors working together to invest in and support early-stage companies
- **ANGEL NETWORK TRADE ASSOCIATION**: membership organizations of angel networks in a defined geography – a region, country, or multiple countries
- **CARRIED INTEREST/"CARRY"**: a share of the profits of an investment provided to an investment manager after the investment performs above a designated level
- **CONVERTIBLE NOTE**: short-term debt which may be converted to equity under certain conditions, such as the close of a later investment round. Often considered a "near equity" instrument, allowing investors to secure equity ownership at a discount and before valuation is possible.
- **CLOSE**: executing on an investment with required documents and transfer of funds
- **DEAL**: an investment opportunity
- **DEAL FLOW**: the quantity of investment opportunities available at a given time in a given region
- **DUE DILIGENCE**: investigation of a potential investment, including management, business model, financial performance and projections, market opportunity, and any other factors considered material
- **FUNDING ROUND**: an organized attempt by a company to raise investment capital. Startups raise capital in a series of rounds with different terms and valuations based on the company's status and market opportunity
- **EQUITY INVESTMENT**: money invested in a company in return for shares of stock in the company
- **EXIT**: an event (such as company acquisition, merger, or initial public offering of stock) that allows founders and early investors to cash out some or all of their ownership shares in a company
- **PIONEER GAP**: the capital access gap between when a venture launches but is too high risk to be considered investable and when the venture is at a later stage and able to access traditional investment capital
- **PRE-MONEY VALUATION**: the valuation of a company prior to an investment round
- **STRUCTURE (OF A DEAL)**: the investment vehicle and terms of an investment into a company
- **START-UP**: private, early-stage, entrepreneurial company
- **VALUATION**: estimated value or worth of a company in the market
- **VENTURE CAPITAL (VC)**: financial investment in new, unproven business enterprises deemed to have high growth potential; also refers to managed funds that aggregate capital to make venture capital investments

LANDSCAPE OF ANGEL NETWORKS IN EMERGING MARKETS

diverse and rapidly evolving

This project focused on three regions selected on the basis of USAID priority geographies: Latin America, Middle East/North Africa, and Sub-Saharan Africa. In these target regions we found a diverse and rapidly changing angel network landscape. Angel investing as a practice is relatively nascent in these regions overall, but growing. Looking across the regions of study, some landscape-wide observations provide important context for our assessment of network challenges, strategies, and support recommendations:

LACK OF DATA REMAINS A CHALLENGE

Given the relatively nascent stage of angel investing, there is limited data available on the amount of angel investing occurring in these markets, and virtually none to measure the impact stemming from this activity. The investment data of individual groups is occasionally available on their website, but more often this information could only be accessed through an interview with a staff member or leader. The only aggregate data on angel networks and angel investment activity we found was compiled by angel network trade associations or other independent ecosystem organizations representing a multinational region or, in a few cases, a country.

MOST NETWORKS ARE EARLY STAGE AND DEPENDENT ON SUBSIDY

Angel networks are entrepreneurial endeavors and can be assessed by stage, similar to how start-up enterprises are categorized. We defined angel networks in development with no investments made yet as **nascent**; those actively investing but still developing their business model as **early**; those at or approaching financial sustainability as **scaling**; and those operating on a self-sustaining model with members achieving positive investment returns as **mature**. Most of the formal angel networks we identified were at either the nascent or early stages; very few of the actively investing networks were at the scaling or mature stages. Thus, most networks were still reliant on some form of subsidy, through founders, grants, or an institutional partner.

ANGEL NETWORK BUSINESS MODELS ARE EVOLVING AND INNOVATING

We saw a spectrum of angel network business models across the regions of study. Most are modeled after the “traditional” approach as described in Part 1, but many are evolving in response to their local context. Compelling innovations in business models are emerging in all regions – from comprehensive ecosystem-building models, to networks integrated with funds, to groups that are deploying capital from abroad alongside local investors. Yet it is important to note that most of these models are still in the testing phase, and there is not yet adequate track record or evidence to make any conclusions about which angel network models are the most likely to be successful or sustainable.

ANGEL NETWORK TRADE ASSOCIATIONS ARE CATALYTIC AND CRITICAL

As previously discussed, angel network trade associations have played an important role in angel network growth in developed markets. For example, the Angel Capital Association (ACA) in the US and European Business Angel Network (EBAN) in Europe provide peer networking, training, dissemination of best practices, policy advocacy, and serve as key gatherers of angel activity data for their regions. These associations are emerging in the markets we studied. The African Business Angel Network (ABAN) formed in 2015 with the support of EBAN, and collaborates on an annual conference with VC4A, another continent-wide entrepreneurial ecosystem support organization. The Middle East Angel Investment Network (MAIN) launched in 2018 and has hosted two annual conferences. Xcala, a platform created in 2016 by an alliance of the Montevideo Institute for Business Studies and the IDB Multilateral Investment Fund to strategically fund the launch of networks in Latin America, is evolving into such a support organization.

One cannot overemphasize the critical role these associations play in angel network growth and data gathering – they have organized convenings, published reports on the angel investment landscape and activity in their regions, played instrumental roles in launching networks, and provided peer learning and angel investment training opportunities. The existence of such organizations bodes well for angel development in regions where they operate, and these entities are also the most likely source of solid and ongoing data on angel investment activity over the long term. Thus far these organizations have been reliant on grants, event and program registration fees, and membership fees to support operations, and their financial sustainability remains a challenge.

ADDITIONAL NETWORK CHARACTERISTICS TO CONSIDER IN EMERGING MARKETS

The Kauffman Foundation's five categories for the design of an angel network model detailed in Part 1 (management approach, legal structure, membership focus, financial resources, investment process and structure) are universally relevant, regardless of region. However, it is important to note that this framework presumes a relatively developed entrepreneurial ecosystem, with established early stage deal flow and a pool of relatively experienced investors. In emerging and frontier markets, with entrepreneurial ecosystems at varying stages, we determined two factors that warrant additional consideration:

MANAGEMENT
LEGAL STRUCTURE
MEMBERSHIP
FINANCIAL RESOURCES
INVESTMENT PROCESS
AND STRUCTURE

ANGEL ACTIVATION APPROACH

This characteristic digs deeper into the Kauffman Foundation's membership category, which considers whether networks are relatively open or selective in regards to their members. Given the nascent nature of angel investing in these markets the pool of experienced angels tends to be smaller, so selectivity can be too limiting in the most emerging entrepreneurial contexts. Yet cultivating and training new angel investors can be resource intensive, with implications for sustainability. We found that networks' angel activation strategies fall along a continuum between two approaches:

Developmental – The network has relatively broad membership criteria and considers education and training of new angel investors to be part of its role. This approach counters the standard definition of an angel that stresses the provision of significant business and entrepreneurial expertise in addition to financial capital. But a broader view of who can be equipped to become an angel investor may be a necessary adjustment in the most nascent entrepreneurial markets, and where diversity and inclusivity is a goal.

Professional – The network has at least one manager who is an experienced, professional investor and uses a value-add screen to select members equipped to provide expertise and connections, in addition to financial capital. The network may provide some mentorship to less experienced investors, but does not view comprehensive training as part of its role or resource allocation. This more exclusive approach to growing a network may be more viable in relatively developed markets with a greater number of experienced business professionals.

MANAGEMENT
LEGAL STRUCTURE
MEMBERSHIP
FINANCIAL RESOURCES
INVESTMENT PROCESS
AND STRUCTURE

ECOSYSTEM ENGAGEMENT

All networks actively engage with their local entrepreneurial ecosystem to generate deal flow, identify new members, and support portfolio companies. However, when it comes to organizational structure, we found a number of networks very closely affiliated to an ecosystem partner, with important implications for the financial resources category identified by Kauffman Foundation. Therefore, our investigation grouped networks into two main categories.

Embedded – The network is directly part of or closely affiliated with a partner organization in the entrepreneurial ecosystem, such as an accelerator, entrepreneurial ecosystem development initiative, academic institution, investment firm, or venture fund. By being embedded, the angel organization can share costs and leverage the affiliate's resources to attract investors and entrepreneurs and support portfolio companies.

Independent – The organization actively participates in its local entrepreneurial ecosystem, but is structured as an independent entity. It is not embedded in a partner organization such as an accelerator, entrepreneurial ecosystem development initiative, academic institution, investment firm, or venture fund.

Unsurprisingly, a network's angel activation and ecosystem engagement approaches have implications for its business model. For example, Developmental networks require more resources for training, while Professional networks tend to more heavily leverage the experience and connections of an experienced investor leader. Embedded networks usually share resources, space, or staff with the partner entity, reducing their overhead costs, while Independent networks are more reliant on the founders' financial resources and/or grants to launch and grow.

In considering the matrix formed from these two dimensions, we were intentional about selecting networks from all four quadrants for our case studies. This allowed us to examine how different approaches relate to network strategies and financial resources.

Angel Activation and Ecosystem Engagement Approaches

CHALLENGES FACED BY ANGEL NETWORKS IN EMERGING MARKETS

Through desk research, interviews, and case studies, we identified a set of common challenges angel networks are facing in the emerging and frontier markets investigated. These challenges fall into two overarching categories: challenges relating to their particular economic context, and business model challenges that all angel networks face, but may be exacerbated in emerging markets.

1

ECONOMIC CONTEXT CHALLENGES

Relatively small markets

While angel investing is best done at a local level, the relatively small economies and markets in these emerging areas mean a more limited universe of prospective companies and potential angel investors, as well as company scalability challenges, such as smaller market sizes, limited talent pool, and fewer later-stage investors. All of these factors limit potential company growth, which further limits exit options and investment returns, increasing the risk of this already high-risk asset class.

Lack of early stage investment awareness, experience, and skill

In relatively nascent entrepreneurial markets, wealth-holders may not be aware of early stage investing opportunities. Even those who express interest or join an angel group may be hesitant to actually invest if they lack experience and confidence in this investing strategy that is new to them.

Bias against local early-stage investing in favor of other investment strategies

Beyond awareness, skills, and confidence, some networks are limited by a particular bias against local early-stage investing. Investors may prefer to continue with familiar, lower-risk, and less time-intensive investment strategies, such as real estate, rather than engage in this unfamiliar and high-risk strategy with a learning curve. Cultural biases can also be a barrier; for example, a network in Mexico noted a specific bias against local investing, given that the business community associates greater prestige with investing in American companies.

Regulatory barriers to angel investing

Markets with inadequate or problematic legal or regulatory frameworks for early-stage investing can create another barrier, increasing the real or perceived transaction costs and risks, and decreasing the relative attractiveness of the practice. These frameworks vary significantly across countries, but common inadequacies cited in our interviews were legal issues around equity ownership (such as shareholder rights and stock options) and intellectual property. The most referenced barriers were tax or regulatory issues that make pooled capital or sidecar fund models difficult or impossible to implement.

2

BUSINESS MODEL CHALLENGES

Achieving a sustainable business model to support staff and programming

Our interviews and case studies confirmed that at least one dedicated staff member is necessary for a network to gain traction. While many networks begin with volunteer leadership by member founders, over time they must engage paid staff to at least support, if not manage, administrative, logistical, and other network coordination efforts for long-term success. All of the scaling or maturing networks investigated had at least one (FTE) paid staff member in either an administrative or managing capacity. The member-volunteer leaders of the early-stage networks we spoke with stated that hiring staff was a necessary near-term goal to ensure stability and growth.
Adequate resources for events, meetings, and angel education are also necessary. The more nascent the entrepreneurial market, the higher the needs are for these programmatic elements. Potential angels need to be introduced to this form of investing, and inexperienced investors need education or mentorship to gain the confidence to make an investment. Regular member gatherings are critical to develop the trusting relationships necessary to activate investment. Attractive social and networking events make it more likely members will invite colleagues to join. Consistent revenue, of course, is necessary to support these dedicated staff and

programmatic needs. While membership fees are a typical and obvious option, they are rarely adequate to support even a base staff level, especially at the network start-up stage when there is not yet a critical mass of investor members. In addition, many members and prospective members, especially in nascent markets, are resistant to paying membership dues for the privilege to make a high-risk investment. Sponsorship from professional firms and service providers (such as law firms or accountants) interested in exposure to the investor and/or entrepreneur constituencies is another typical revenue source in developed markets, but can be more challenging to secure in emerging entrepreneurial markets.

Retaining skilled network leadership

Even if a network's business model supports a base staff, maintaining consistent, skilled leadership can be difficult. While basic administrative support is mandatory, a manager with investment skills, such as due diligence and investment structuring, can be instrumental in catalyzing network growth. However, these investment skills are often better compensated elsewhere and thus skilled staff may leave. Skilled staff that stay may be tempted over time to transition the network into a venture fund model; this shift allows the manager to secure higher, management-fee based compensation and to focus on deal work while eliminating the time, effort, costs, and challenges associated with cultivating and coordinating angel investors.[5] Both of these outcomes jeopardize the goal of early-stage, pioneer gap investment – staff turnover can impair steady network performance and growth, and the shift to a venture fund tends to result in later-stage investing over time, as a larger pool of capital can be more efficiently and lucratively put to work in fewer, larger deals.

Lack of formal network participation by key influencers

Formal networks can struggle in markets where existing active angels are operating individually or in informal networks only. These angels may prefer the anonymity of an individual approach and may not perceive value in a more formal, visible group. This more fragmented approach is not "wrong," but can limit the potential capital available to the more visible, formal network, and thus to entrepreneurs. In addition, if a network does not have implicit or explicit support from local business influencers, it can struggle to gain traction among potential investors in the business community.

Unsuitability of traditional equity in some cases

The traditional early-stage equity investment approach that is in standard use by angel networks in developed markets may not be appropriate for all companies, especially in emerging markets. Businesses may have respectable growth and strong potential economic impact, but lack the high-growth trajectory or exit opportunities necessary for strong returns on an equity investment. A mismatch of intended investment structure and company needs is likely to lead to frustration for both investors and entrepreneurs, as well as investment losses that impair the ability of networks to gain traction.

STRATEGIES AND BEST PRACTICES TO ADDRESS THE CHALLENGES ANGEL NETWORKS FACE

Through interviews with angel network leaders across regions, we were able to identify a number of promising strategies being tested or fully implemented to address the challenges of achieving a successful angel network. An overview of the full set of strategies and best practices is found below, followed by detail on each.

5: A number of early, successful angel groups have shifted to a fund model. AngelHub, the first angel network in South Africa, shifted to a venture fund model in 2014, three years after inception. South Africa's Newtown Angel Syndicate recently followed suit. In Latin America, the multi-national Angel Ventures Network shifted to a fund-driven model five years after its 2008 launch, and Carao Ventures, founded in 2012 in Costa Rica, began its shift to a venture fund model in 2019.

		STRATEGIES TO ADDRESS CHALLENGES
ECONOMIC CONTEXT CHALLENGES	**Relatively small markets**	**Expand the local market through partnerships** • Develop ecosystem partnerships for deal flow • Participate in regional/cross border partnerships for deal flow/additional angels • Engage foreign/diaspora investors alongside local investors to increase capital available **Attract new angels through broader definition and awareness** • Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market • Produce events that raise awareness of angel investing • Engage local business influencers in events to enhance attractiveness • Amplify success stories to generate interest and excitement **Activate capital through education, facilitation, and risk reduction** • Provide angel education and mentoring to build skills and confidence • Cultivate peer engagement to build trust • Facilitate the investment process to reduce transaction costs and friction • Use pooled capital models to shorten the learning curve • Develop fund models or hybrid funds to activate additional capital • Pursue investment guarantees or investment matches to reduce risk • Experiment with innovative workarounds to local regulatory constraints
	Lack of investment awareness, experience, & skill	
	Bias against local early-stage investing	
	Regulatory barriers to angel investing	
BUSINESS MODEL CHALLENGES	**Achieving a sustainable business model**	**Diversify revenue and share costs** • Charge fees for services to investors or entrepreneurs • Charge transaction-based fees • Generate revenue from sponsorships or consulting engagements • Structure investment upside participation for the organization • Be embedded in another institution to share costs • Secure grants/government support **Attract and retain staff and membership talent** • Structure investment upside participation for the manager • Host networking events attractive to key investors • Alleviate deal management burden on the most active members **Use innovative financing structures in addition to equity** • Use alternative financing structures that match local expectations around ownership, business success, exit, and return
	Retaining skilled network leadership	
	Lack of participation by key influencers	
	Unsuitability of traditional equity in some cases	

BEST PRACTICES

1. Strong leadership – committed, culturally-embedded, connected
2. Angel investor as primary customer
3. Entrepreneurial approach

STRATEGIES TO ADDRESS ECONOMIC CONTEXT CHALLENGES

Expand the local market through partnerships

Networks are using partnerships to increase deal flow and addressable markets, while still maintaining the value of local investor-entrepreneur relationships. Many active networks have **partnerships with accelerators or other entrepreneurial ecosystem builders**, and together they work together to increase both the quantity and quality of deal flow. Lagos Angel Network has partnerships across Nigeria and Africa, including with Innovation Support Network Hubs, a nonprofit made up of 75 entrepreneurship hubs in Nigeria, and VC4A, a platform to source deals across the African continent. The availability of support can encourage more entrepreneurs to attempt a start-up, and such services and mentorship opportunities can increase the viability and invest-ability of these early-stage companies.

Networks are also creating or participating in **regional or cross-border partnerships** that increase the number of quality companies and investment opportunities they can consider. With partnerships, local investors still engage with the companies directly pre- and post-investment, but additional capital can be brought into the investments from the broader region. This approach can be a win-win-win for the entrepreneur, local investors, and regional investors: the entrepreneur receives valuable local support and mentoring alongside access to a broader pool of capital. Local investors can rely on a broader set of industry expertise, and their investment success is enhanced by having more capital available for the company's current (and future) fundraising rounds. Regional investors have access to a larger pool of companies, while benefiting from the context-specific knowledge local investors bring to due diligence and their on-the-ground engagement with the company post-investment.

Similarly, **engaging diaspora communities or other foreign investors alongside local angel investors** can increase the capital available, while ensuring that foreign capital is invested in the most appropriate manner within the local context. Lagos Angel Network taps their informal network of Nigerian diaspora investors, among others, to invest in their member-led deals through group syndicates. iungo capital's fund is investing capital from Europe and North America into enterprises that have secured a co-investment and mentorship commitment from a local angel with business experience relevant to the company.

STRATEGY IN ACTION

REGIONAL AND CROSS-BORDER PARTNERSHIPS

Egypt's Alexandria Angel Network prioritizes partnerships to develop their ecosystem. The network has a protocol agreement with three other Egyptian angel networks to share deals and was instrumental in launching Med Angels, a network of angel networks across the Mediterranean that aims to facilitate cross-border investing.

Attract new angels through broader definition and awareness

In some markets without regulation limiting angel investors to high net worth individuals, networks are **expanding their membership pool through a broader view of who can be an angel investor**. Some networks are engaging mid-level professionals with disposable income, some of whom may already participate in investment clubs to learn about general investment strategies. For example, Kampala Angel Investment Network engages with local investment clubs of mid-level corporate managers to activate more capital for early-stage enterprises and tap into additional professional experience and connections to benefit portfolio companies. Colaborativo in Mexico City was operating an accelerator when they realized they could more strategically engage the "friends and family" investors of their portfolio companies. With additional support and mentorship, their entrepreneurs' personal connections could be activated to make investments into additional companies.

Some networks have developed innovative strategies to attract and engage new investors, from cultivating exciting international investing relationships to building angel networks out of existing affinity groups. University alumni-based networks, for example, are particularly prevalent in Latin America (Soldiers Field Angels in Mexico City, HBS Alumni Angels of Brazil, GVAngels, IAE Angels Club, among others). These affinity groups may benefit from a head start on the trusting relationship-building necessary to activate angel investment.

STRATEGY IN ACTION

RAISING VISIBILITY

Alexandria Angel Network's leadership manages the Techne Summit, an annual entrepreneurship and investment event that highlights activity in the Mediterranean region, and also produces monthly meetups that are key to deal flow pipeline and attracting new angels.

STRATEGY IN ACTION

REDUCING DEAL FRICTION

In order to bring deal costs down and decrease time to close, Lagos Angel Network provides template term sheets and convertible note purchase agreements to members. LAN also uses special purpose vehicle (SPV) shareholding agreements that aggregates angels' equity investments to decrease the number of contracts that need to be signed and reduce the complexity of transactions involving many angels.

STRATEGY IN ACTION

POOLED FUND WITH INVESTMENT MATCHES

Soldiers Field Angels, a member-led group made up of Harvard Business School Alumni in Mexico City, requires all members to commit $100,000 to a pooled fund. The group votes on deals and an investment is made if a majority approve it. The members also pay a 2% management fee to the fund, to cover administrative and legal costs.

Soldiers Field Angels secured matching funds for its pooled capital model from Nacional Financiera (NAFIN), the Mexican development bank. Like the members, NAFIN paid the 2% management fee, and its carried interest above a set hurdle rate went to the fund's volunteer member managers.

Most networks have launched with **events that raise awareness about angel investing**, including overviews of opportunities in the local market. These efforts can include events or creative use of media. RENEW Strategies, an investment firm managing a network of international angels interested in investing in East Africa, sponsored a television show, Chigign 'Tobiya ("Ethiopia Emerges"), to promote entrepreneurship and angel investing. The show includes a "Shark Tank" component featuring angel investors reviewing deals. Similarly, the blueMoon initiative in Ethiopia includes a highly visible "Lions' Den" pitch event for startups at the end of their four-month incubation program.

Networks are also working to **engage influential local business leaders in events and activities**, to benefit from their network effects. As networks increase in activity, it is critical that they publicly share angel investing success stories, to increase the attractiveness of angel investing and build confidence in the practice.

Activate capital through education, facilitation, and risk reduction

Most networks provide **structured angel investing education workshops and/or peer mentoring opportunities** to increase the skills and confidence of new investors. For example, the Lagos Angel Network in Nigeria hosts a masterclass focused on the POEM (Proposition, Organization, Economics, and Milestones) framework that founder Tomi Davies developed to help bridge the knowledge gap between the corporate experience of many of their members and the startup world where angels operate. In addition to formal educational events, general **peer networking and engagement activities** are an important "soft" activity to develop group coherence and trust, and generate the confidence needed to make investments together.

In addition to skill- and confidence-building, most networks **use process facilitation strategies to reduce friction and transaction costs** for angel investors. Having staff manage the investment process (at a minimum) and help conduct due diligence or even structure the deal (at best), reduces the real and perceived transaction costs and time required of individual angels. For its accelerator company deals, Colaborativo acts as lead investor, pre-screening all investment documents to lower the burden on an individual angel to join the deal and keep the investment process fun and exciting.

Some networks are experimenting with **pooled capital models** to further mitigate new angels' lack of experience and confidence. These models continue to engage the individual investor in the process, but use a pooled capital instrument or fund to institutionalize the investment decision. Pooled capital models require network members to commit capital to a pool up front so that individual investors' last-minute confidence issues do not prevent a deal from closing. Cameroon Angels Network requires members to commit a minimum amount into a pooled account to ensure commitment and to prevent last-minute capital transfer issues, but each member still makes his or her own investment decision for each deal.

Investment funds are more formal pools that have managers making the investment decision. However, there are interesting **hybrid fund models that are integrating angels into their strategy**. In East Africa, the iungo capital fund only invests in a company for which they have identified a local angel investor to co-invest and serve as a mentor. iungo manages the investment structuring and process, and mentors the angel on entrepreneurial investing pre- and post-investment. This approach ameliorates the skill or confidence barriers of new angel investors while simultaneously developing their investment skills, hopefully enabling direct angel investment in the future.

Some networks are utilizing capital from other sources to help reduce angels' risk and thus activate more capital. With **investment matches**, other funders match the capital invested by angels into a company. Matches improve investment attractiveness for angels by allowing them to stretch their capital among more deals to reduce risk, while still meeting entrepreneurs' capital needs. In South Africa, the Technology Innovation Agency (TIA) signed an investment matching agreement in 2020 with two networks, Jozi Angels and Dazzle Angels (South Africa's first female-focused angel network). TIA will co-invest alongside the angel networks on a one-to-one basis up to R500K per company. In 2019 the ABAN trade association and

AfriLabs, a network of innovation hubs, partnered to create Catalyst, a co-investment fund that will match investments from qualifying angel investors into African growth-stage companies. To be eligible for matching funds, startups are required to register on the Catalyst platform through AfriLabs hubs, and must have received investment from an angel who is a member of an ABAN-registered angel network. Catalyst plans to raise funds from various institutional partners.[6]

INVESTMENT GUARANTEES AND INVESTMENT MATCHES FOR SEEDERS AND LEBANESE WOMEN ANGEL FUND

USAID launched the Middle East and North Africa Investment Initiative (MENA II) in 2014 with the goal of "**advancing the development of Lebanon's private sector by increasing the competitiveness and revenue growth of early-stage businesses.**" The $15M initiative is managed by implementation partner Insure and Match Capital (IMC), a for-profit subsidiary of Lebanese NGO Berytech Foundation, and uses three integrated tools:

- Technical assistance: IMC, in partnership with international angel facilitator GoBeyond, created a Masterclass for Business Angels program to activate annual cohorts of 20-40 new angel investors. Investors pay a $2,500 tuition fee and commit $15,000 into an investment pool to participate in the 9-month program which includes capacity-building workshops and investment pitch sessions. The cohort invests $50,000-100,000 together in 3-4 startups.
- Matching capital: MENA II provides IMC with capital to match the angels' investments in startups. The World Bank-funded Innovation in SME (iSME) co-equity fund, managed by Kafalat, also matches the investors' pooled capital. These matches increase the capital invested in the each startup, thereby easing the entrepreneurs' capital-raising process and allowing the angels to invest their pooled capital in a greater number of companies.
- Investment guarantees: MENA II also provides a 50% equity guarantee on the angels' investment portfolios, mitigating the investors' risk and further increasing the angels' investment capacity.

To provide additional revenue for the initiative, beyond tuition fees, IMC takes a 10% equity stake in each investment pool.

Since inception, the program has created five Seeders and Lebanese Women Angel Fund (LWAF) cohorts. The LWAF cohorts are women-only groups investing exclusively in women-led startups. To date, the angel development program has certified over 125 angels and facilitated approximately $3.7M of investment in 15 Lebanese startups, 42% led by women. The program's traction has continued through the 2020 pandemic crisis, with the Seeders 2019 and LWAF 2019 cohorts conducting joint virtual workshops and investment sessions every six to eight weeks.

A 2017 midterm performance evaluation found that the initiative was already ahead of schedule on program development goals, having reached 63% of its new private investment goal, 76% of job creation goal, and 89% of new sales goal. Although there have been no exits achieved as of August 2020, no guarantees have been exercised – a positive indicator of the overall progress of the companies and potential for return.

> I encourage other missions to consider replicating this model. These innovative tools are effectively engaging angels and leveraging significant private capital for development.
>
> **Rana Helou**
> USAID Economic Growth Specialist in Lebanon

LWAF PORTFOLIO EXAMPLE | **Geek Express**

Manal Hakim
CEO, Geek Express

Manal Hakim, CEO, launched her company, Geek Express, in 2017 to create coding and robotics design workshops for kids in Lebanon. Seeing the importance of technology literacy for her own sons, her goal was to make STEAM education accessible to all children through a comprehensive platform. Hakim pitched to IMC's Seeders and LWAF angel groups in 2018 and closed a $340K investment from the angel groups and program matching funds.

With this investment, Geek Express launched MAKERBOX, a subscription activity box for kids; developed an online academy portal; improved its website and classroom management system; hired a marketing team; and expanded into Qatar. In addition to capital, angels provided three months of strategic marketing advisory services and made valuable introductions to development grant opportunities.

Since the investment, company revenues have grown 70% and employment has tripled to 11 FTEs. More than 2,000 students across the MENA region have benefited from the company's products and services. Hakim is pursuing another funding round to continue product development and to expand to the United Arab Emirates and Saudi Arabia. She aims to achieve profitability in 2021 and reach over 20,000 children by 2023.

6: Afrilabs & ABAN press release, September 2019. https://www.afrilabs.com/african-business-angels-network-aban-and-afrilabs-partner-to-launch-catalyst-a-new-investment-solution-for-african-startups/

Another risk mitigation strategy, **investment guarantees**, leverage a commitment from an organization or development institution to guarantee the investments made by angels; if the company fails, the guaranteeing organization reimburses a predetermined portion of the investment amount, limiting angels' losses. USAID's MENA II in Lebanon (see box above) is a promising example of a program employing investment guarantees and investment matches alongside network support to accelerate early-stage investing.

While angel networks could be an influential voice to remove regulatory barriers to early-stage investing, most are not engaging in that process given limited bandwidth. Rather, they are utilizing traditional models that comply with the existing regulatory frameworks, or **developing innovative workarounds** to regulatory constraints to facilitate investment within their context. For example, PACE partner Women's Investment Club (WIC) Senegal, a platform formed to facilitate women members' investment in the regional stock market, was interested in adding an angel investing offering. They discovered that the syndicate model that they hoped to use (which was based on a North American network's approach) was difficult to implement in Senegal due to tax and regulatory issues. In response, they developed a new approach: a hybrid model that includes a venture capital fund with institutional investors and a side pool of individuals who have the opportunity to invest alongside the fund on a case-by case basis.

STRATEGIES TO ADDRESS ANGEL NETWORK BUSINESS MODEL CHALLENGES

STRATEGY IN ACTION

TIERED MEMBERSHIP FEES

The pool of potential angels in Kenya ranges greatly, from experienced investors seeking deal flow to those completely new to angel investing. Although ViKtoria Business Angels Network provides support across all types of angels, it acknowledges its different value offerings through a differentiated fee structure. Access to the full suite of services, including master-classes and pitch events, is offered to "full members" who pay $500 per year. In contrast, "deal flow members" who are primarily looking for expanded deal flow pay $300 a year. This tiered model allows broader activation of angels in Kenya while compensating VBAN where additional investor support is required.

Diversify revenue and share costs

To launch and grow, most networks depend on some early subsidies from their founders of time and/or financial resources. However, for long-term success they must develop a more dependable business model. There are a number of strategies networks are employing to diversify and increase their revenue. **Membership fees or dues** paid by angels are certainly a common revenue source. It is important to note that membership fee approaches vary, from a low flat rate, to tiered rates based on services, to introductory grace periods, to no fee at all. For example, Angels Nest, based in Mexico, does not collect a membership fee, perceiving it as a barrier to entry; this practice gives potential angels a chance to be inspired and engage without making a financial commitment first. In networks that do charge membership fees, they are rarely sufficient to cover all the costs of a network.

Some networks **charge investors and/or entrepreneurs fees for services**. This may include advising fees charged to entrepreneurs for acceleration and investment readiness services, or fees for investment advising charged to investors. Some networks charge **event registration fees** for educational events, workshops, or pitch events, primarily to the angel investors. For example, in addition to service fees and transaction fees (see box on next page), Angels Nest also charges registration fees for its educational and pitch events.

Networks may also charge **transaction fees** upon the closing of an angel investment. This may be charged directly to investors, or come out of the total investment raise of the company. Given the limited transactions in the early stages of a network, this strategy cannot support a network's launch, but can be a long-term revenue or revenue-diversifying strategy, eventually replacing the subsidies necessary at the launch and scaling stages. It is important to note that investors seem more accepting of fees specifically related to services and transactions, rather than for membership dues. This may be because service or transaction fees are more typical and familiar, perceived as part of the inherent cost of investing, whereas membership fees can be seen as an additional cost for the privilege of investing.

While less frequent in these markets, **corporate sponsorships** by business providers are another revenue option. ViKtoria Business Angel Network in Kenya targets sponsorships from corporations interested in learning more about and supporting the entrepreneurial ecosystem, and has generated additional revenue from **consulting engagements or ecosystem development projects**. Colaborativo in Mexico generates consulting revenue by running innovation programs for corporations and foundations.

STRATEGY IN ACTION

TRANSACTION FEES

Angels Nest, based in Mexico, does not charge membership fees. Founder Israel Pons explains, "Many say that if you don't charge a fee the investors won't be committed. But gym membership doesn't guarantee that people go to the gym. Our goal is to move the needle on investments, and our success-based fees align with that."

Instead Angels Nest has shifted its model to service fees and transaction fees. At the close of investments facilitated on the Angels Nest platform, a flat fee for the transaction's legal work and a 4-6% success fee (depending on the stage of the company) is deducted from the investment. The network entity also negotiates a small equity stake in the company. This approach aligns the common interests of the investors, entrepreneurs, and Angels Nest – all efforts of the organization are focused on identifying the most promising investment opportunities, connecting angels with these opportunities, reaching the investment goal, and closing the investment. If a company does not close a round, despite the assistance of Angels Nest, no fee is charged.

Some networks are applying a revenue model typically seen in investment funds: including terms in all network deals that **allow the network itself to have investment-upside participation** through "carried interest" – a share of returns at exit, also known as having "carry" in the investment. The Lagos Angel Network in Nigeria includes terms in each deal that allows the network to take 10% of the return its angels receive over and above the principal amount they invested. With an investment return horizon of up to a decade, this is not a revenue stream that can help a network cover start-up and early growth costs, but it can contribute to a long-term sustainable model.

On the path to sustainability, complementary to increasing and diversifying revenue is reducing costs. A common cost-reduction strategy is being **embedded in another organization**, such as a financial firm, accelerator, investment or entrepreneurial advisory firm, academic institution, or other entrepreneurial ecosystem institution. Such a partnership provides direct or in-kind staffing and administrative support and/or cost sharing, while providing network benefits to all parties. For example, ViKtoria Business Angels Network in Kenya shares physical resources and operational expenses with its parent organization, ViKtoria Ventures, an entrepreneurial support organization. Indeed, the Xcala initiative in Latin America observed that networks with such a "parent" appear to have greater resiliency over time.

Finally, while it has been less common, some networks are able to secure **grants or government support** to cover staff and overhead costs and fuel expansion. This can particularly be the case in areas with initiatives around entrepreneurship. In 2016, the Xcala platform was created by an alliance of the Montevideo Institute for Business Studies (IEEM) and the Multilateral Investment Fund (MIF), a member of the IDB Group, to catalyze the growth of angel investment in Latin America. The initiative provided milestone-based grants over four years to launch and ramp up networks. Xcala's support through grants and peer convenings was instrumental in growing the number of angel networks in the region from twelve to over forty.

Attract and retain staff and membership talent

Experienced staff and angel members are both key to sustaining an angel network and activating investment. Critical to retaining skilled staff is creating the potential for increasing compensation over time. This requires a reliable, growing, and typically diverse revenue stream, as discussed above. Another strategy is **structuring investment-upside participation for the manager or organization**. Use of a hybrid network-fund model that allows the manager to share in the return of successful investments provides recognition of the deal work, while maintaining a focus on also developing the network and angels' skills.

Engaging active, experienced, and influential angel members is equally important. Most networks aim to produce **attractive networking events** that create valuable relationship-building opportunities for key business influencers.

To retain the most experienced and active angels (i.e., avoid burn-out), networks need to consider ways to **alleviate the deal management burden** on those members. Strong staff support and streamlined processes can help lessen the load on active members, and maintaining a robust pipeline of new members helps spread the due diligence burden across a wider membership base. Another option is compensating volunteer members for their leadership work. With Soldiers Field Angels' pooled capital model, members volunteer to serve in specific operational roles and to lead deals. These volunteers are compensated with carried interest in the investments, distributed proportionally to their time and effort. While this compensation comes significantly later than the work (and is not guaranteed), Soldiers Field Angels has found this strategy to be successful in motivating members to volunteer.

STRATEGY IN ACTION

EVENTS AND EXCLUSIVITY

Mexico's Angels Nest is very conscious of the need to keep influential and active angel investors engaged. They provide "Angel Talks" on sectors or other compelling current topics, and produce "Pitch at the Beach" events that are popular with their investors. They also found that providing international deal flow, generated by their foreign members and the leader's relationships, was a unique value-add they could provide their members, who like the prestige of this exclusive access, as well as the portfolio diversification.

Use innovative financing structures as well as equity

Many of the active networks we engaged with, especially those that are not solely focused on technology-based businesses, are open to **multiple financing structures, including innovative vehicles** such as revenue-based financing, in addition to the more traditional early-stage structures of equity and convertible debt. These structures may be a better match for many companies' financing needs and their use enhances the likelihood of positive returns for investors. iungo capital in Uganda uses revenue-based financing exclusively, so the angel investors it mentors are becoming familiar with those models. Colaborativo in Mexico is now experimenting with a revenue share investment model, believing it may be a better fit for the entrepreneurs they are working with.

BEST PRACTICES

Beyond these strategic responses to common challenges, our research identified three characteristics that most promising networks share, regardless of geography or engagement approach.

> Angel capital should be considered a development asset class.
> **Tomi Davies**
> Lagos Angel Network

> When I'm asked why I do this part of my answer is always to prove a point – that it is possible to have a fund structure that can successfully address small investment tickets.
> **Roeland Donckers**
> iungo capital

Leverage strong leadership: committed, culturally-embedded, and connected

Consistent with existing angel network guidebooks, yet critical to reiterate in the emerging market context, is the importance of strong leadership to launch, grow, and maintain active angel organizations. This leadership should include several characteristics:

- **Deep commitment to angel investing and entrepreneurship support as an economic development strategy**: Across the regions of focus, the networks with traction have a leader driven as much, if not more, by a mission to develop their local economy as they are to generate financial gain by growing an angel network. This commitment often includes volunteering their own time, and even investing their own money, to launch the network. In addition, they are thoughtful about the particular role that angel investing can and should play in economic development. This deep commitment is necessary if a leader is to weather the significant challenges of growing an angel network and the lack of financial return in the short term.
- **Strong understanding of the local entrepreneurship ecosystem and its needs:** These leaders are equally knowledgeable about the local business culture in general and the entrepreneurial sector's financial and social capital needs in particular. This understanding is usually gained through years of work experience in the local or regional business arena.
- **Influential business and community connections:** Through their deep experience in the regional business sector, the leaders have developed business connections that can be leveraged to generate deal flow, identify potential angel investors, and effectively support entrepreneurs. In addition, it is quite helpful to have a leader who is recognized as a local business influencer who confers prestige on the network. This characteristic can be invaluable in attracting prospective angel investors.

Understand the angel investor is the primary customer

Although these groups are passionate about supporting entrepreneurs and growing their local economy, we noticed that they viewed the angel investors as primary customers, not just "deep pockets" to provide capital. They were thoughtful and strategic about addressing the angel investors' needs as much as the entrepreneurs' needs for support, and understood that rewarding relationships are critical to attracting and activating angels. This includes:

If the objective is to activate the people that make the investments, then they – the investors – are the primary customer. You can't start with the entrepreneurs – they are the beneficiaries, but not the primary customer. You need to ask: 'Why do people become angels? Where is the fun?' You have to give them something they can't get themselves.

Israel Pons
Angels Nest

We have to learn with entrepreneurs and investors how things could work for us.

Alfredo Montoya
Colaborativo

- **Reducing barriers to entry:** While angels may theoretically be able to "afford" to pay membership fees, they can still be a barrier to trying out this new and risky activity. Keeping membership fees low or replacing them with other revenue sources, such as transaction fees, is one way some networks are addressing this issue in an angel-centric manner. This creates a larger pipeline of members to engage and try out the angel investment experience.
- **Making angel investing as "easy" and rewarding as possible**: While we expected to see education and mentoring efforts, as well as staff-managed investment processes to lighten the administrative load on members, we were surprised at the degree of highly customized services some leading networks provide. Angels' specific needs or interests were accommodated, resulting in a more rewarding experience. This approach may seem less scalable, but may actually be more effective in activating angel capital, and can be an efficient use of networks' limited resources.
- **Understanding and providing intangible ego benefits:** Leading networks understand that investors are looking for ego benefits from this engagement, and that exclusivity is attractive in this context. Providing exclusive access to deals and networking with highly influential business people that are fellow members are intentional efforts. They also recognize and utilize each individual investor's particular expertise, creating ego rewards for the members.

Employ an entrepreneurial approach to serving the market

Given the relatively nascent stage of the ecosystems and angel networks in the regions we investigated, it is critical that networks have a flexible and responsive approach to serving their local market, rather than aiming to replicate a "traditional" developed market angel network model, or cling to a particular strategy that is not generating results. Notably, this entrepreneurial approach underpins several of the specific strategies outlined above. Networks must take an entrepreneurial approach to:

- **Developing and evolving their own business model**: Most of our case study networks worked through – and may still be working through – numerous iterations of their business model, evolving in response to their local market and the angels' preferences and needs, and testing different and diverse revenue streams.
- **Creating innovative investment vehicles/structures appropriate for the local market**: Networks are showing flexibility and responsiveness to the particular financing needs in their local market – both on the entrepreneur and investor side – through the structures they are testing. Lagos Angel Network's integration of a syndicate strategy to engage investors beyond members and Colaborativo's exploration of a revenue share vehicle to better match entrepreneurs' needs are innovations based in market responsiveness.

PART 3: Next Steps For Development Institutions

As emerging market angel networks navigate the challenges and test the strategies detailed in Part 2 above, there are roles for development funders to support their efforts. This section identifies the specific ways USAID and mission staff, bilateral and multilateral donors, and other investors with development goals can engage with angel networks. By leveraging their resources to help networks mitigate the context and business model challenges that constrain angel investment in emerging markets, USAID and other development institutions can help angel networks increase private investment in local early-stage companies and generate increased economic activity in these regions. These strategies align with USAID's Private-Sector Engagement Policy, creating specific opportunities to co-create efficient solutions that help angel networks achieve greater scale, sustainability, and effectiveness.

Following the engagement recommendations is a set of assessment tools to help USAID and other institutions assess promising angel networks and analyze their progress in meeting their unique ecosystem needs. Finally, knowing that assessing the impact of development funding is a critical component of USAID's and other funders' work, we outline the key performance indicators most appropriate for angel networks to use to demonstrate progress towards mutual goals.

5 WAYS TO ENGAGE WITH ANGEL NETWORKS

1 **FUND**
Provide financial support to angel networks

2 **DE-RISK**
Provide investment guarantees or matching and follow on funds for angel investments

1. FUND: Provide financial support to angel networks

Angel networks require start-up funding for staff and programmatic resources, just like early-stage business enterprises. The network and network trade association leaders interviewed agreed with our observation that a minimum of three years of subsidized support is necessary for an angel network to reach a meaningful level of angel activation and investment. In most cases, it takes even longer to reach self-sufficiency unless the network is deeply embedded in another entity.

To date, many networks have relied on the financial resources and volunteer time of founding leaders to launch, and those embedded in another organization have benefitted from inherent subsidies of some overhead costs through the start-up phase. Thus, **grants or sponsorships to support start-up costs is an appropriate and potentially catalytic investment** where there is sufficient interest and emerging leadership to drive a network launch.

Even after the start-up phase, most networks' business models require revenue beyond membership fees. **General operating support and/or sponsorship of specific events or initiatives** can enable essential activities and allow network managers to focus on activating capital investment.

Where angel networks do not yet exist, **supporting other intermediaries to convene existing and potential angel investors** is another opportunity. For example, business networks, business accelerators, or other entrepreneurial support organizations may play a role in convening angel investors. This engagement strategy can also raise the visibility of the development institution's activities and strengthen relationships with potential partners.

2. DE-RISK: Provide investment guarantees or matching and follow on funds for angel investments

In addition to direct and indirect support of angel network infrastructure, innovative support of their investments is also a powerful way to unlock more private sector capital. First-loss **guarantees for angel investors' direct investments** reduces the risk for investors, which can be particularly helpful in attracting and activating new angel investors. In addition, with losses limited by guarantees, both new and experienced angel investors may have additional investment bandwidth, investing in more companies than they otherwise would be able to.

Investment matches and/or follow-on investments are another partnership opportunity for development institutions to catalyze more private capital by sharing risk and reward. These investments leverage the business expertise of angel investors, and "stretch" angel investors' funds, allowing early-stage companies to reach their target fundraises with smaller checks from each respective angel. This allows those angels to invest in more companies than they otherwise would, and also allows for more diversification in the angels' portfolios, reducing the inherent risk of angel investing.

3 **SUPPORT THE SUPPORTERS**
Provide financial support to angel network trade associations

3. SUPPORT THE SUPPORTERS: Provide financial support to angel network trade associations

As discussed, angel network trade associations, membership organizations of networks in a defined regional geography, play a critical role in angel investor growth and data gathering. These trade associations are instrumental in providing angel training workshops, convenings, peer support, and sharing of effective strategies among networks. They are an efficient means of supporting angel education efforts, reducing the need of each network to develop their own education and training. They are also a key data-gatherer for angel investment activity in their regions. Local networks' capacity for data gathering appears to be limited by resources and priorities of local angels, but the trade associations have the relationships and incentive to collect, analyze, and distribute data that can benefit the individual networks as well as the entire region. Given that USAID and other development institutions emphasize data-supported approaches to fostering economic development, supporting trade associations as key data gatherers can meet long-term needs for better information to drive strategy.

To date, the trade associations in the regions of study are relying on one or two staff members and volunteers to coordinate their efforts, and their work cannot yet be sustained by the membership dues paid by nascent angel networks alone. **Grant or sponsorship funding of regional angel associations' general operating costs and/or specific convening events, educational training materials and workshops, research, or investment and impact tracking efforts** can efficiently support region-wide network growth and data gathering.

4 **EDUCATE**
Fund and disseminate angel training resources

4. EDUCATE: Fund and disseminate angel training resources

While related to the support of networks and trade associations, and best done in concert with those entities, development and dissemination of angel education and training resources warrants a specific recommendation. Training can help raise the visibility of networks, and can enhance their ability to activate less experienced angels. Development institutions can **fund the centralized development of materials and workshops**, with opportunities to customize for local contexts as needed, as an efficient investment to leverage throughout a region. In addition to resource development, funders can **sponsor the dissemination of materials** through workshops, training series, conferences, or other platforms. Again, this is best done in conjunction with existing networks and trade associations, to ensure that work is not being duplicated and that materials are appropriate to local contexts.

5 **SHINE A LIGHT**
Lend visibility and convening capacity

5. SHINE A LIGHT: Lend visibility and convening capacity

Beyond financial support, development institutions can use social capital to support angel network development by **visibility-raising, using convening capacity, and leveraging ecosystem relationships**. Development institutions often have the ability to bring prominent business or government leaders to events, amplifying the value and attraction of these events. In-kind services that capture and disseminate success stories to the development and business community is valuable to networks with limited marketing capacity. Hosting events at agency facilities is another meaningful way to leverage institutional assets.

This support is relevant not only to accelerating existing networks, but to generating interest and creating momentum in regions without an active angel initiative. In this circumstance, supporting specific efforts of effective local or regional business networks or intermediaries to convene existing and potential angel investors is another important opportunity.

For each of these support opportunities, we encourage development institutions to remain open to funding new, unproven approaches. As discussed throughout this guide, the local context often requires a different approach to angel investing than that taken in developed markets – regulatory or legal frameworks and cultural preferences may make a developed market model impossible or inappropriate. Through our interviews we heard from network leaders testing exciting new innovations that require support or investment, turned down by funders because their model does not fit in a funding "box" or familiar asset class. **Allocating risk capital for innovations that are highly responsive to their local context is a worthy investment.**

Finally, it is important to note that these efforts are more likely to be successful with **committed support over time.** A single grant or event sponsorship, while helpful and welcome, is not likely to result in sustainable impact. Developing relationships with networks and leaders and committing to at least three years of engagement, if not more, creates the opportunity for networks to focus on success factors.

PROCESS & TOOLS TO ASSESS ENGAGEMENT OPPORTUNITIES

For development institutions interested in providing support to angel networks and initiatives, we recognize that identifying the most viable initiatives and ensuring efficient use of funds is a priority – and a challenge. Angel networks are themselves entrepreneurial endeavors – there is not a single successful network model to replicate or formulaic guide to apply. Yet we hope this guide can help development institutions assess support opportunities and establish reasonable measures to assess progress towards ecosystem goals.

The following process framework and assessment tools can help USAID, mission staff, and other development institutions evaluate an angel initiative. Like startup due diligence, it focuses on the leadership's experience and understanding of the needs and cultural context of the local entrepreneurial and angel marketplace.

1 ASSESS local entrepreneurial context

The first step in considering how best to support angel networks and early-stage capital development in a region is to understand the status of the local entrepreneurial ecosystem. If you are already supporting entrepreneurial ecosystem-building initiatives, you may already have a good understanding. If not, start with assessing and mapping the local players:

- Active early stage entrepreneurs and their networks
- Accelerators or other entrepreneurial support organizations
- Business service providers
- Government agencies supporting entrepreneurs
- Funders, including grantors, funds, and investors
- Business associations, networks, or firms that are influential in the community and serve as resources for other businesses or startup entrepreneurs
- Universities or business schools that engage with the business community
- Influential business leaders and conveners
- Angel network trade association(s) that serve your region

Read reports or assessments produced by these entities, then meet with representatives and discuss the status of the entrepreneurial ecosystem and its challenges. Ask:

- What are the key challenges that entrepreneurs are facing?
- What are the most common non-financial support and assistance needs of entrepreneurs in this market? Who is meeting them? What needs are not being met?
- What are the most common financial capital needs of entrepreneurs in this market? Who is meeting them? What needs are not being met?
- Who are the key business influencers and conveners that attract the attention of business professionals and entrepreneurs?
- Are there regulatory or enabling environment issues that create challenges or barriers for angel or early-stage investing in this market?
- What angel networks (or other entities) or individual angels are providing early stage capital and support to entrepreneurs? What are their strengths? Weaknesses? Limitations? Is greater emphasis on angel investor development a needed focus at this time?

Consider whether the entrepreneur needs identified align with the role of the angel investor as early stage financial and social capital provider, and whether the market perceives angel investing development as a priority. If so, it's time to more deeply explore the angel investing activity and opportunity in the market.

2 EXPLORE existing angel investing activity, networks, or initiatives

If there are existing angel networks, angel initiatives, or angel network trade associations, speak with the leaders to learn more about their efforts, progress, challenges, and needs. Are they in need of support, funding, or partnership? What are their priorities for the coming year?

If there are no existing angel networks or initiatives, speak with any active individual angels or ecosystem players to discuss the need and potential for an angel network and whether there are individuals or organizations that could lead or host an effort. Just like any entrepreneurial enterprise, strong leadership is key, so pursuit of a network initiative is ultimately dependent on a leader with appropriate experience and commitment. If such talent is not emerging, partnering with other ecosystem players to produce events or workshops that highlight angel investing is a good interim opportunity to build interest in a more comprehensive effort.

3 EVALUATE angel networks' current strategies and needs

If an existing angel network or initiative has support needs that align with the development institution's priorities and funding capabilities, the core characteristics, strategies, and best practices identified in this guide can help the development institution evaluate the entities.

In addition, the evaluation toolkit below includes three assessments to guide conversations and reflection on an angel network under consideration: a model assessment, strategy assessment, and best practice assessment. While there is no set formula to determine the best approach for an angel network, nor any guarantee that an effort will succeed, by assessing these three elements, the funder can evaluate the strength of the network's leadership and the responsiveness of the network's business model to the cultural context and local ecosystem's needs.

ANGEL NETWORK BUSINESS MODEL ASSESSMENT TOOL

Use this checklist to identify the core characteristics of the network's business model. Since there is not a right or wrong approach, nor a proscriptive formula to determine the best combination, the goal is to gain clarity around what factors drove the choices that were made, and whether they reflect an understanding of the local business culture and entrepreneurial ecosystem.

CHARACTERISTIC	QUESTIONS TO ASSESS: What factors drove these choices?	
MANAGEMENT	☐ **Member-led** Is there a strong core group of experienced investors willing to do this work?	☐ **Manager-led** Has a manager been identified? Are there resources to compensate the manager?
LEGAL STRUCTURE	☐ Affiliation; no legal entity ☐ Non-profit structure ☐ For-profit structure	Does this reflect an understanding of the local business culture and regulatory environment?
MEMBERSHIP	☐ Open to high net worth individuals ☐ Open to mid-level business professionals ☐ Open to other category of individuals ☐ Selective; screening criteria include:	How do these choices relate to local business culture and investment regulatory requirements?
FINANCIAL RESOURCES	☐ Founder investment ☐ Grants ☐ Sponsorships ☐ Membership fees ☐ Entrepreneur application fees ☐ Entrepreneur assistance fees ☐ Investor service fees ☐ Transaction fees ☐ Other: ________________	Is the model overly dependent on one revenue source? If so, is that likely to provide enough support? Have other sources been considered or tested in the past?
INVESTMENT PROCESS AND STRUCTURE	☐ Members invest individually into companies ☐ Members pool their capital for investment into companies ☐ Members pledge to a pooled fund that invests in companies ☐ Other: ________________	How does this relate to members' previous experience and/or comfort with making investments? How does it relate to investment regulatory requirements?
ECOSYSTEM ENGAGEMENT	☐ **Independently structured** Did the leadership consider whether there was an opportunity to partner to reduce costs and gain network benefits?	☐ **Embedded in/affiliated with a partner** What are the cost savings, shared costs, or other benefits of this relationship? Any potential conflicts or risks related to this relationship?
ANGEL ACTIVATION APPROACH	*Where does the network fall on the angel activation approach spectrum?* **Professional** ⟵ SCREEN for value-add members Is there a strong pipeline of experienced investors? Does leadership have the ability to attract members?	⟶ **Developmental** OPEN, with significant focus on training Does the network have adequate experience, capacity, and resources to train and mentor new angels?

ANGEL NETWORK STRATEGY ASSESSMENT TOOL

Use this checklist to identify the ways an angel network or initiative is addressing their context and business model challenges. **You are not looking for quantity, but for demonstration that the network has an explicit and well-considered strategy for each of the six categories.** If not, is there a good reason? Have they thought about the associated challenges? For example, if they are only using equity investment structures, ask them to talk more about the types of companies they are funding, their growth and exit prospects, and how equity investment meets those companies' needs.

		STRATEGIES TO ADDRESS CHALLENGE
CONTEXT CHALLENGES	**Relatively small markets** **Lack of investment awareness, experience, & skill** **Bias against local early-stage investing** **Regulatory barriers to angel investing**	**Expand the local market through partnerships** ☐ Develop ecosystem partnerships for deal flow ☐ Participate in regional and/or cross border partnerships for deal flow and additional angels ☐ Engage foreign and/or diaspora investors alongside local investors to increase capital available ☐ Other:__________________ **Attract new angels through broader definition and awareness** ☐ Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market ☐ Produce events that raise awareness of angel investing ☐ Engage local business influencers in events to enhance attractiveness ☐ Amplify success stories to generate interest and excitement ☐ Other:__________________ **Activate capital through education, process facilitation and risk reduction** ☐ Provide angel education and mentoring to build skills and confidence ☐ Cultivate peer engagement to build trust ☐ Facilitate the investment process to reduce transaction costs and friction ☐ Use pooled capital models to shorten the learning curve ☐ Develop fund models or hybrid funds to activate additional capital ☐ Pursue investment guarantees or investment matches to reduce risk ☐ Experiment with innovative workarounds to local regulatory constraints ☐ Other:__________________
BUSINESS MODEL CHALLENGES	**Achieving a sustainable business model** **Retaining skilled network leadership** **Lack of participation by key influencers** **Unsuitability of traditional equity in some cases**	**Diversify revenue and share costs** ☐ Charge fees for services to investors or entrepreneurs ☐ Charge transaction-based fees ☐ Generate revenue from sponsorships or consulting engagements ☐ Structure investment upside participation for the organization ☐ Be embedded in another institution to share costs ☐ Secure grants/government support ☐ Other:__________________ **Attract and retain staff and membership talent** ☐ Structure investment upside participation for the manager ☐ Host networking events attractive to key investors ☐ Alleviate deal management burden on the most active members ☐ Other:__________________ **Use innovative financing structures as well as equity** ☐ Use alternative financing structures that match local expectations around ownership, business success, exit, and return ☐ Other:__________________

ANGEL NETWORK BEST PRACTICE ASSESSMENT TOOL

Use the questions below to assess if and how best practices have been incorporated into the business model. Again, a network doesn't necessarily have to demonstrate all of these practices, but the more they incorporate these ideas into their approach, the more likely they are to be successful.

<table>
<tr><th>BEST PRACTICE</th><th>QUESTIONS TO ASSESS</th></tr>
<tr><td>Strong leadership:
Committed
Culturally-embedded
Connected</td><td>Committed – Looking for deep commitment to angel investing and entrepreneurship support as an economic development strategy
Why are you interested in leading an angel network? What motivates you?
What is the role of angel investing in supporting entrepreneurs and growing our local economy?
What time and personal resources have you dedicated to this effort?
What is your long-term vision for this network?
Are you able to support yourself financially through this work? If not, do you have other resources to rely on? Are you able to dedicate enough time to the effort?
Culturally-embedded – Looking for strong understanding of the local entrepreneurship ecosystem and its needs
What is your work experience and business background?
How long have you been working in this region?
What do you perceive as the biggest challenges for entrepreneurs and angel investing in this region?
What experiences most informed your approach to angel investing and entrepreneurial support?
Connected – Looking for influential business and community connections
What key business and community relationships are you able to bring to bear on this effort?
Who are the key influencers and business leaders that you believe you need to engage? What is your relationship with them? How will you engage them?
Speak with other members on the business community to assess the leader's connections, credibility, reputation, and ability to attract angel investors to the network.</td></tr>
<tr><td>Angel investor as primary customer</td><td>Reducing barriers to entry – Does their approach make it relatively easy for investors to become involved?

Make angel investing as "easy" and rewarding as possible – Does their strategy facilitate the investment process and accommodate the interests of the investor?

Understanding and providing intangible ego benefits – Does their model and leadership appreciate the attraction of exclusive networking opportunities and deal access?</td></tr>
<tr><td>Entrepreneurial approach</td><td>Is leadership's approach to business model and investment structures responsive to what they have learned about local market needs, or does it merely replicate a model from elsewhere, without assessing its appropriateness in this context?
How has the model or approach changed over time? What have they learned and how did they adapt? If this is a new model, how do they plan to test, learn, and pivot if needed to be successful?
Do they welcome questions about learnings and adaptation, or do they reject such probing and insist on a single "right" approach?</td></tr>
</table>

GAUGING THE IMPACT
key performance indicators

For those supporting angel networks, assessing the impact of that support and the progress of the angel network is important to ensure that resources are being used most efficiently, and to help the economic development community continue to improve their practices. As discussed in this guide, early-stage private investment data is a challenge to gather in any market, and early-stage angel networks in emerging markets have particularly limited capacity to gather data. Nevertheless, our network interviews informed a set of Key Performance Indicators (KPIs) most appropriate for gauging progress over time. We recommend supporters discuss these KPIs, and the frequency of collection, with angel networks they plan to partner with, to select a subset that is most feasible and appropriate for their mutual goals.

1

MEMBERS

Of course, the number of members is a key indicator for an angel network. Yet what is more important is the number of active members, meaning the members who have made an investment in a given period (in the past year is typical). Member engagement is another important indicator of future activity – with the assumption that consistent engagement in network activities is necessary for the critical trust-building required to activate investment – so tracking attendance at network events is worthwhile. Gender and other relevant demographics should be tracked to better understand how different demographic groups are attracted to, and participating in, angel investing.

2

INVESTMENTS

It is standard for angel networks to track the number of companies receiving investment and the amount of capital invested into each one. However, when it comes to reporting, in respect of the typical privacy concerns in angel investing, supporters should expect investment amounts in aggregate, as well as the average investment into a company. Tracking each company's full investment round and follow-on investment are indicators of the value the angel network is playing in the capital spectrum and the traction of the company – catalyzing opportunities for the company to raise additional capital from other sources.

3

PORTFOLIO COMPANY ATTRIBUTES AND PROGRESS

The viability of portfolio companies is a core measure, followed by revenue, net income, and employment, all of which are indicators of a company's progress and economic contribution. Gender and other relevant demographics of company leadership should be tracked to better understand potential gaps in capital access among different demographic groups.

4

NETWORK BUSINESS MODEL VIABILITY

To assess the angel network's progress to viability, leadership and supporters should obviously review the net income of the group, as well as the sources of revenue, with particular attention to the diversity of revenue streams and the percentage earned rather than donated.

Finally, a key finding of our research is that an angel network needs to reach a critical mass of active members (investors doing at least one deal a year) to reach financial sustainability, especially if they are not embedded in and sharing costs with another organization. Interestingly, from our observations and conversations, that critical mass seems to be around 30 active investors – for many networks we spoke with, a self-sustaining level of revenue is reached with the membership or transaction fees generated by approximately 30 investing members.

Not only is this level of activity necessary for the network to become financially sustainable, it also reflects a meaningful level of investment that helps generate more deal flow, attract more investors, and create more opportunities for successful returns. Finally, given that not all members are very active (only 30-50% of network members tend to be active), that target often translates to a full network of 60+ members.

Angel Network Key Performance Indicators

INDICATOR	METRIC
Members	☐ **Number of members** ☐ **Activity level of members** • Number of active members (have made an investment during the period) • Number of semi-active members (have attended an event, meeting, etc. during the period) ☐ **Gender (and other relevant demographics) of members**
Investments	☐ **Number of companies receiving investment** ☐ **Aggregate amount of investment by the network** ☐ **Average amount of investment by the network in a company** ☐ **Aggregate amount of capital raised by portfolio companies** • Current round of investment (including the angel network's investment) • Follow-on rounds of investment (may or may not include angel network)
Portfolio company attributes and progress	☐ **Company viability (still operating vs. out of business)** ☐ **Company revenue and net income** ☐ **Company employment** ☐ **Gender (and other relevant demographics) of company leadership (Founder/CEO and/or Team)**
Angel network viability	☐ **Net income** ☐ **% Earned revenue (memberships, fees, sponsorships) vs. % grants and donations** ☐ **Progress toward critical mass (anecdotally 30 active members)** • % of active and semi-active members vs. inactive members • Number of prospect members added to the pipeline

Conclusion

We are truly excited by the prospects for angel investing in the emerging markets investigated. While most networks are still in their early stages, there are many aspects of their approaches that we find promising for the overall practice of angel network investing – leaders operating with the mentality that angel investing is a "development asset class"; organizations designing innovative investment and fund structures to meet the capital needs of entrepreneurs and return expectations of investors; and innovative engagement and activation strategies that are effectively catalyzing capital.

For case studies of angel networks highlighted in this guide, visit:
http://bit.ly/EmergingAngels

While we observed a variety of promising approaches to angel network investing across the regions, all of the networks we spoke with shared a common goal: to meet the needs of early-stage enterprises as they navigate the pioneer gap, in the hope that those enterprises thrive and go on to become drivers of economic growth. This goal is completely aligned with the aims of development institutions like USAID. As this guide shows, there are a range of opportunities for these institutions to act within their private-sector engagement mandates to leverage the local knowledge, business expertise, and capital angel networks bring to the table. We look forward to seeing how these partnerships will accelerate angel investing, entrepreneurship, and economic development in emerging markets.

Recommended Resources

BOOKS, GUIDES, AND REPORTS ON ANGEL INVESTING

- Dutch Good Growth Fund. (2019). Scaling Access to Finance for Early-Stage Enterprises in Emerging Markets: Lessons from the Field. Dutch Good Growth Fund. Retrieved from: https://english.dggf.nl/publications/publications/2019/1/15/study-on-scaling-access-to-finance-for-early-stage-enterprises
- Ederman, L.F., T.S. Manalova, and C.G. Brush. (2017). Angel Investing: A Literature Review. Foundations and Trends® in Entrepreneurship. Volume 13, No. 4-5: 265-439. Retrieved from: http://dx.doi.org/10.1561/0300000051
- May, John and Manhong Mannie Liu. (2016). Angels without Borders: Trends and Policies Shaping Angel Investment Worldwide. Singapore: World Scientific.
- OECD. (2011). Financing High-Growth Firms: The Role of Angel Investors. OECD Publishing. Retrieved from: http://dx.doi.org/10.1787/9789264118782-en
- Preston, Susan L. (2004). Angel Investment Groups, Networks, and Funds: A Guidebook to Developing the Right Angel Organization for Your Community. Kauffman Foundation. Retrieved from: https://www.angelcapitalassociation.org/data/Documents/Resources/StartingaGroup/1b%20-%20Resources%20-%20Starting%20a%20Group/1%20StartGroup_GuidebookFinal.pdf
- Rose, David S. (2014). Angel Investing. Hoboken, NJ: John Wiley & Sons.
- World Bank. (2014). Angel Investment Handbook. Washington, DC: World Bank. Retrieved from: https://www.infodev.org/infodev-files/angel_handbook.pdf
- World Bank. (2014). Creating Your Own Angel Investor Group: A Guide for Emerging and Frontier Markets. Washington, DC: World Bank. Retrieved from: https://www.infodev.org/infodev-files/angelgroups_guidbook_final_0.pdf

ORGANIZATIONS

These organizations engage or represent angel investors, and/or report on early stage and angel investing activity in their region(s). Visit their websites to obtain the most up-to-date reports on angel, early-stage investment, or related activity.

International

- World Business Angels Investment Forum - https://www.wbaforum.org/
- Global Entrepreneurship Network - https://genglobal.org and Global Business Angels Network https://genglobal.org/gbaninfoDev (World Bank Group) - https://www.infodev.org/
- Partnering to Accelerate Entrepreneurship (PACE) Initiative (USAID) - https://www.usaid.gov/PACE
- Collaborative for Frontier Finance - https://www.frontierfinance.org/

Latin America

- Xcala - https://xcala.org/
- LINK-Caribbean - http://link-caribbean.com/
- The Association for Private Capital Investment in Latin America (LAVCA) - https://lavca.org/
- The Argentine Association of Private Capital, Entrepreneur and Seed (ARCAP) - https://arcap.org/
- Inversor Angel Argentino - http://inversorangelargentino.org/
- Latin American Observatory of Financing For Entrepreneurs, IAE Business School - https://www.iae.edu.ar/es/ConocimientoEImpacto/iniciativas/Observatorio/Paginas/default.aspx

Africa

- African Business Angel Network (ABAN) - https://abanangels.org/
- VC4A - https://vc4a.com/
- Southern African Venture Capital and Private Equity Association (SAVCA) – https://savca.co.za/

Middle East – North Africa

- The Middle East Angel Investment Network (MAIN) - http://www.mainmena.com/
- Mediterranean Business Angels - https://med-angels.com/
- MAGNiTT - https://magnitt.com/
- ArabNet - https://www.arabnet.me/

Acknowledgements

The authors thank the following practitioners for their time and insights:

Sandra A.C. Glasgow, FirstAngelsJA

Tomiwa Aladekomo, Big Cabal Media

Nick Allen, Savant Capital

Mbwana Alliy, SahelInnov

Baybars Altunas, World Business Angels Investment Forum

Elian Alvarez, EMPREAR Business Angels

Richard Ambrose, Pomona Impact

McHale Andrew, InterTrade Consulting Inc.

Uche Aniche, SSE Angel Network

Magnus Arantes, HBS Alumni Angels of Brazil

Adedana Ashebir, Village Capital

Chike Asiodu, TextNigeria

William Baldridge, USAID

Jeremy Baumann, World Bank Group

Senam Beheton, EtriLabs

Mariela Belli, Agora Partnerships

Suzanne Biegel, Catalyst at Large

William Butterfield, USAID

Christopher Campbell, Socius

Abu Cassim, Jozi Angels

Isabelle Chaquiriand, Xcala

Laura Cizmo, USAID Cambodia Mission

Llew Claasen, Newtown Partners

Antoine Cocle, Kaya Impacto

Brett Commaille, AngelHub Ventures

William Cordiero, GVAngels

Reuben Coulter, Transformational Business Network

Rachel Crawford, Village Capital

Jose Frank Cuello, USAID

Tomi Davies, ABAN

Laura Davis, RENEW Strategies

Medea Degbe, Benin Angels

Marieme Diop, Dakar Network Angels

Roeland Donckers, iungo capital

Omar El Hyani, MNF Angels

Tarek El Kady, Alexandria Angels

Rebecca Enonchong, Cameroon Angels Network

David Fernandez, Startup Chile

Maggie Flanagan, Lemelson Foundation

Gabriela Fonseca, HBS Alumni Angels of Brazil

Juan Diego Garcia, Angel Ventures

Adrian Garcia, Carao Ventures

Susana Garcia-Robles, IDB LAB

Tamara Giltsoff, Tamara Giltsoff Consulting

Luis Jose Giove, Emprende UP

Autumn Gorman, USAID

Richard Greenberg, U.S. International Development Finance Corporation

Stephen Gugu, ABAN

Stephen Gugu, ViKtoria Business Angels Network

Manal Hakim, Geek Express

Javier Hasbun, Venture Capital Group Angel Network

Rana Helou, USAID

Cristobal Henriquez, Venture Capital Group Angel Network

CK Japheth, Kampala Angels Investment Network

Sarah Johnson, Collaborative for Frontier Finance

Bethann Kassman, Go Beyond Network

Yemi Keri, Rising Tide and Lagos Angel Network

Martin Kiilu, Intellecap Impact Investing Network

Carolyne Kirabo, Mercy Corps Social Venture Fund

Rob LeBlanc, Awethu Project

Luni Libes, Fledge

Christina Lukeman, Agora Partnerships

Michael MacHarg, Babylon Health

Zeina Mandour, Cairo Angels

John May, New Vantage Group and Angel Capital Association

Youssef Moemen, AUC Angels

Alfredo Montoya, Colaborativo

Craig Mullet, Branison Group

Jason Musyoka, ViKtoria Business Angels Network

Hijazi Natsheh, Fast Forward

Lisa Ocampo, IAE Angels Club

Wole Odetayo, Wennovation Hub

Jo Opot, Acumen

Alec Paxton, U.S. International Development Finance Corporation

Israel Pons, Angels Nest

Ben Powell, Agora Partnerships

Yacine Rahmoun, Casbah Business Angels

Rose Ramos, Agencia Sabia

Timothy Rann, Mercy Corps Social Venture Fund

Anna Raptis, Amplifica Capital

Robert Reno, USAID

Manuel Rodriguez, Chile Global Angels

Julie Ruvolo, LAVCA

Rob Schneider, The Lemelson Foundation

Mberry Seck, Women's Investment Club

Uma Sekar, Capria

Niraj Shah, IFC

Renato Simon, Latin American Angel Society

Harry Strachan,

Ryan Sturgill, Gaza Sky Geeks

Sewu-Steve Tawia, Asime Ventures

Steve Tchoumba, ActivSpaces Cameroon

David van Dijk, ABAN

Thomas van Halen, VC4Africa

Keet van Zyl, Grindstone Accelerator

Drew von Glahn, Collaborative for Frontier Finance

Jordan Wahbeh, Bay Angels

Linus Wahome, ManPro

Arturo Weiss Pick, Soldiers Field Angels

Angels Nest


Credit: Angels Nest

Status as of May 2020

FOUNDED: 2015

BASED: Mexico City, Mexico

INVESTMENT GEOGRAPHY: Mexico, specifically Aguascalientes, Campeche, Chihuahua, Mexico City, Jalisco, Yucatan

FORM: For-profit

NUMBER OF ANGELS: 300; 90 active

NUMBER OF DEALS: 35

TOTAL FUNDING: $4.2M USD

INVESTMENT FOCUS: Sector agnostic. Innovative business models that are highly scalable.

WHAT MAKES THIS NETWORK SPECIAL

Angels Nest operates one of the most active angel networks in Latin America. With no membership fees, an online platform for angels, and international partnerships that activate additional capital, Angels Nest lowers entry barriers to angel investing and aligns its goals and revenue with the interests of investors and entrepreneurs.

BUSINESS MODEL

- Angels Nest charges a flat fee to cover investment transaction legal costs as well as a 4-6% success fee, both of which are deducted from the investment at closing.
- The network negotiates an equity stake of approximately 4% in each invested company, a long-term revenue opportunity derived from successful companies.
- Transaction-related fees, registration fees for investment and educational events, and sponsorships cover 60-70% of the organization's costs to date.

KEY ANGEL ENGAGEMENT STRATEGIES

- With no membership fee, Angels Nest encourages curious potential angel investors to engage with the network risk-free.
- Educational sessions, workshops, and pitch events activate new angels and keep experienced angels engaged.
- International partnerships provide exclusive access to cross-border deals that generate excitement and diversify domestic angels' portfolios.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- Entrepreneurs apply online, and those that pass an initial screen are further assessed by staff at a due diligence meeting.
- Entrepreneurs that agree to give the Angels Nest network exclusive access to their investment opportunity receive coaching from staff and pitch to the network.
- Angels Nest staff facilitates the investment process to increase the chance of a successful investment close.

Bonny Moellenbrock is the lead author of this case. This angel network spotlight is part of Angel Networks in Emerging Markets: A Guide for Development Institutions, a USAID-funded study of angel networks in Latin America, Middle East/North Africa, and Sub-Saharan Africa. This project is a collaboration between Center for the Advancement of Social Entrepreneurship at The Fuqua School of Business at Duke University, Millbrook Impact, and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business at the University of Cape Town. This case study reflects the status of the network as of May 2020. Find other cases from this project as well as the full guide at http://bit.ly/EmergingAngels

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BERTHA CENTRE UCT GRADUATE SCHOOL OF BUSINESS
Millbrook Impact

Development History and Model

FOUNDING STORY AND LEADERSHIP

I grew four different companies and sold three – one very successfully. The other went bankrupt. I learned the most from the bankruptcy experience, from the mistakes I made. Entrepreneurs can benefit the most from the mentorship of angel investors who can share lessons learned from their entrepreneurial and business experience.

Israel Pons
Founder

Angels Nest was founded in 2015 by Israel Pons, a Mexican entrepreneur with international business experience. After growing four companies and learning about angel investing while residing in the United Kingdom, he returned to Mexico and worked with a large company there to learn about the Mexican business culture. This role included travel throughout Latin America, where he noted the lack of resources and support for entrepreneurs. In 2011 he conducted a study of the Mexican entrepreneurial environment and began engaging with government efforts to promote entrepreneurship. The government was funding accelerators at that time, but would not provide financial support for an angel network. Nevertheless, Pons felt strongly that entrepreneurs needed access to angel investment and mentorship. He left his job and launched Angels Nest, funding the organization with his own investment and that of a fellow board member.

Angels Nest, now with a presence in six regions in Mexico, is sector-agnostic, investing in early-stage businesses with innovative, disruptive business models that are highly scalable. Through informal and formal relationships built upon Pons' international business network, Angels Nest is linked with angel investors throughout Latin America, in North America, and in Europe. In 2016 it became Mexico's national representative of the Global Business Angels Network (GBAN), a strong community of angel networks, and a founding partner of EMAAC, the Association of Mexican-German Entrepreneurs. In 2018, Israel Pons became Mexico´s High Commissioner for the G20's World Business Angel Investment Forum (WBAF), and in 2020 became President of the WBAF Angel Investment Fund.

THE ANGELS NEST SERVICE MODEL

EXAMPLE INVESTMENT: GASZEN

Portfolio company Gaszen, based in the state of Guanajuato, provides a wireless device that helps consumers better manage their gas usage. Gaszen received an investment from the Angels Nest network in 2017 to go to market and another in 2018 to upgrade their technology.

"Angels Nest has a passionate, competent, and highly energetic team to propel any startup to success in its capital raising. Gaszen had a paradigm shift in how to conduct a capital raise through investors."

Jennifer Reyna
Co-Founder, Gaszen

Angels Nest follows a typical angel network approach, with a staff of six (four full-time equivalents) recruiting angel network members, sourcing and screening enterprises, connecting angels to promising investment opportunities, and facilitating the due diligence and investment process. Much of this activity is facilitated with an online platform that allows for efficient information-sharing across its relatively widespread investment geography and with its international angels.

Investment process: Entrepreneurs complete an online questionnaire, and those that meet base criteria in an initial screening are reviewed by two senior staff members. The most compelling opportunities are invited to meet with staff. At this initial due diligence meeting, staff further discuss the business as well as the Angels Nest process. To receive coaching and the opportunity to pitch to the network, entrepreneurs must sign an agreement that includes investment exclusivity for Angels Nest. Those that agree launch their investment opportunity on the Angels Nest platform, providing a business plan, financial projections, financing need, and a brief video pitching the company. Entrepreneurs also attend in-person pitch events with members, scheduled as opportunities move forward.

Angels review investment opportunities online and at pitch events. Due diligence questions and answers are also shared on an online forum. Interested angels pledge an investment amount, and when the company's funding goal has been reached, the Angels Nest team facilitates the closing process. The members invest individually into the company, but all with the same terms negotiated by the Angels Nest team and lead investor(s). In most cases, an angel network member is nominated to represent the investor group, monitoring the company and providing updates on the online discussion forum. Investment documents and share certificates are also kept online in each member's account.

Education and training: Angels Nest provides educational sessions and workshops for angels and entrepreneurs. New angel members have access to five workshops on due diligence, valuation, deal structuring, investment monitoring, and portfolio structuring. Entrepreneurs can access coaching on investment stages, the angel investment process, investment pitch preparation, valuation, negotiation, and crowdfunding strategies. With the support of interns paid by the Mexican Ministry of Finance, Angels Nest has also produced over 100 "Microtips" – short clips to inspire and inform entrepreneurs – on the Spotify platform and is launching a podcast on the angel investor experience. Angels Nest is also exploring the delivery of workshop content in webinar modules.

Business Model & Path To Sustainability

> Many say that if you don't charge a fee the investors won't be committed. But gym membership doesn't guarantee that people go to the gym. Our goal is to move the needle on investments, and our success-based fees align with that.
> **Israel Pons**
> Founder

Unlike many angel networks, Angels Nest does not charge a membership fee, removing what can be a significant barrier to entry for curious potential angel investors. Instead, its business model is based on service fees and transaction fees. At the close of investments facilitated on the Angels Nest platform, a $2,500 USD fee for the transaction's legal work and a 4-6% success fee (depending on the stage of the company) is deducted from the investment. The network entity also negotiates a small equity stake in the company of approximately 4%.

This success-based approach aligns the common interests of the investors, entrepreneurs, and Angels Nest – all efforts of the organization are focused on identifying the most promising investment opportunities, connecting angels with these opportunities, reaching the investment goal, and closing the investment. If a company does not close a round, despite the assistance of Angels Nest, no fee is charged.

Angels Nest also charges registration fees for in-person events and educational workshops, and accepts sponsorships by service providers that contribute space to defray the costs of these offerings.

To date, earned income covers 60-70% of the organization's costs. The remainder has been funded by co-founders' investments and grants from Xcala, an Inter-American Development Bank-funded initiative to catalyze angel networks in Latin America. The $30,000 USD in grants from Xcala provided critical support for the network as they developed the business model. Now that the Xcala grant program has ceased, Angels Nest is working to replace this support.

Credit: World Business Angels Investment Forum

Angel Engagement

> We tried having set monthly pitch meetings, and the team was stressed out working for the calendar, rather than the investors and entrepreneurs. We have events when we have good deals and information to share.
> **Israel Pons**
> Founder

Angels Nest is a developmental network – it is open to qualified high-net worth individuals regardless of investment experience and is willing to educate them in how to be an angel investor. Eighty percent of its 300 registered members are in Mexico, primarily in its regional clusters: Mexico City, Aguascalientes, Campeche, Chihuahua, Jalisco, and Yucatan. The remaining 20% are in Latin America, North America, the United Kingdom, and Germany, as Angels Nest uses its platform and partnerships to engage in cross-border investing.

The organization works very deliberately to attract, activate, and maintain members, and tracks investor participation and meetings between angels and entrepreneurs to assess engagement. Of its 300 registered members, 25% are considered "semi-active" by the network, having participated in three events and/or made at least one investment in the past year; 5% are "active," having made at least three investments. Angels Nest strives to engage members on a monthly basis to ensure continuity, but, unlike many groups, Angels Nest does not have a set monthly meeting. Instead, meetings are driven by the availability of relevant content and the needs or interests of the members – if there are good deals in the pipeline, Angels Nest will hold a "speed funding" pitch meeting; "angel talks" provide useful information on sectors or investment trends; workshops provide training and education on angel investing. In addition to the introductory angel investing trainings, workshops on post-investment company engagement and angel portfolio management address the needs of active angels.

> If the objective is to activate the people that make the investments, then they – the investors – are the primary customer. You can't start with the entrepreneurs – they are the beneficiaries, but not the primary customer. You need to ask, 'Why do people become angels? Where is the fun?' You have to give them something they can't get themselves.
> **Israel Pons**
> Founder

Facilitated by Pons' international business relationships and love of travel, international partnerships are another core angel engagement strategy for Angels Nest. As entrepreneurial activity in Mexico waxed and waned during the network's first few years, Pons realized he had to ensure there were quality opportunities to keep investors engaged. Developing and sharing international deal flow with members was a unique value-add for Angels Nest, giving members investment opportunities that they could not otherwise access on their own. Investors like the prestige and excitement of international deals, as well as the portfolio diversification they provide. Twenty percent of the investments made in the network's first four years have been into foreign entrepreneurs with operations in Mexico or in startups abroad, including across Latin America, North America, the United Kingdom, and Germany. The value of these opportunities was affirmed by the World Business Angel Investment Forum's 2020 launch of the WBAF Angel Investment Fund, a $10 million international co-investment platform, and appointment of Pons to serve as President of the Fund.

> The Latin American business corruption culture has made potential angel investors more risk-averse. We counter that with a focus on people and values.
> **Israel Pons**
> Founder

Another notable characteristic of Angels Nest's programming is a focus on transparency and business ethics to combat any perception of business corruption in the region. Angel network members must self-certify as qualified investors according to Mexican law. The network stresses that its primary goal is not to make money, rather it is to support entrepreneurs in order to achieve an economic development mission. This focus on ethics has increased their credibility and helped to attract in-kind sponsors, such as EY, for their workshops.

Strategies In Practice

Angel Networks in Emerging Markets: A Guide for Development Institutions identifies common context and business model challenges that angel networks face, and summarizes different strategies networks are using to address these challenges. The strategies Angels Nest has adopted are highlighted in the right column below.

<table>
<tr><th></th><th></th><th>STRATEGIES TO ADDRESS CHALLENGES</th></tr>
<tr><td rowspan="4">ECONOMIC CONTEXT CHALLENGES</td><td>Relatively small markets</td><td rowspan="4">Expand the local market through partnerships
• Develop ecosystem partnerships for deal flow
• Participate in regional/cross border partnerships for deal flow/additional angels
• Engage foreign/diaspora investors alongside local investors to increase capital available

Attract new angels through broader definition and awareness
• Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market
• Produce events that raise awareness of angel investing
• Engage local business influencers in events to enhance attractiveness
• Amplify success stories to generate interest and excitement

Activate capital through education, facilitation, and risk reduction
• Provide angel education and mentoring to build skills and confidence
• Cultivate peer engagement to build trust
• Facilitate the investment process to reduce transaction costs and friction
• Use pooled capital models to shorten the learning curve
• Develop fund models or hybrid funds to activate additional capital
• Pursue investment guarantees or investment matches to reduce risk
• Experiment with innovative workarounds to local regulatory constraints</td></tr>
<tr><td>Lack of investment awareness, experience, & skill</td></tr>
<tr><td>Bias against local early-stage investing</td></tr>
<tr><td>Regulatory barriers to angel investing</td></tr>
<tr><td rowspan="4">BUSINESS MODEL CHALLENGES</td><td>Achieving a sustainable business model</td><td rowspan="4">Diversify revenue and share costs
• Charge fees for services to investors or entrepreneurs
• Charge transaction-based fees
• Generate revenue from sponsorships or consulting engagements
• Structure investment upside participation for the organization
• Be embedded in another institution to share costs
• Secure grants/government support

Attract and retain staff and membership talent
• Structure investment upside participation for the manager
• Host networking events attractive to key investors
• Alleviate deal management burden on the most active members

Use innovative financing structures in addition to equity
• Use alternative financing structures that match local expectations around ownership, business success, exit, and return</td></tr>
<tr><td>Retaining skilled network leadership</td></tr>
<tr><td>Lack of participation by key influencers</td></tr>
<tr><td>Unsuitability of traditional equity in some cases</td></tr>
</table>

Looking Ahead

To reach sustainability, Angels Nest is working to increase its investment closings and generate more revenue through capacity-building workshop registration fees, local government workshop sponsorships, and larger, destination "Pitch at the Beach" events. In the interim, grants and founders' in-kind and monetary subsidies are critical to keep this angel network growing and investing.

SUCCESS MEASURES

To monitor the effectiveness of its network, Angels Nest tracks the activity level of its members and the viability of portfolio companies with the following metrics:

Member activity level:

- **Active**: 3+ investments in the past year
- **Semi-Active**: Participated in at least 3 events and/or made at least 1 investment in the past year

Company viability:

- **Success rate**: Percentage of portfolio companies that are still operating (vs. those that have failed)

At an individual portfolio company level, Angels Nest tracks sales and employment to monitor performance and impact, and also tracks two demographic measures: geographic distribution and management gender.

> "Using the money raised as a key metric can be misleading, since one big deal can bias that. The number of companies supported may not be a relevant metric if they are not good companies. Company success rate is the best measure of the effectiveness and impact of the network. Our current success rate is 90%."
>
> **Israel Pons**
> Founder

Lessons From this Network

Credit: Angels Nest

Reduce barriers to entry and friction for investors.

For any angel network, the number of actively investing members is only a fraction of the total number of members – Angels Nest's 30% is typical. Thus, it is important to maintain a strong ongoing pipeline of prospective members to activate. Having no membership fee for angels keeps the prospective investor funnel large, giving potential angels a chance to be inspired and engage without making a financial commitment first. In addition, team management of the investment process effectively reduces the administrative and logistical burden on the investors, allowing them to focus on the companies and the "fun" part of angel investing. All of these strategies reduce the friction that often inhibits angel investment.

Integrate international partnerships to motivate investors and increase capital availability.

Angels Nest's relationships with angel groups in Latin America, North America, and Europe provide a distinctive value-add for members, bringing exclusive access to international investment opportunities that also diversify domestic investors' portfolios. The inclusion of international members also increases the capital available to Mexican entrepreneurs.

Align interests of angel investors, entrepreneurs, and the network entity.

While some consider it inappropriate to essentially "charge" the entrepreneur by taking transaction fees out of the investment, this approach effectively aligns the interests of all parties. The network staff is incentivized to identify top-quality enterprises for the angel investors to consider and to help entrepreneurs raise enough capital to close the round. The network is then compensated for a successful investment close. Finally, by taking a small equity stake in invested companies, Angels Nest continues to be aligned with the companies' successful growth.

Colaborativo

Status as of May 2020

FOUNDED: Angel network in 2019 (Colaborativo in 2012)
BASED: Mexico City, Mexico
INVESTMENT GEOGRAPHY: Mexico, Brazil, Colombia
FORM: Hybrid
NUMBER OF ANGELS: 12
NUMBER OF DEALS: 13
TOTAL FUNDING: $3M USD
INVESTMENT FOCUS: Technology for sustainable development

WHAT MAKES THIS NETWORK SPECIAL

Colaborativo runs several, connected entrepreneurial services to promote sustainable development in Latin America – an accelerator, an online community platform, an angel network, and a recently launched fund. They take potential investors identified by their entrepreneurs and mentor them through the investment process, with the goal of making it so easy and fun the investor wants to continue to make additional angel investments, thereby activating new capital for the region.

BUSINESS MODEL

- The Sustainable Development Network is a nonprofit that is self-sustaining from membership fees. Angels pay a membership fee for their sub-network after their first, free year.
- The COLABORATIVOx accelerator is for-profit and aims to be sustainable from service fees for scale-stage enterprises, consulting fees for running innovation programs (i.e., hackathons, pitch events) inside large companies and foundations, and returns on the convertible note it takes in its enterprises.

KEY ANGEL ENGAGEMENT STRATEGIES

- Membership in the investor network is free for the first year to encourage new angel investors to join and learn.
- Staff provide individual mentorship to potential angels on the investment process, hoping they will go on to make additional investments over time.
- Colaborativo acts as lead investor in each deal, screening investment documents and structuring the transaction, so all angels need to do is "fall in love" with the venture.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- Colaborativo runs the Sustainable Development Network online platform to share resources and connections between members of the entrepreneurial ecosystem with a focus on innovative technology for sustainable development in Latin America.
- The COLABORATIVOx accelerator offers enterprises six months of customized mentorship from a Growth Manager to launch or grow their business.

Carrie Gonnella is the lead author of this case. This angel network spotlight is part of Angel Networks in Emerging Markets: A Guide for Development Institutions, a USAID-funded study of angel networks in Latin America, Middle East/North Africa, and Sub-Saharan Africa. This project is a collaboration between Center for the Advancement of Social Entrepreneurship at The Fuqua School of Business at Duke University, Millbrook Impact, and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business at the University of Cape Town. This case study reflects the status of the network as of May 2020. Find other cases from this project as well as the full guide at http://bit.ly/EmergingAngels

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Development History and Model

FOUNDING STORY AND LEADERSHIP

Colaborativo launched in 2012 to promote sustainable development through entrepreneurship, innovation, and impact investment. Founder and CEO Alfredo Montoya explains that this effort was born out of a passion for addressing challenges in Latin America, an understanding that local entrepreneurship is a strong lever for sustainable development, and a realization that companies using cutting-edge technologies like blockchain and artificial intelligence can have outsized impact on society.

With a background in industrial engineering, Montoya started his career working at large companies like Pfizer before transitioning into a federal government role combating corruption in Mexico. Through that work he had the opportunity to travel throughout Mexico and speak with people about the challenges they face. After three years, Montoya decided that the need for sustainable development was bigger than what he could address in his government role, and he started Colaborativo to work with entrepreneurs with the potential to have significant impact. The UN Sustainable Development Goals are a fundamental pillar of Colaborativo's work, coupled with the belief that companies can be a primary engine for creating value and well-being for society.

Montoya cites the Colaborativo team's passion for having a social impact in the region and for learning how to solve problems as core strengths. Although the team does not have the kind of investment background one might expect for an entrepreneur- and investor-serving organization, this means they do not simply drop in models that have worked in other markets but may not best address the needs of this specific entrepreneurial ecosystem. As Montoya says, "We have to learn with entrepreneurs and investors how things could work for us." With this philosophy, Colaborativo has evolved into a set of efforts to build a community of entrepreneurs, investors, companies, and students pursuing sustainable development, an accelerator with deep mentorship of start-ups, an angel network to mentor new investors, and the launch of a new fund with an innovative structure.

THE COLABORATIVO MODEL

The Colaborativo model has evolved since 2012 to include three offerings to build skills, knowledge, and relationships that support the entrepreneurial ecosystem in Latin America and drive sustainable development.

Part 1: Accelerator. COLABORATIVOx was launched in 2012 to work with enterprises using frontier technologies – such as artificial intelligence and blockchain – to drive sustainable development. The accelerator has evolved over time, and now takes on approximately 20 seed-stage (defined as still testing the product in the market) and scale-stage (defined as growing revenue, users, or visits by 20% month-over-month) enterprises each year. The accelerator accepts entrepreneurs on a rolling basis, guiding them through six months of customized, intense work to launch the enterprise, grow significantly, or raise capital, followed by six months of additional mentorship. As Montoya explains, "We define it like having a lot of co-founders that are actually helping you develop the product." The model requires COLABORATIVOx staff who are extremely passionate about the hands-on work they do with startups in Latin America, and Montoya notes this is a limiting factor to the scalability of the accelerator.

Part 2: Accelerator. To support enterprises and potential investors, Colaborativo began hosting private communication channels to share information. Over time they realized there was a role for a more open platform for entrepreneurship information, and the Colaborativo Sustainable Development Network was launched in 2018 at www.colaborativo.net.

EXAMPLE INVESTMENT: **ETHICHUB**

EthicHub is a blockchain platform providing loans directly to unbanked farmers in Mexico. As of early 2020, EthicHub had made over 600 investments in five communities, with a 100% repayment rate. In January 2020, EthicHub closed a $900,000 USD seed round. The funds will contribute to the development of new platform functionalities, increase the number of loans issued, and pilot the platform in a new country. EthicHub was part of the Colaborativo accelerator. The seed round was made up of $150,000 from the Colaborativo accelerator, $150,000 from three angels in the Colaborativo network, and $600,000 from the Inter-American Development Bank (IDB).

> We are not actively looking for new angel investors. The startups are the ones looking for the investor. As a community, we give them all the access, and we let the founders actually search and make the first contact with the investor, and then we teach those potential investors how to invest.
>
> **Alfredo Montoya**
> Founder

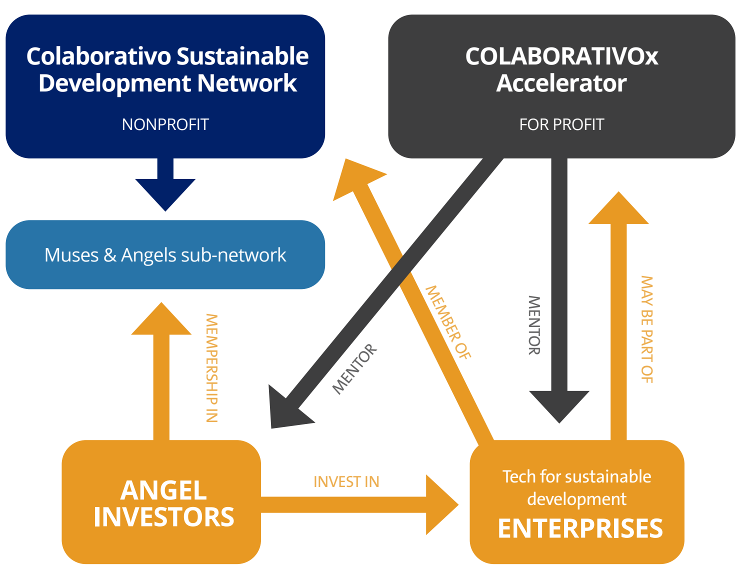
> It's like going to the horse races. We teach them to use Crunchbase and different platforms where they can investigate information. So they have their "book" with information about the start-up and other comparable companies. The difference is that when you are at the track, you cannot do anything to change the outcome, because it depends exclusively on the jockey and the horse. When you are an angel investor, you can actually give them an advantage, you can actually change the result. Because it depends on how much value you add to that bet that you're making. So we push them to actually ask, 'what can I do?' and they take a really active role.
>
> **Alfredo Montoya**
> Founder

This community platform is open to anyone interested in entrepreneurship as a means for sustainable development, bringing together members of the entrepreneurship, innovation technology, and investment ecosystems, including entrepreneurs, investors, service partners, and students. The network has become the hub for all of Colaborativo's communications, with the goal of achieving a decentralized structure. Members of the network contribute in whatever way they can through content creation, news, and events. The network is a nonprofit that is fully sustainable based on membership fees. As it became a hub in Latin America for accelerators, incubators, government, investment firms, and entrepreneurs, sub-chapters have developed for different members of the community, such as impact startups, investors, and service providers.

Part 3: Angel Network. Colaborativo's angel network formed organically by drawing from entrepreneurs' connections as well as investor members of the Sustainable Development Network. It is not uncommon for startups to tap into "friends and family" funding very early in their development – receiving small amounts of capital from those who know them personally and want to support them. Colaborativo staff realized there was potential to activate these "friends and family" investors to consider investing more broadly in a wider set of enterprises as angel investors. These potential investors may have funds, valuable business expertise, and interest in being involved in new companies, but may not have the know-how to evaluate a range of potential deals as an angel investor. Colaborativo decided to provide the same hands-on support to angels that they had been providing startups, hypothesizing that if they made investing easy and fun for the investor, they could activate a new set of engaged angel investors in Latin America.

Colaborativo acts as the lead investor and seeks to get angels over the hurdle to close a deal. Staff help the startup put together pre-investment documents, serve a specific deal up to the investor – usually a convertible note, which can be converted to equity in a later investment round when the company is given a valuation – and then help them with the legal and fiscal aspects of actually closing the deal. As Montoya puts it, "We are like the referees between the investors and entrepreneurs, helping them communicate better." This could mean helping the entrepreneur develop investor memos or answering questions from the investor on behalf of the entrepreneur.

The angel network is organized as a sub-chapter of the Sustainable Development Network, with 12 angel members. Currently most investors have made two deals – in the startup that initially brought them to the network and in a second startup. Colaborativo firmly believes the most valuable part of the angel's involvement is not the money, but the expertise they bring to the company. *"They invest not because they have excessive money. They want to actually be part of the company, give the boost that they need to actually grow."*



Montoya notes that there is great potential for other development funders to join and expedite the capital-raising process.

"If we don't close the round, nothing is going to happen. If we work together, angels and other funders, we can actually close the deals and put the company in a new position where they can raise investment from other funds."

Bringing it all together. The three pieces of the Colaborativo model are mutually reinforcing. The Sustainable Development Network helps Colaborativo grow a pipeline of enterprises for the accelerator and form connections with potential angel investors who can support those enterprises. Accelerator staff provide mentorship to new angels to activate them as investors. Growth Managers in the accelerator also provide mentorship to entrepreneurs to help them grow their venture and prepare for investment. Because the accelerator invests in the enterprises it works with, there is strong incentive for Colaborativo to help its enterprises close fundraising rounds to increase their potential for a return. Closing fundraising rounds as efficiently as possible means the entrepreneur can more quickly go back to focusing on operating the business and contributing to sustainable development goals.

Business Model & Path To Sustainability

The Sustainable Development Network is a self-sustaining nonprofit based on membership fees. In order to encourage investors to join, they pay no membership fee for the first year. Colaborativo plans on scaling the Sustainable Development Network to other areas, such as new cities in Mexico and Colombia. Growing the community gives Colaborativo additional revenue in membership fees and a larger pipeline for the accelerator and investors. The network is currently run by four full-time staff members.

The COLABORATIVOx accelerator is a for-profit. There is no fee for seed-stage enterprises to participate in the accelerator. Scale-stage enterprises pay $2,000-3,000 USD per month to Colaborativo to cover the cost of a Growth Manager, a Colaborativo staff member who works very closely with the enterprise on their growth plan. One Colaborativo Growth Manager works with several enterprises simultaneously. Montoya notes that enterprises see this fee as a good deal because it would cost closer to $6,000 USD per month for them to hire a growth manager on their own. Given the growth manager model, accelerator growth is limited by the number of mentors able to actively support start-ups.

In return for its services, Colaborativo also takes a $25,000 convertible note in its accelerator companies, which converts to equity in a future fundraising round, creating potential future revenue for the accelerator upon an exit event. The note generates an aligned incentive between Colaborativo and the enterprise to meet growth milestones and close an investment.

Colaborativo's most significant revenue stream at this point comes from consulting fees for creating and running innovation programs, such as hackathons and pitch contests, for large companies and foundations. This work currently comprises about half of Colaborativo's revenue.

For every dollar in revenue, roughly 60% goes to staff, including managers of the Sustainable Development Network and growth managers who work with accelerator enterprises. The remaining 40% covers operational costs.

Angel Engagement

Colaborativo leadership did not set out to create an angel network; they set out to support enterprises contributing to sustainable development in Latin America. A means to that end is engaging angel investors to provide capital and mentorship to entrepreneurs. Therefore Colaborativo uses its lean staff to engage angels in ways intended to lead to successful deals for the enterprises it works with.

Colaborativo feels that their entrepreneurs are actually best suited to identify potential angel investors. Entrepreneurs may tap their networks, including friends and family, to identify individuals who want to support the business or have expertise relevant to guiding the venture. Colaborativo's role is to mentor the angel through the investment process, with the goal of making it so easy and fun that the angel goes on to make investments into other companies.

Colaborativo acts as lead investor, pre-screening all investment documents and helping the entrepreneur put together a strong package. This puts a lower burden on an individual angel to structure the deal. As Montoya explains it, "Because I put things so easily for you, as the investor, that you have all the information about the company. The only thing you have to do is actually fall in love with the project."

Colaborativo also hosts monthly open pitch events, quarterly "Action Days" focused on COLABORATIVOx enterprises, and learning trips to expose angels to investment opportunities. Additional benefits for angels include discounts offered by company partners, such as work spaces through WeWork and Impact Hub, deal flow software, industry reports, and opportunities to raise investors' profiles through investment announcements and opinion pieces published on Colaborativo Sustainable Development Network.

SUCCESS MEASURES

Company level:

All portfolio companies complete the Sistema B Impact assessment, now called SDGs Action Manager, and Colaborativo works with companies to improve their score over time. Companies are encouraged to become certified by Sistema B.

Portfolio companies share a number of quantitative and qualitative measures with Colaborativo on a regular basis (i.e., monthly). Improving on these measures is a central part of the relationship between Colaborativo growth managers and the enterprise. Examples measures are capital raised, revenue, customer satisfaction, and social impact metrics tied to the mission of the company. When possible, metrics are drawn from impact measurement frameworks like IRIS+ and SASB.

Colaborativo also guides portfolio companies through the process of establishing quarterly investor-facing reports, focusing on creating an efficient system that communicates the kind of information investors expect.

Organization level:

Colaborativo benchmarks itself against other accelerator programs by tracking growth milestones of its portfolio companies, such as:

- **Time to reach $10,000 USD in sales**
- **Time to close first investment round**
- **Time to raise $1M USD in investment capital**

Montoya notes that, for example, Y Combinator reports that 30% of its ventures successfully raise a Series A investment round. Colaborativo aims to surpass that benchmark.

Strategies In Practice

Angel Networks in Emerging Markets: A Guide for Development Institutions identifies common economic context and business model challenges that angel networks face, as well as strategies to address these challenges. The strategies Colaborativo is making use of are highlighted in the column on the right.

		STRATEGIES TO ADDRESS CHALLENGES
ECONOMIC CONTEXT CHALLENGES	**Relatively small markets** **Lack of investment awareness, experience, & skill** **Bias against local early-stage investing** **Regulatory barriers to angel investing**	**Expand the local market through partnerships** • Develop ecosystem partnerships for deal flow • Participate in regional/cross border partnerships for deal flow/additional angels • Engage foreign/diaspora investors alongside local investors to increase capital available **Attract new angels through broader definition and awareness** • Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market • Produce events that raise awareness of angel investing • Engage local business influencers in events to enhance attractiveness • Amplify success stories to generate interest and excitement **Activate capital through education, facilitation, and risk reduction** • Provide angel education and mentoring to build skills and confidence • Cultivate peer engagement to build trust • Facilitate the investment process to reduce transaction costs and friction • Use pooled capital models to shorten the learning curve • Develop fund models or hybrid funds to activate additional capital • Pursue investment guarantees or investment matches to reduce risk • Experiment with innovative workarounds to local regulatory constraints
BUSINESS MODEL CHALLENGES	**Achieving a sustainable business model** **Retaining skilled network leadership** **Lack of participation by key influencers** **Unsuitability of traditional equity in some cases**	**Diversify revenue and share costs** • Charge fees for services to investors or entrepreneurs • Charge transaction-based fees • Generate revenue from sponsorships or consulting engagements • Structure investment upside participation for the organization • Be embedded in another institution to share costs • Secure grants/government support **Attract and retain staff and membership talent** • Structure investment upside participation for the manager • Host networking events attractive to key investors • Alleviate deal management burden on the most active members **Use innovative financing structures in addition to equity** • Use alternative financing structures that match local expectations around ownership, business success, exit, and return

Looking Ahead

The angel network is a relatively new offering, and Colaborativo is still evolving the revenue model. They are considering charging angel investors a management fee for deals closed in addition to the flat monthly membership fee. They also plan to launch a separate fee structure for family offices, funds, and foundations, who would pay $200 USD per month to join the investor network. Montoya notes that in Latin America many of these investment organizations want additional access to startups and to learn more about impact investing, so this would be a relatively inexpensive way for them to feel more connected to direct impact investing.

Colaborativo plans on adding syndication options for angel investors to increase engagement. Angels could invest in a syndicate under a certain impact area (e.g., financial inclusion), then help decide what ventures the syndicate invests in. The goal is to eventually have eight syndicates and hire a "Fundraising Manager" with industry expertise under each to directly manage the relationships with investors and companies; they have recently hired the first Fundraising Manager.

Colaborativo is planning on shifting to a revenue-share vehicle for both the accelerator's note in the company and the deals it structures for angel investors. In this model, entrepreneurs do not have to give up any ownership in the company and investors do not have to wait for a major acquisition or public offering – both of which are rarer in Latin America than in US investing – to receive a return on their investment. Instead, investors would begin receiving repayment plus interest as soon as the company is generating sales. The return percentage would be more modest than what early stage investors in some developed markets often aim for (i.e., a 10x return on capital in the US), but Montoya notes that this risk-return profile is actually more appealing to investors in Latin America.

The Colaborativo Capital Fund launched in 2019 with a goal of $50M USD targeting foundations and development agencies. The plan is to invest $25,000-150,000 USD in seed-stage companies and up to $500,000 USD in growth-stage companies. The fund will use a revenue-based financing model and, rather than a fixed rate of return, the return percentage will be tied to the return of a fund comprised of the 40 largest public companies in Latin America. Montoya sees this as a way of getting investors to deploy capital into early-stage ventures in the private market, as the return is tied to what they could get in the public market. For early-stage startups the fund will co-invest with angels to close the enterprise's first round.

Finally, to increase access to promising entrepreneurs and to angels, Colaborativo hopes to open additional offices in Latin America over time, likely next in Sao Paulo, Brazil.

Lessons From This Network

Mentorship can convert a “friends and family” investor into a regularly engaged angel investor.
Colaborativo did not set out to run an angel network, but they saw potential in converting “friends and family” investors into regularly engaged angels to increase the amount of early-stage capital in the region. Rather than spending staff time recruiting angels, Colaborativo leans on entrepreneurs to identify potential investors, then helps mentor those individuals through the investment process. They aim to make the first deal easy and fun so the investor will go on to make investments into other companies.

Service models can – and should – evolve over time.
Colaborativo has been creative and opportunistic about adding new offerings and adjusting offerings over time to respond to market needs and strengthen internal operations. Launching the online network increased Colaborativo’s pipeline of enterprises and potential investors. The angel investor sub-community grew organically out of entrepreneurs’ networks, and allowed Colaborativo to activate new capital and mentorship to support their enterprises. Colaborativo is now shifting to a revenue share vehicle to better respond to both investor and entrepreneur exit goals. Those looking to partner with angel networks in emerging markets should not necessarily expect a static model with a long track record. An organization that changes over time may be more responsive to the local market.

Investment models must meet the needs of the local market, not replicate what early-stage investing looks like elsewhere.
Colaborativo is experimenting with a revenue share vehicle and an innovative fund structure because they feel these models are truly a better fit for the entrepreneurs and investors they work with in Latin America. Outside partners may need to work a bit harder to understand these innovative structures, but it is worthwhile to dig deeper and identify ecosystem players responding to local market needs, rather than replicating a foreign model of early-stage investing.

iungo capital


Credit: iungo capital

Status as of May 2020

FOUNDED: 2016

BASED: Kampala, Uganda

INVESTMENT GEOGRAPHY: Uganda, Kenya, Rwanda

FORM: Hybrid for-profit fund with nonprofit technical assistance affiliate

NUMBER OF ANGELS: 50; 20 active

NUMBER OF DEALS: 20

TOTAL FUNDING: $4.5M USD from fund and angels combined

INVESTMENT FOCUS: Small and Medium Enterprises; sector agnostic (core to date in light manufacturing and agriculture)

WHAT MAKES THIS NETWORK SPECIAL

iungo capital's innovative approach aligns the motivations of a for-profit fund, non-profit technical assistance provider, and local angel investors to meet the finance and support needs of East African Small and Medium Enterprises (SMEs). Although it does not manage a formal angel network, the iungo capital fund only invests in companies for which it has identified a local angel investor willing to co-invest and serve as a mentor.

BUSINESS MODEL

- iungo capital's evergreen fund structure relies on investment returns to support its work. At the end of 2019 it was close to operational break-even, three years after its first investment.
- iungo xl, the nonprofit technical assistance provider, receives success fees for its services from assisted companies that progress and receive investment from iungo capital. After three years of grants to subsidize the working capital gap, it is expected to operate on a break-even basis.
- iungo capital's angel engagement is integral to its model and does not require additional financial support.

KEY ANGEL ENGAGEMENT STRATEGIES

- iungo capital identifies potential angel investors and engages them one-on-one to mentor and invest in a specific business that can benefit from the angel's particular expertise.
- With iungo capital managing deal structuring and ongoing administration, the angel investors focus on mentoring and supporting the company – the "fun" and rewarding part of angel investing.
- iungo capital coaches the angel investors, most of whom are new to angel investing, on the entrepreneurial investment process.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- The fund and its informal business network identify promising SMEs that have financing and assistance needs, then the nonprofit iungo xl provides customized technical assistance to selected SMEs.
- SMEs that make the necessary progress and get approved by iungo capital's investment committee receive investment from the fund and the co-investing angel, and ongoing technical assistance from iungo xl.
- Entrepreneurs benefit from the mentorship and connections of a local angel investor with relevant business expertise.

Bonny Moellenbrock is the lead author of this case. This angel network spotlight is part of Angel Networks in Emerging Markets: A Guide for Development Institutions, a USAID-funded study of angel networks in Latin America, Middle East/North Africa, and Sub-Saharan Africa. This project is a collaboration between Center for the Advancement of Social Entrepreneurship at The Fuqua School of Business at Duke University, Millbrook Impact, and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business at the University of Cape Town. This case study reflects the status of the network as of May 2020. Find other cases from this project as well as the full guide at http://bit.ly/EmergingAngels

USAID FROM THE AMERICAN PEOPLE
DUKE FUQUA CASE
BERTHA CENTRE UCT GRADUATE SCHOOL OF BUSINESS
Millbrook Impact

Development History and Model

FOUNDING STORY AND LEADERSHIP

iungo capital was co-founded in 2016 by Steven Lee and Roeland Donckers, serial entrepreneurs and investors with over 25 years of global investment experience in emerging markets, including 10 years in Sub-Saharan Africa. They have extensive experience in building startups, scaling up growth-stage businesses, conducting turnarounds of non-performing businesses, and structuring investments. Through their work, Lee and Donckers found that the Small and Medium Enterprises (SMEs) often operating in traditional industries tended to have relatively higher employment generation than the early stage technology companies that often attract more investor attention. Seeking to have a positive economic impact in East Africa, they designed the iungo model specifically to address the financing and business needs of SMEs in the region.

> When I'm asked why I do this, part of my answer is always to prove a point – that it is possible to have a fund structure that can successfully address small investment tickets. That's part of the challenge, part of the fun.
> **Roeland Donckers**
> Co-founder

Their goal was to address the "missing middle" – SMEs with a $50,000 to $500,000 USD working capital need that is too large for microfinance to address and too small or risky for venture funds or banks. They sought to provide investment capital as well as technical assistance services to address the companies' business development or other operational needs to maximize growth and impact potential. iungo launched in Uganda, a market that was less mature and crowded than Kenya, with unmet demand for this type of support and financing. They have since expanded to Rwanda and Kenya.

In addition to Lee and Donckers, from the United States and Belgium respectively, iungo now has nine team members from East Africa with business or financing education and experience to provide technical assistance and investment services to the target SMEs. iungo is sector-agnostic, focusing on SMEs that are at least two years old with at least $100,000 USD in revenue. They look for companies with strong founders, an interesting growth plan and market, and a need for financing and technical assistance to meet their growth goals. Most of their investments to date have been in labor-intensive "backbone" sectors and industries, including agricultural processing, food processing, light manufacturing, transport, and construction.

THE IUNGO SERVICE MODEL

The iungo 3-part service model is a unique combination of investment fund, technical assistance provider, and angel engagement specifically designed to reduce the cost and risk of investing in SMEs while addressing their capital and business needs. This approach creates a win-win-win scenario for all three parts of the model, in addition to the supported companies (see Figure 1).

Part 1: iungo capital is an investment fund which sources, screens, and invests in SMEs. iungo invests primarily with debt and revenue share vehicles because these are a better fit for the SMEs, which have usually been in business for at least two years, are generating revenue, are familiar with debt instruments, and may not be interested in giving up ownership in return for an equity investment. In addition, debt and revenue share are self-liquidating structures that eliminate the need for an equity exit event such as a public offering or acquisition, which are less likely scenarios in these local markets.

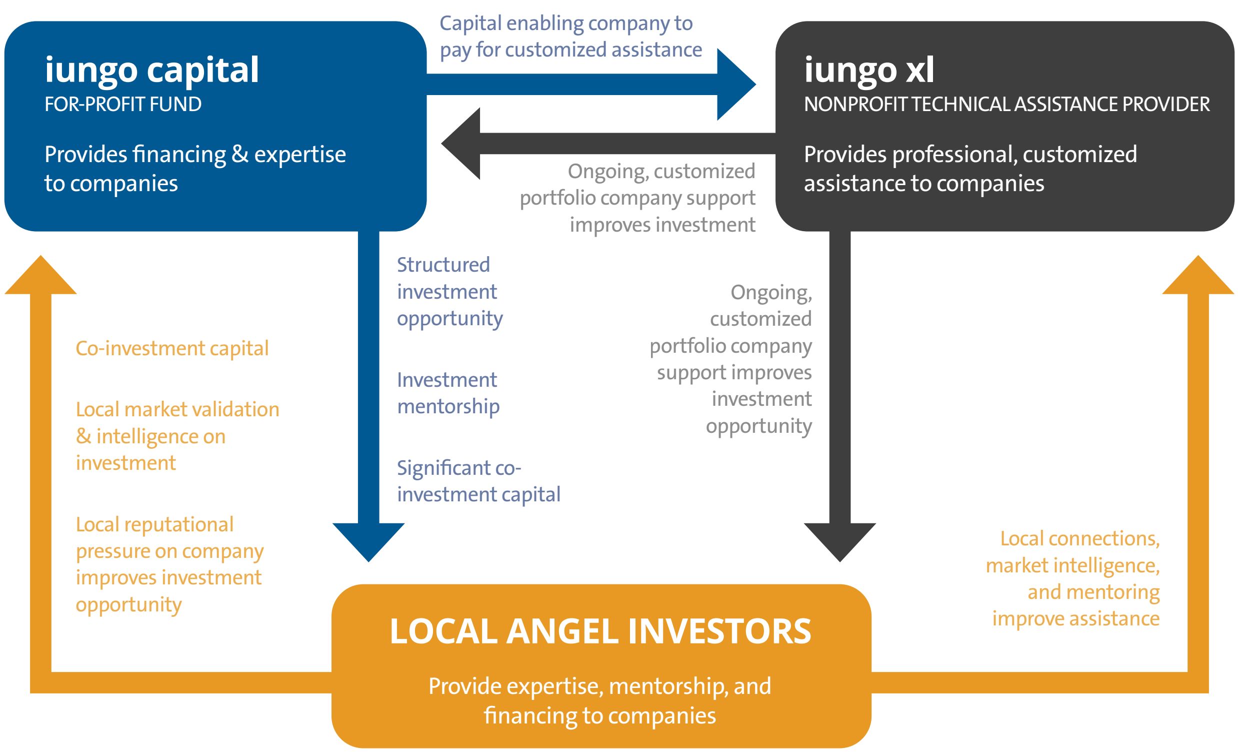
> The impact of capacity building is longer term. We get hands-on involved and solve problems for the companies.
> **Roeland Donckers**
> Co-founder

Part 2: iungo xl is a separate, nonprofit entity that provides pre-investment and post-investment support to companies identified or invested in by iungo capital. Unlike an accelerator, it does not have cohorts of companies or a set curriculum. Rather, it identifies the individual needs of each company and provides customized assistance over a maximum 6-month period to address those needs. Companies that make progress on their milestones move forward with investment from iungo capital and continue to receive growth-oriented technical assistance from iungo xl; those that underperform and do not receive investment are dropped from the iungo xl program.

Part 3: While iungo does not directly manage an angel network, **local business angels** are key strategic partners along the entire investment and technical assistance process. Angels assist in sourcing and screening enterprises, and no investment is made by iungo capital unless the fund has identified a local professional with business expertise relevant to the company willing to co-invest and serve as a mentor to the company. Beyond committing financial capital and customized expertise to the enterprise, angel participation signals local validation of the business model and introduces a level of peer pressure and reputational risk that keeps entrepreneurs focused.

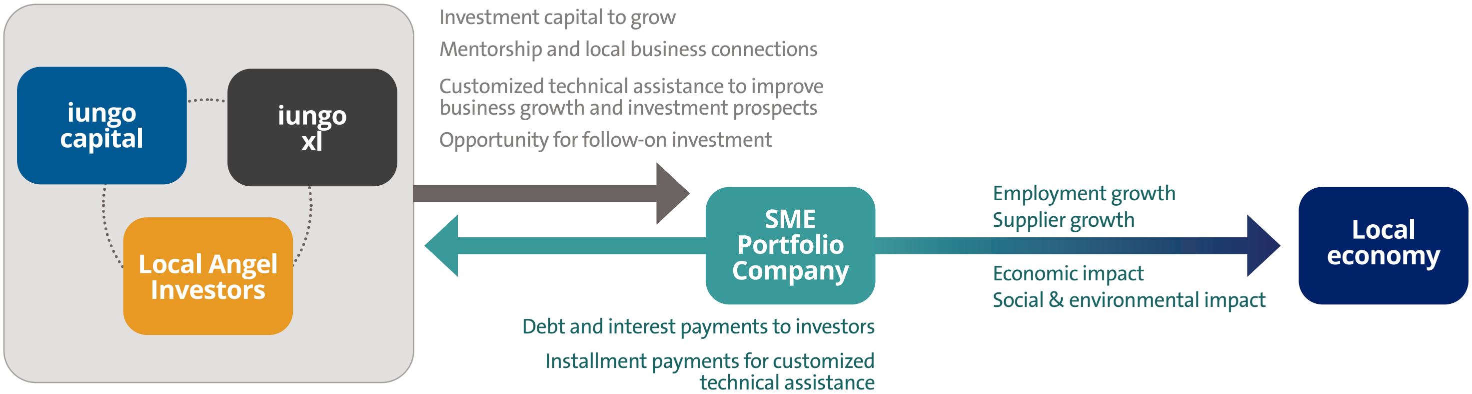
The participating angel investors benefit as well. iungo capital mentors the angels, allowing less experienced business angels to learn about direct investing, and structures the investments, allowing angels of all experience levels to focus on mentoring the entrepreneur, rather than administration.

FIGURE 1: iungo's risk- and cost-reducing virtuous cycle



A virtuous cycle: By aligning the needs and motivations of each stakeholder with iungo's mission, this 3-part model effectively serves the needs of the target SMEs, as shown in Figure 2. The SMEs receive customized technical assistance from iungo xl which positions them for investment. iungo capital identifies a local business angel to co-invest alongside the fund. The financing fuels the company's growth, with the angel mentor and iungo xl team dedicated to providing ongoing assistance along the way. In return, the growing company provides debt payments and financial return to iungo capital and the angel investor, and pays iungo xl for its services. Finally, the company generates positive economic and employment impacts, as well as any social or environmental benefits of its products or services.

FIGURE 2: iungo model benefits to companies and the economy



As of early 2020, iungo capital has facilitated $4.5M USD of investment into 20 SMEs, activating 20 angel investors who each made 5-20% of the total investment into the company. There is clear evidence that iungo plays a key role in activating new capital in this market; the majority of the local angels made their very first investment alongside iungo, and the majority of investees received their first external financing from iungo. Across portfolio companies, revenue has increased 94% after investment, and jobs have increased 15%.

Business Model & Path To Sustainability

iungo capital launched and began investing with a $1M USD debt investment from the Dutch Good Growth Fund and individual high-net worth investors. Additional debt and equity capital followed from European and American impact-oriented funds including DOEN Participaties, Schooner Foundation, and Ceniarth, to a fund size of approximately $7M USD in 2019. The fund's structure and vehicle choices have been instrumental to its growth and ability to achieve sustainability:

- **Structure**. iungo capital chose an open-ended, or "evergreen," holding company structure, with an operating budget approved by investors, rather than the typical General Partner/Limited Partner structure supported by a percentage management fee (see "Missing Middle" box on the next page). This allowed iungo capital to begin investing immediately with a small fund and generate a track record to attract additional capital. Avoiding the traditional GP/LP structure's inherent pressure to do fewer, larger deals also allows iungo to make right-size investments for SMEs in East Africa.

- **Investment vehicles**. iungo capital invests in portfolio companies with debt and revenue share instruments rather than equity instruments. In addition to being a better fit for the target SME's needs, these instruments generate earlier returns for the fund than equity; iungo's investments are paid back over an average of three years, with payments beginning as soon as three months after the deal closes. The payments support iungo capital operations, pay returns to investors, and can be recycled into additional investments, while allowing iungo capital to avoid charging a management fee.

At the end of 2019, three years after its first investment, iungo capital was operating close to breakeven, achieving a 5% return to debt investors over a 4.5-6-year term, and on track to achieve a target 8-9% return for its equity investors.

EXAMPLE INVESTMENT: **ONE TO FISH**

Portfolio company One to Fish, a fish processing and export company in Uganda with a staff that is 60% women, received investment from iungo in 2019. Prior to investment, iungo xl provided assistance with finance and accounting systems, supply chain management, and ESG practices. The participating angel investor is a founder of two businesses himself and has experience in the logistics, marketing, and exporting of fish products. iungo's mezzanine debt investment provided working capital for raw material, and led to a 70% increase in revenue in the six months post-investment. After a three-month grace period, One to Fish began making fixed monthly repayments and quarterly revenue share payments.

The nonprofit technical assistance provider, iungo xl, received $780,000 USD in grants from several of their investors as well as the Argidius Foundation to support the first five years of operations in Uganda. iungo xl is on schedule to operate at breakeven based on success-based fees-for-service paid by the companies after they receive investment. The success fees, up to $15,000 USD per company, are paid in installments over two years. The founders consider efficient use of staff time to be a key component of the sustainability of iungo xl services. Whereas traditional accelerators spend staff time on cohort-wide training and work with companies for a set length of time, the iungo xl team only spends time on customized needs that will directly assist each enterprise in reaching the next milestone. Companies that do not progress towards milestones are dropped from the assistance, so resources are continuously directed to enterprises most likely to receive an investment, and generate the desired business growth and impacts afterwards.

"Missing Middle" Challenges of the Limited Partnership/General Partnership Structure

The typical venture fund structure has multiple capital providers putting money into a Limited Partnership (LP) that then pays a management fee to a General Partner (GP) entity to manage the fund. For example, a $20M venture fund LP would typically pay a 2% per year management fee (or $400,000) to the GP to source opportunities, conduct due diligence, structure deals, and manage the portfolio of investments. Under this structure, GPs generally do not find it feasible to manage a fund smaller than $20M, unless the management fee is higher than the 2% market standard. In addition, making small investments takes just as much GP management time as large investments, and there is simply a limit to the number of portfolio companies a GP can manage. Thus, the typical LP/GP structure incentivizes fund managers to 1) raise larger funds to have a higher management fee as compensation, and 2) make fewer, larger investments. Both of these factors contribute to the "missing middle" challenge – there are fewer funds willing to make relatively "small" $50,000 to $500,000 investments.

Angel Engagement

> It's not about building a network. It's about having people that are doing deals, and then the network will come out of that.
> **Roeland Donckers**
> Co-founder

Credit: iungo capital

While iungo capital does not consider itself an angel network, it is deliberately and successfully engaging and activating angels to invest alongside the fund and provide mentorship to entrepreneurs. Potential angels are recruited on a one-by-one basis through local business networks and investment clubs. iungo currently has relationships with fifty potential business angels; twenty of those have now co-invested with iungo capital, and most for the first time.

Pre-investment, iungo capital focuses on identifying an angel with relevant business expertise and interest in mentoring the entrepreneur and co-investing with the fund. Identifying a suitable angel is a prerequisite for iungo capital to proceed with a deal. Once an angel signs on, iungo capital staff manage the investment process, deal structuring, and negotiation with the entrepreneur, and the angel invests alongside the fund with the same terms. Post-investment, iungo capital helps the angel manage the ups and downs of the relationship with the enterprise and provides additional direct support to the company.

This approach to working with the angel and portfolio company frees the angel to focus on their unique value-add – mentoring the enterprise – and minimizes the time the angel has to spend on less enjoyable administrative aspects of an investment. It also addresses some of the key barriers for new angels, who may not have sufficient knowledge or time to structure their own deals. From iungo capital's perspective, rather than spending significant staff time engaging with angel investors as a group or managing meetings and pitch events, staff time is spent crafting one-on-one relationships between the enterprise and an angel that can provide specific value to the business.

Strategies In Practice

Angel Networks in Emerging Markets: A Guide for Development Institutions identifies common context and business model challenges that angel networks face, as well as the strategies they use to address those challenges. While iungo capital is not truly an angel network, the model incorporates many of these strategies, highlighted below.

ECONOMIC CONTEXT CHALLENGES

- **Relatively small markets**
- **Lack of investment awareness, experience, & skill**
- **Bias against local early-stage investing**
- **Regulatory barriers to angel investing**

STRATEGIES TO ADDRESS CHALLENGES

Expand the local market through partnerships

- Develop ecosystem partnerships for deal flow
- Participate in regional/cross border partnerships for deal flow/additional angels
- Engage foreign/diaspora investors alongside local investors to increase capital available

Attract new angels through broader definition and awareness

- Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market
- Produce events that raise awareness of angel investing
- Engage local business influencers in events to enhance attractiveness
- Amplify success stories to generate interest and excitement

Activate capital through education, facilitation, and risk reduction

- Provide angel education and mentoring to build skills and confidence
- Cultivate peer engagement to build trust
- Facilitate the investment process to reduce transaction costs and friction
- Use pooled capital models to shorten the learning curve
- Develop fund models or hybrid funds to activate additional capital
- Pursue investment guarantees or investment matches to reduce risk
- Experiment with innovative workarounds to local regulatory constraints

BUSINESS MODEL CHALLENGES

- **Achieving a sustainable business model**
- **Retaining skilled network leadership**
- **Lack of participation by key influencers**
- **Unsuitability of traditional equity in some cases**

STRATEGIES TO ADDRESS CHALLENGES

Diversify revenue and share costs

- Charge fees for services to investors or entrepreneurs
- Charge transaction-based fees
- Generate revenue from sponsorships or consulting engagements
- Structure investment upside participation for the organization
- Be embedded in another institution to share costs
- Secure grants/government support

Attract and retain staff and membership talent

- Structure investment upside participation for the manager
- Host networking events attractive to key investors
- Alleviate deal management burden on the most active members

Use innovative financing structures in addition to equity

- Use alternative financing structures that match local expectations around ownership, business success, exit, and return

Looking Ahead

Now that iungo capital has demonstrated its model and is close to breakeven, it is raising additional debt and equity capital as it expands geographically. The fund is in the process of closing its first debt investment from a development finance institution, and will then focus on raising $10M USD in equity, which will bring the evergreen fund's total capitalization to $20M USD.

iungo capital leadership believes that its model, despite being customized for its region, is scalable and replicable in new markets. While the "missing middle" might span a different range of capital in different locations, it is an issue for any emerging market. They note that a critical component for success is adequate launch capital both for investment and for technical assistance.

SUCCESS MEASURES

iungo capital aims to achieve impact in three ways:

1. **Financial inclusion:** Providing necessary financial capital and assistance to companies in the missing middle not otherwise able to access it, improving both their economic impact and social and environmental impact. This is measured in investments made and company revenue growth. As of early 2020, iungo capital has facilitated $4.5M USD of investment into 20 SMEs. For over 50% of investees, iungo capital's investment was their first external financing.
2. **Job and income generation:** Measured in the company, along its value chain, and with an added gender lens. This is measured by overall jobs in the companies, number of youth and women employed, and women in ownership and management positions. iungo uses its portfolio companies' sourcing volume as a proxy for income generation along the value chain. Across portfolio companies, revenue has increased 94% after investment, and jobs have increased by 15%. To date, 37% of portfolio companies have women in ownership positions, 74% have women in senior management positions, and women hold 50% of the total jobs across portfolio companies.
3. **Development of local angel capital market:** Stimulating business angels' involvement in sectors they traditionally have avoided with investment amounts that they would not be able to achieve alone, and facilitating the development of their angel investing skills. This is measured by the number of angels investing and the amount of capital they invest. Twenty angel investors have co-invested with iungo capital, the majority of whom were making their first angel investment.

At an individual company level, iungo capital uses the B Corporation assessment to evaluate explicit Environmental, Social, and Governance criteria. Mutually agreed upon financial and impact milestones are an integral part of the investment contract with each company, and additional investment is contingent upon financial and impact milestones being met.

Lessons From This Network

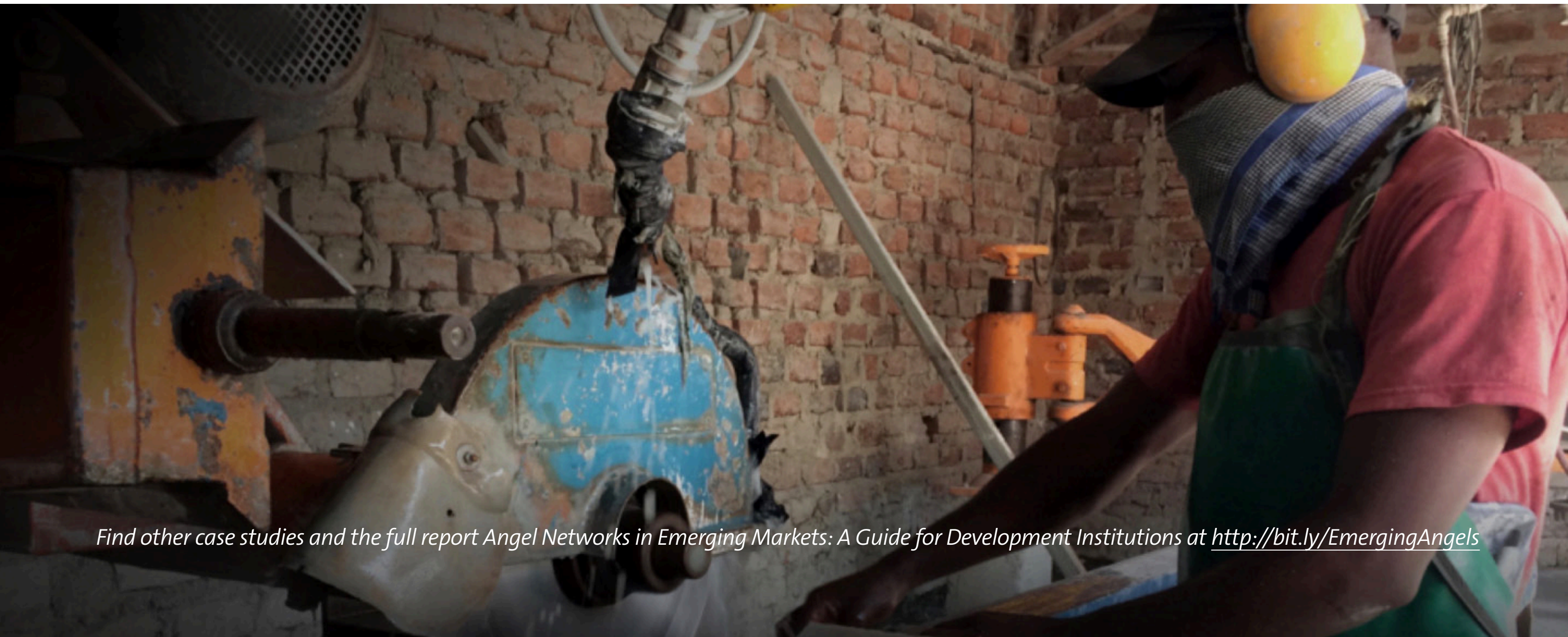
A well-aligned hybrid service and business model maximizes mission impact while meeting the needs of all stakeholders. iungo developed a hybrid model to align three stakeholder groups with a common mission – meeting the finance and support needs of SMEs in the "missing middle" in East Africa. The mission defined the operating parameters, and then iungo focused on the particular needs, motivations, and value-add of each stakeholder to create a win-win-win approach.

Innovative models can be designed to meet the specific financing needs of target companies, rather than the expectations of developed market capital providers. iungo capital resisted "typical" investment fund structures because they did not align with the capital needs and constraints of their target SMEs. iungo's evergreen fund structure and investment vehicles are a better match for the financing needs and return prospects of the target companies.

Customized services are an efficient use of staff time and are highly valuable to companies and angels. On the investor side, iungo spends time recruiting individual angels with specific expertise that matches a potential portfolio company's needs, rather than delivering group services to a network of angels that may or may not ever invest. On the company side, iungo provides highly customized technical assistance, rather than cohort-based support like most accelerators, and drops companies that do not meet progress milestones. While this customized approach may initially appear less scalable, iungo believes this approach provides a better return on their investment of staff time and resources.

Local angels can play a key role in ensuring the most productive and appropriate use of foreign capital. Local angels play an integral role in iungo capital's model, providing local business community insight and market understanding as well as positive peer pressure and assistance for the entrepreneur. This angel investor element, together with the extensive local market experience of the fund managers and the building of a local team, helps to ensure that the foreign investors' impact capital is invested appropriately and in a manner that maximizes the likelihood of impact and financial success.

Credit: iungo capital



Angel Networks in Emerging Markets: A Guide for Development Institutions

ANGEL NETWORK SPOTLIGHT | 2020

Lagos Angel Network


Credit: LAN

Status as of December 2019

FOUNDED: Informally in 2011, incorporated in 2014

BASED: Lagos, Nigeria

INVESTMENT GEOGRAPHY: Nigeria

FORM: Nonprofit

NUMBER OF ANGELS: 65; 22 active

NUMBER OF DEALS: 30

TOTAL FUNDING: About $2M USD

INVESTMENT FOCUS: Technology

WHAT MAKES THIS NETWORK SPECIAL

Lagos Angel Network was founded by high-profile Nigerian entrepreneurs and angel investors. With the help of development funding and key partnerships, they have leveraged their reputations and skills to build one of the most active angel investor networks on the continent.

BUSINESS MODEL

- Current revenue comes from a mix of membership, sponsorship, and event fees.
- LAN has carried interest in each deal they facilitate, meaning they receive a percent of the profit returned to investors. This is expected to provide revenue for the network in the medium to long

KEY ANGEL ENGAGEMENT STRATEGIES

- LAN provides significant support throughout the deal process, including taking an active role in deal sourcing, sharing investment agreement templates, contracting professionals to complete financial due diligence, and drafting final deal documents.
- The network regularly holds masterclasses on a variety of investing topics to engage new members and upskill current members.
- LAN recently launched a syndicated investment approach where they source additional capital from non-members to join member deals.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- Partnerships with Innovation Support Network Hubs, Ventures Platform, and VC4A foster to a strong pipeline of promising entrepreneurs.
- LAN regularly conducts masterclasses for entrepreneurs.

Aunnie Patton Power is the lead author of this angel network spotlight. This case is part of Angel Networks in Emerging Markets: A Guide for Development Institutions, a USAID-funded study of angel networks in Latin America, Middle East/North Africa, and Sub-Saharan Africa. This project is a collaboration between Center for the Advancement of Social Entrepreneurship at The Fuqua School of Business at Duke University, Millbrook Impact, and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business at the University of Cape Town. This case study reflects the status of the network as of December 2019. Find other cases from this project as well as the full guide at http://bit.ly/EmergingAngels

Development History and Model

FOUNDING STORY AND LEADERSHIP

> Of course, money is critical, as funding is the first thing on everyone's mind, but innovation hubs and business angels shouldn't underestimate their value as mentors and advisors to the rising number of entrepreneurs solving critical societal problems in Africa.
>
> **Tomi Davies**
> Co-Founder

In 2011, Tomi Davies, a seasoned entrepreneur and technology investor, began a series of conversations with InfoDev, a World Bank group that supports entrepreneurship in developing economies. The conversation started with the idea of a fund for angel investors in Nigeria. Davies had himself already spent several years independently investing in Nigerian start-ups, but his conversations with InfoDev exposed him to the work of the New York Angels and other global angel investment networks that organize groups of regional investors. Although Lagos at that time had over 300 venture capital firms, with some investing in seed rounds of very early stage ventures, there was not yet a coordinated angel investing movement in the city.

Around this same time, Wennovation, a new business incubator, was preparing to graduate its first class of startups in Lagos. Founders Wole Odetayo, Michael Oluwagbemi, Idris Bello, Gbenga Sesan, Emmanuel Oluwatosin, and Dami Agboola had combined experience in technology start-ups, management consulting, investment banking, and venture capital. An interest in launching a fund to invest in startup companies led them to conversations with InfoDev and awareness of Davies' similar interests. Working together, the Wennovation founders, Davies, and Adedotun Sulaiman, a well-known local investor, decided to jointly launch an initiative to support early-stage investment in Nigeria. InfoDev covered initial costs for the launch event, and the Lagos Angel Network (LAN) was born in 2012.

LAN began with 20 high net worth individuals and organizations as founding members. These founding members represented current angel investors, business leaders, venture capital investors, and successful startup entrepreneurs.

As of late 2019, LAN has 65 members; of those, 22 have actively invested in the previous twelve months. The network's average investment is approximately $48,000 USD.[1] LAN is particularly interested in investments with younger co-founders that leverage technology, but will look at any company to which they believe the network can add value.

THE LAN SERVICE MODEL

Credit: LAN

LAN provides a number of services aimed at increasing both the number of angel investors in the network and the number of deals closed.

Learning and networking. LAN offers masterclasses to its members to empower them to conduct and coordinate their own deals. For example, one masterclass is focused on the POEM (Proposition, Organization, Economics, and Milestones) framework that Davies developed to help bridge the knowledge gap between the corporate world (where potential angel investors may come from) and the startup world. The framework helps new investors understand how to evaluate a new market, diligence startups from a business model, technology, and financial perspective, and set milestones for future growth and funding.
As a network, LAN places great emphasis on connecting angels to one another. According to a member, the greatest benefit of LAN is meeting other professionals and benefitting from their expertise. The members of the network share potential deals to gauge interest, particularly among sector experts who can assist in evaluating and conducting due diligence.

Deal sourcing. For a robust deal pipeline, LAN has partnerships with organizations across Nigeria and Africa, including Innovation Support Network Hubs, a nonprofit made up of 75 entrepreneurship hubs in Nigeria; Ventures Platform, which works with startups across Northern and Southern Nigeria; and VC4A, a platform supporting high-growth, high-impact startups across Africa and beyond.

1: InfoDev, World Bank, ABAN. Angel Investing In Africa in Africa, State of Play: Finding Product/Market Fit. 2018.

EXAMPLE INVESTMENT:
BIG CABAL MEDIA

When Tomiwa Aladekomo joined Big Cabal Media in 2018 as CEO, LAN had already invested in the company. But rough times had hit and Aladekomo had to rebuild the company from scratch. When Aladekomo raised additional investment in a priced Seed Series round, LAN participated in that round, as well. Big Cabal Media has since tripled revenue, doubled their audience, grown their product offerings, and added dozens of jobs. Aladekomo cited the contributions of LAN members as active company board members and mentors, as well as the network's willingness to make follow-on investment as significant factors in their success.

Due diligence. Network angels lead the due diligence on potential deals using an investment readiness assessment framework developed by advisory firm EY. The framework includes scoring criteria for market strength, management depth, financial return, and exit potential. To conduct financial due diligence, LAN contracts professional organizations on behalf of its members, spending about N225,000 ($600 USD) per deal to provide this service.

Deal structuring. LAN deals can take the form of convertible notes, simple agreements for future equity (SAFEs), pure equity, and bridge financing. Due to the level of experience of LAN members and support from the network itself, investees have found that the LAN deal structuring process is quite sophisticated. In order to bring deal costs down and decrease time to close, LAN provides template term sheets and convertible note purchase agreements to members. LAN also uses special purpose vehicle (SPV) shareholding agreements that aggregate angels' equity investments to decrease the number of contracts that need to be signed and reduce the complexity of transactions involving many angels. LAN is also willing to do follow-on investments (see box). On average, LAN spends N150,000 (about $400 USD) on legal costs per investment.

Investment management. LAN asks investee companies to submit information on a regular basis, generally bi-annually. This includes written reports as well as in-person presentations to the board. One investee shared that this structured process for reporting to investors has helped the business and garnered useful strategic feedback.

Business Model & Path To Sustainability

Originally, LAN relied on partnerships with development funders to support operations, with the co-founders making the case that angel investing is a development asset class. They see their work to increase the amount of risk capital available for startups with young founders as a development imperative in Nigeria, considering the nation's large youth population and high unemployment.

Currently LAN earns revenue from membership fees, sponsorship fees from corporates and international organizations, and event fees from seminars, workshops, and masterclasses. Annual membership fees are N250,000 ($600 USD) for individuals and N500,000 ($1,200 USD) to become a corporate sponsor. The Bank of Industry in Nigeria has been an important sponsor since the creation of the network. The network continues to be subsidized by its founders; it expects to reach sustainability with the membership fees and investment activity of approximately 50 active members.

In addition, LAN has carried interest, or "carry," a provision to participate in the profits of all deals it facilitates. The carry is 10% of the return that investors receive over and above the principal amount they invested. For example, if LAN investors put $50,000 into a deal that returns $200,000 upon exit, the LAN network receives 10% of $150,000, or $15,000 carry. Given that the return horizon of the current portfolio is seven to ten years, this revenue will not be realized for several years.

SUCCESS MEASURES

LAN measures three factors across their portfolio to determine the success of their investees: the number of jobs created by the company, if they have successfully hit breakeven, and if they have raised follow-on institutional funding.

Angel Engagement

LAN's co-founders and founding members brought with them relationships across the incubation and investing space in Nigeria, and thus started with a strong pipeline for engaging new angels. LAN also increases membership by offering regular masterclasses and events to attract potential angels. The trainings are often co-hosted with partners such as the chamber of commerce or the bank of industry. Any potential new angels who show interest in joining the network can then take a series of classes to qualify for membership.

Another approach LAN employs to increase early stage investing in Nigeria is syndication – sourcing additional capital from non-members, including those of the African diaspora, to join member deals. LAN began structuring syndicated deals in 2016 and five have been conducted thus far. The most recent investment included 33 parties, of which only 5 were LAN members.

Credit: LAN

Credit: LAN

Strategies In Practice

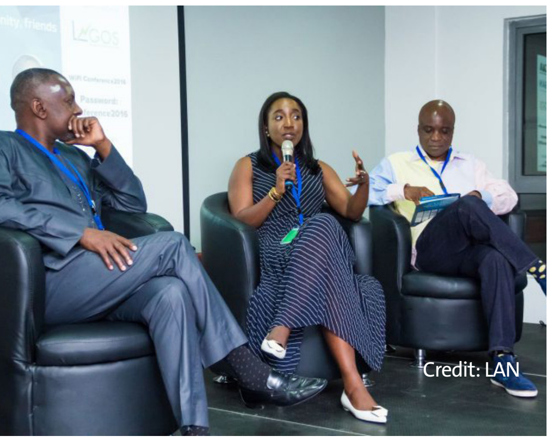
Angel Networks in Emerging Markets: A Guide for Development Institutions identifies common context and business model challenges that angel networks face, as well as strategies networks are using to address these challenges. The strategies LAN has utilized are highlighted in the column on the right.

		STRATEGIES TO ADDRESS CHALLENGES
ECONOMIC CONTEXT CHALLENGES	**Relatively small markets** **Lack of investment awareness, experience, & skill** **Bias against local early-stage investing** **Regulatory barriers to angel investing**	**Expand the local market through partnerships** • Develop ecosystem partnerships for deal flow • Participate in regional/cross border partnerships for deal flow/additional angels • Engage foreign/diaspora investors alongside local investors to increase capital available **Attract new angels through broader definition and awareness** • Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market • Produce events that raise awareness of angel investing • Engage local business influencers in events to enhance attractiveness • Amplify success stories to generate interest and excitement **Activate capital through education, facilitation, and risk reduction** • Provide angel education and mentoring to build skills and confidence • Cultivate peer engagement to build trust • Facilitate the investment process to reduce transaction costs and friction • Use pooled capital models to shorten the learning curve • Develop fund models or hybrid funds to activate additional capital • Pursue investment guarantees or investment matches to reduce risk • Experiment with innovative workarounds to local regulatory constraints
BUSINESS MODEL CHALLENGES	**Achieving a sustainable business model** **Retaining skilled network leadership** **Lack of participation by key influencers** **Unsuitability of traditional equity in some cases**	**Diversify revenue and share costs** • Charge fees for services to investors or entrepreneurs • Charge transaction-based fees • Generate revenue from sponsorships or consulting engagements • Structure investment upside participation for the organization • Be embedded in another institution to share costs • Secure grants/government support **Attract and retain staff and membership talent** • Structure investment upside participation for the manager • Host networking events attractive to key investors • Alleviate deal management burden on the most active members **Use innovative financing structures in addition to equity** • Use alternative financing structures that match local expectations around ownership, business success, exit, and return

Looking Ahead

Due to a cross-stakeholder initiative to increase the pool of capital for African entrepreneurs, LAN may have another co-investment partner in the near future. Catalyst was founded by African Business Angel Network (ABAN), an angel network trade association, and AfriLabs, a network of innovation hubs, as a co-investment fund that will match investments from qualifying angel investors into African growth-stage companies. To be eligible for matching funds, startups are required to register on the Catalyst platform through AfriLabs hubs, and must have received investment from an angel who is a member of an ABAN-registered angel network. Catalyst will play a role in monitoring the ongoing performance of startups who receive investment.[2] Catalyst plans to raise funds from various institutional partners.

Lessons From This Network



There is significant value in grant funding to get angel networks off the ground.

Although LAN was started by a set of high profile and wealthy individuals, it was grant funding from InfoDev and sponsorship from the Bank of Industry in Nigeria that made this network a reality. Even as experienced investors, the founders had to put in a significant amount of work to build a network able to deploy capital into Nigerian startups. This work was not compensated and was over and above their other professional roles and activities, so funding to cover the administrative costs of setting up the network and facilitating deals proved to be critical.

Traditional financial terms can contribute to network financial sustainability.

LAN includes terms in each deal that allows the network to participate in investment profits at exit. While it is too early in the investment portfolio to see revenue from this profit share, this is a key component in the networks plans for future sustainability.

Engaging additional capital can happen inside or outside the network.

LAN allows non-members to invest in network deals through syndication. While this may not be the most straightforward way to increase network membership (and membership fees), it helps achieve the broader goal of increasing the amount of early-stage capital available in the local ecosystem.

Partnerships are key in all stages of the deal process.

LAN works closely with incubators across the country to source deals for its members, it pulls in professional capacity to help with due diligence, and partners with non-members to fund deals. It also partners with leading governmental institutions such as the Bank of Nigeria and the Bank of Industry to provide support and visibility to their work.

Find other case studies and the full report Angel Networks in Emerging Markets: A Guide for Development Institutions at http://bit.ly/EmergingAngels

2: Afrilabs & ABAN press release, September 2019. https://www.afrilabs.com/african-business-angels-network-aban-and-afrilabs-partner-to-launch-catalyst-a-new-investment-solution-for-african-startups/

Angel Networks in Emerging Markets: A Guide for Development Institutions

ANGEL NETWORK SPOTLIGHT | 2020

ViKtoria Business Angel Network

Credit: VBAN

Status as of May 2020

FOUNDED: 2017 (Parent ViKtoria Ventures founded in 2012)

BASED: Nairobi, Kenya

INVESTMENT GEOGRAPHY: Kenya

FORM: VBAN sits under its parent company ViKtoria Ventures, a for-profit entity

NUMBER OF ANGELS: 43; 24 active

NUMBER OF DEALS: 26

TOTAL FUNDING: $700,000 USD

INVESTMENT FOCUS: Sector agnostic, with investment criteria focused on capital efficiency, scalability, and innovation

WHAT MAKES THIS NETWORK SPECIAL

Born out of ViKtoria Ventures, a start-up supporter in East Africa, VBAN uses its deep networks to attract angel network members and build quality pipeline for investors. With a dedicated Network Manager, VBAN provides hands-on support to members at every step of the investment process.

BUSINESS MODEL

- VBAN's business model relies on a number of diversified revenue streams, including membership fees, carried interest, consulting fees, and sponsorship contributions.
- With ViKtoria Ventures as its parent organization, VBAN also benefits from shared physical resources and operational expenses.

KEY ANGEL ENGAGEMENT STRATEGIES

- VBAN offers virtual and in-person masterclasses focused on angel investing concepts to members and prospective members.
- Referrals and personal networks of the founders and current members enable a steady pipeline of new potential angel members.
- VBAN sets clear expectations about what active engagement looks like for angels. As a result angels frequently bring new deals and offer their time and expertise as mentors to portfolio companies.

KEY ENTREPRENEUR ENGAGEMENT STRATEGIES

- Embedded in ViKtoria Ventures, VBAN uses its ecosystem knowledge to source relevant deals.
- Members are encouraged to introduce businesses to the network from their own networks and sectors.

Natasha Dinham is the lead author of this case. This angel network spotlight is part of Angel Networks in Emerging Markets: A Guide for Development Institutions, a USAID-funded study of angel networks in Latin America, Middle East/North Africa, and Sub-Saharan Africa. This project is a collaboration between Center for the Advancement of Social Entrepreneurship at The Fuqua School of Business at Duke University, Millbrook Impact, and the Bertha Centre for Social Innovation and Entrepreneurship at the Graduate School of Business at the University of Cape Town. This case study reflects the status of the network as of May 2020. Find other cases from this project as well as the full guide at http://bit.ly/EmergingAngels

Development History and Model

FOUNDING STORY AND LEADERSHIP

> In the initial years, most of the capital [we saw available to entrepreneurs] was in the form of grants and competition awards. Most of the time this form of capital ended up with expat founders and not local founders. While there were many ways of resolving this challenge, we felt local angel investors would have the most success.
>
> **Stephen Gugu**
> Co-Founder

The ViKtoria Business Angels Network (VBAN) was born out of ViKtoria Ventures, a for-profit organization founded in 2012 by two Nairobi-based entrepreneurs, Stephen Gugu and Yaron Cohen. Gugu has a background in entrepreneurship and financial services, and runs an advisory business, InVhestia Africa Limited, which provides services in financial modelling, valuation, financial due diligence, mergers and acquisitions, and fundraising across Africa. He also runs the Private Equity and Venture Capital program at Strathmore Business School based in Nairobi. Cohen has worked for years in an advisory role for technology startups in Kenya. ViKtoria Ventures focuses on building startups through incubation and acceleration programs in partnership with other ecosystem players, conducting research and facilitating strategic planning for development organizations, and fostering linkages to successful startup ecosystems in other countries.

While the training, coaching, and support services ViKtoria Ventures offers to startups are foundational to building businesses in Kenya, Gugu and Cohen knew that these efforts only make up half of the puzzle. The critical second piece is identifying and expanding the pool of early-stage investment capital available to fuel the growth and sustainability of these new businesses. From their deep experience working in Kenya, the founders also knew that investment capital must match the specific needs of Kenyan entrepreneurs, who tend to be younger and less experienced than the average entrepreneur. They therefore need financial support coupled with mentorship to actualize their business goals.

To foster connections between Kenyan startups and potential local investors, ViKtoria Ventures organized pitch and matchmaking events. Gugu and Cohen saw that these events succeeded in igniting discussions between potential investors and entrepreneurs, but without structured support to actually close deals, conversations tended to lose momentum and capital flows never came to fruition. What was missing was a centralized facilitator who could support the full investment process, from pipeline identification all the way though deal-signing. The ViKtoria Business Angels Network (VBAN) was launched in 2017 to target early-stage capital, coordinate both seasoned and first-time investors, and address this deal-facilitation gap. To launch, VBAN received support from the regional industry group African Business Angels Network (ABAN), who sponsored the first batch of masterclasses for VBAN's members and shared lessons learned from other jurisdictions. VBAN is now a member of ABAN.

Day-to-day operations of VBAN are now managed by Angel Network Manager Jason Musyoka. VBAN knows that angels have their own lives and careers, are usually making investments on the side, and thus are not able to dedicate their full time to investment activities. Having Jason as the central point of communication for both angels and portfolio companies helps maintain deal momentum, keeps angels connected to the local entrepreneurial ecosystem, and grows the pool of angels over time.

THE VBAN SERVICE MODEL

To date, VBAN has facilitated approximately **$200,000 USD in investments**, with average deal size of $50,000 USD and average investment per angel of $10,000 USD.

VBAN seeks to offer valuable services to two tiers of angel investors. ***Deal flow members*** have existing experience in angel investing and join VBAN primarily to gain wider access to investment opportunities. They receive information on new potential deals, have access to a database of registered startups, and are eligible for discounted rates on training and networking sessions. ***Full members*** are interested in early-stage investing but may lack the expertise to make and manage investments on their own. They benefit from all the same services offered to deal flow members, as well as additional services designed to boost their knowledge and exposure to the startup space, including in-person or online masterclasses on angel investing concepts and pitch and networking events throughout the year.

VBAN considers its support services to fall under two categories:

Networking Services

- ***Training.*** VBAN offers training in both in-person and webinar formats to introduce angel investing concepts to aspiring angels. Converting individuals with capital and relevant business knowledge into angel investors is a way to increase the amount of local, early-stage investment available to Kenyan startups.
- ***Investor Networking.*** Networking among potential angels encourages individuals with industry-specific experience to share knowledge with other members and help assess potential deals. A strong network also fosters deal-sharing and co-investment opportunities.
- ***Start-up Networking.*** One of the key advantages of operating in partnership with ViKtoria Ventures is that VBAN members have access to accelerators, incubators, and other market players that contribute to a database of start-ups. VBAN takes an active role in curating this wide pipeline for the highest quality startups with strong growth potential. Members are also able to bring deals to the full network, so an individual investor can catalyze additional funding for an investment they want to make while sharing the risk among other members. In addition to the chance of accessing capital, start-ups benefit from exposure to diverse business industry experience and connections from network members.

Portfolio Services

- ***Deal review.*** The Angel Network Manager reviews all potential investments and submits notes to a screening committee made up of standing members. This screening committee is also open to other network members interested in the deal.
- ***Due Diligence.*** When there is sufficient interest in moving a potential deal forward, VBAN leads due diligence alongside a network member with specific expertise in the sector. Including an angel investor with sector expertise at this stage contributes to the depth of discussion and evaluation, and assists in generating buy-in from the network.
- ***Deal Structuring.*** VBAN leads the negotiation with entrepreneurs to structure a deal that meets their unique needs and stage of development.
- ***Pooling funds.*** VBAN plays a coordination role so that a deal of sufficient size can be formed. If a minimum of $50,000 USD is collectively allocated among VBAN members, the deal progresses to the next step and each investor signs a commitment form.
- ***Transaction documents.*** VBAN prepares transaction documents and manages the associated administration.
- ***Post-investment monitoring.*** Once invesments have been made, VBAN monitors and reports on portfolio companies to investors.

EXAMPLE INVESTMENT:
MANPRO

ManPro is a technology platform designed to digitize and streamline the process of construction management. The online app assists contractors and property developers in tracking construction projects through a single portal in real time.

ManPro discovered VBAN through an accelerator program when the business was still in its early stage of development. In Kenya, prospective entrepreneurs tend to have limited savings and modest disposable income, so many founders need to launch their ventures while working another job. This makes the pre-revenue startup phase especially difficult, and angel investment can be catalytic in giving founders the space to develop their model. As Founder Linus Wahome said, "Our key challenge at the point of raising angel capital was that we had bootstrapped for about a year and managed to build an MVP. However, we were almost exhausting our resources yet we still needed to close some major gaps relating to product-market fit. The angel investment we got will give us enough bandwidth to close these gaps and get us ready for scaling."

The angels settled on a modest $20,000 USD initial investment for proof of concept, of which $10,000 USD came from VBAN members. An additional $180,000 USD investment by VBAN and Pangea Accelerator could follow based on meeting performance milestones. "Unlike investments firms that typically invest huge sums and are very aggressive with their expected returns, angel investors are able to provide smaller amounts that startups require as seed capital and take a more long-term view with the startup. Angel investors are also able to bear higher risks that typically characterize early-stage startups," said Wahome.

Since the investment in October 2019, ManPro has been focused on product development and is now implementing a pilot phase, with product release to follow shortly. Wahome reports that their progress has been tremendous, and that it has been the advice, mentorship, and guidance from VBAN that has really taken his business to the next level. "Angel investors often bring a ton of experience and industry specific expertise and have a deep understanding of what it takes to bring success to a starting business. Angel investors provide ongoing mentorship and guidance to the founding team which is critical for success."

Source: Disrupt Africa, Tom Jackson, November 21, 2019, https://disrupt-africa.com/2019/11/kenyan-construction-startup-manpro-raises-200k-funding-round/, accessed May 11, 2020.

Business Model & Path To Sustainability

The VBAN business model is based primarily on membership fees and carried interest for each investment. This revenue model is currently supplemented by corporate sponsorships and consulting.

Credit: VBAN

Membership fees are tiered according to the two member types. The more experienced deal flow members pay $300 per year whereas the full members that will take advantage of additional training services pay a higher fee of $500 per year. In addition to individual memberships, organizations may join the network or join individual deals. For example, outside (informal or formal) investment groups may participate in VBAN deals to grow or diversify their portfolios. This enables larger deal sizes and garners VBAN additional revenue. VBAN also makes angel investment masterclasses open to non-members for a separate fee.

To align interests of the Angel Network Manager and angel investors, VBAN takes 20% "carried interest" in each deal, effectively rewarding the network for successful investments. This means VBAN receives 20% of the profits on investment after angels achieve the agreed-on return, the "hurdle rate," for the deal. Hurdle rates are determined on a deal-by-deal basis, but generally average around 10%. Due diligence costs for deals over $50,000 are recovered as fees.

To reach long-term sustainability based on member- and deal-related revenue, VBAN estimates that it needs to maintain at least 32 active members each year. In the meantime, corporate sponsorships and consulting provide additional revenue to cover operating expenses. VBAN particularly targets sponsorships from corporations interested in learning more about and supporting the entrepreneurial ecosystem. Consulting assignments ideally do not simply bring in income, but also add value to the network (e.g., designing and publishing an investor handbook) or build relationships with investors that could lead to co-investment.

Since VBAN is situated under parent organization ViKtoria Ventures, it benefits from shared resources such as office space, rent, and utilities, cutting costs that would otherwise be incurred solely by VBAN. In return, ViKtoria Ventures has access to some of VBAN's deals.

Angel Engagement

VBAN's stated strategy for activating new angel network members is through the provision of in-person and webinar masterclasses on angel investing concepts. These classes take individuals with financial resources and give them the basic investment knowledge and exposure to the startup ecosystem to join investments. Recognizing that the fee for non-members may be a barrier to engaging as many potential angels as possible, VBAN is considering soliciting corporate sponsorships to cover the cost of masterclasses in the future.

In practice, the majority of new angels currently come from referrals from the co-founders and members' wide network. Organic word-of-mouth is also a source of new members; because VBAN is very active within the entrepreneurial ecosystem, there are opportunities to attract new members through deal announcements, conference speaking slots, and networking events.

Angel networks generally find that it is not sufficient to simply aim to get more investors on the membership books; active engagement in deals and in supporting portfolio companies is the real goal. VBAN has stated guidelines that request members commit a minimum investment of $5,000 USD per year, one hour per month of start-up coaching, and a minimum of five business introductions for start-ups in the network. While on an individual member level these guidelines are not always met, the upfront expectation has built a culture of hands-on engagement by network members. Angels frequently bring deals to VBAN and offer their time and expertise as mentors to portfolio companies.

Strategies In Practice

In *Angel Networks in Emerging Markets: A Guide for Development Institutions*, common context and business model challenges that angel networks face as well as strategies to address these challenges are identified. The strategies VBAN has utilized are summarized in the column on the right.

		STRATEGIES TO ADDRESS CHALLENGES
ECONOMIC CONTEXT CHALLENGES	**Relatively small markets** **Lack of investment awareness, experience, & skill** **Bias against local early-stage investing** **Regulatory barriers to angel investing**	**Expand the local market through partnerships** • Develop ecosystem partnerships for deal flow • Participate in regional/cross border partnerships for deal flow/additional angels • Engage foreign/diaspora investors alongside local investors to increase capital available **Attract new angels through broader definition and awareness** • Expand the angel definition beyond high net worth individuals, to include mid-level professionals, friends and family, and others in the local market • Produce events that raise awareness of angel investing • Engage local business influencers in events to enhance attractiveness • Amplify success stories to generate interest and excitement **Activate capital through education, facilitation, and risk reduction** • Provide angel education and mentoring to build skills and confidence • Cultivate peer engagement to build trust • Facilitate the investment process to reduce transaction costs and friction • Use pooled capital models to shorten the learning curve • Develop fund models or hybrid funds to activate additional capital • Pursue investment guarantees or investment matches to reduce risk • Experiment with innovative workarounds to local regulatory constraints
BUSINESS MODEL CHALLENGES	**Achieving a sustainable business model** **Retaining skilled network leadership** **Lack of participation by key influencers** **Unsuitability of traditional equity in some cases**	**Diversify revenue and share costs** • Charge fees for services to investors or entrepreneurs • Charge transaction-based fees • Generate revenue from sponsorships or consulting engagements • Structure investment upside participation for the organization • Be embedded in another institution to share costs • Secure grants/government support **Attract and retain staff and membership talent** • Structure investment upside participation for the manager • Host networking events attractive to key investors • Alleviate deal management burden on the most active members **Use innovative financing structures in addition to equity** • Use alternative financing structures that match local expectations around ownership, business success, exit, and return

Looking Ahead

As VBAN establishes itself as a key player in the East African startup space, it has a number of ideas to grow and strengthen the network. To accelerate their path to sustainability, VBAN is in early stage discussions with development funders around a technical assistance facility that could be used to assist in administrative costs. They are also proposing that funders utilize their capital to catalyze member investment, either through a de-risking facility such as a first-loss tranche, or a co-investment fund that would crowd-in member participation. They are also looking for sponsorships to support workshops for potential angel investors, which would assist with their angel engagement strategy.

To leverage additional capital and conduct larger deals, VBAN is considering innovative partnership models, such as:

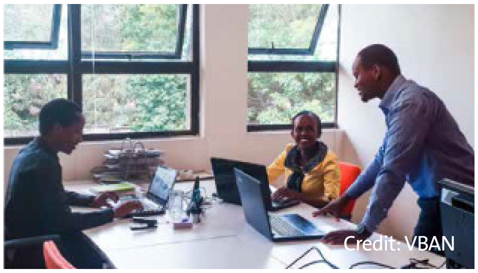
- Conducting more deals with formal and semi-formal investment groups that are already operating in East Africa and are looking to grow or diversify their portfolios.
- Creating partnerships with financial service providers such as banks and wealth managers. These providers could include angel investing opportunities to increase product offerings for their clients.
- Partnering with other venture and private equity fund managers, who would benefit from the local expertise and hands-on approach angels bring to supporting enterprises and build pipeline for their own investments.

SUCCESS MEASURES

The founders feel that, given the significant need among startups in Kenya for early-stage capital, angel investing is developmental by default. To date VBAN has not created metrics to measure success or impact. However, it is starting to consider ways to incorporate measures in the future.

Credit: VBAN

Lessons From This Network



A centralized network staff role can drive deals to completion.
VBAN acknowledges that angel network members have their own lives and careers, are usually making investments on the side, and thus are not able to dedicate their full time to angel activities. Having a dedicated Angel Network Manager ensures that there is active recruitment of new members and that deals do not stall merely for lack of attention. By coordinating the full investment process and serving as a central point of contact across members, the Angel Network Manager can ensure more deals close, unlocking the capital Kenyan entrepreneurs need.

Investor expertise and connections are valuable non-financial support for young entrepreneurs.
Kenyan entrepreneurs are, on average, younger than entrepreneurs elsewhere in the world and they often come from backgrounds where they don't have the financial freedom to dedicate their full time to pre-revenue businesses. As they are forced to split their time between growing a new venture and other jobs, the mentorship, business advice, sector expertise, and connections accessed through angel investors can have a strong impact on start-up success. Judging an angel network merely on investment dollars facilitated doesn't capture these equally important, non-financial supports.

Strong partnerships with entrepreneurship organizations benefits investors and deals.
VBAN's relationship with ViKtoria Ventures has proved invaluable in building the angel network and deal pipeline. The fact that ViKtoria is deeply embedded in the entrepreneurial ecosystem, including with accelerators, incubators, investors, and enterprises, laid the foundation for VBAN and improves deal flow.

Tiered membership options allow for more targeted services to angels.
The market of potential angels in Kenya ranges greatly, from experienced investors seeking deal flow to those completely new to angel investing. Although VBAN provides support across all types of angels, it acknowledges its different value offerings through a differentiated fee structure. Access to the full suite of services, including master-classes and pitch events, is offered to full members who pay higher fees than members simply looking to access deal flow. This tiered model allows a broader activation of angels in Kenya while compensating VBAN where additional investor support is required.

Find other case studies and the full report Angel Networks in Emerging Markets: A Guide for Development Institutions at http://bit.ly/EmergingAngels