

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>

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.

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).

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.



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.

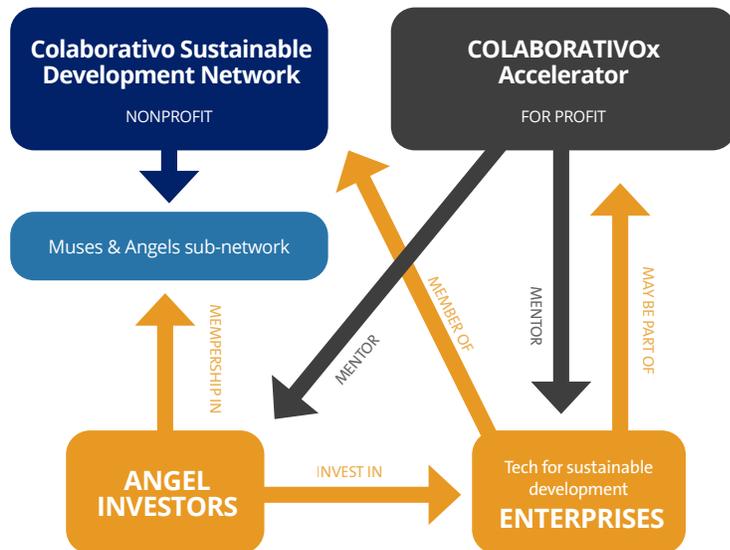
Alfredo Montoya
Founder

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	<p>Expand the local market through partnerships</p> <ul style="list-style-type: none"> • 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 <p>Attract new angels through broader definition and awareness</p> <ul style="list-style-type: none"> • 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 <p>Activate capital through education, facilitation, and risk reduction</p> <ul style="list-style-type: none"> • 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	<p>Diversify revenue and share costs</p> <ul style="list-style-type: none"> • 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 <p>Attract and retain staff and membership talent</p> <ul style="list-style-type: none"> • Structure investment upside participation for the manager • Host networking events attractive to key investors • Alleviate deal management burden on the most active members <p>Use innovative financing structures in addition to equity</p> <ul style="list-style-type: none"> • 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	

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.