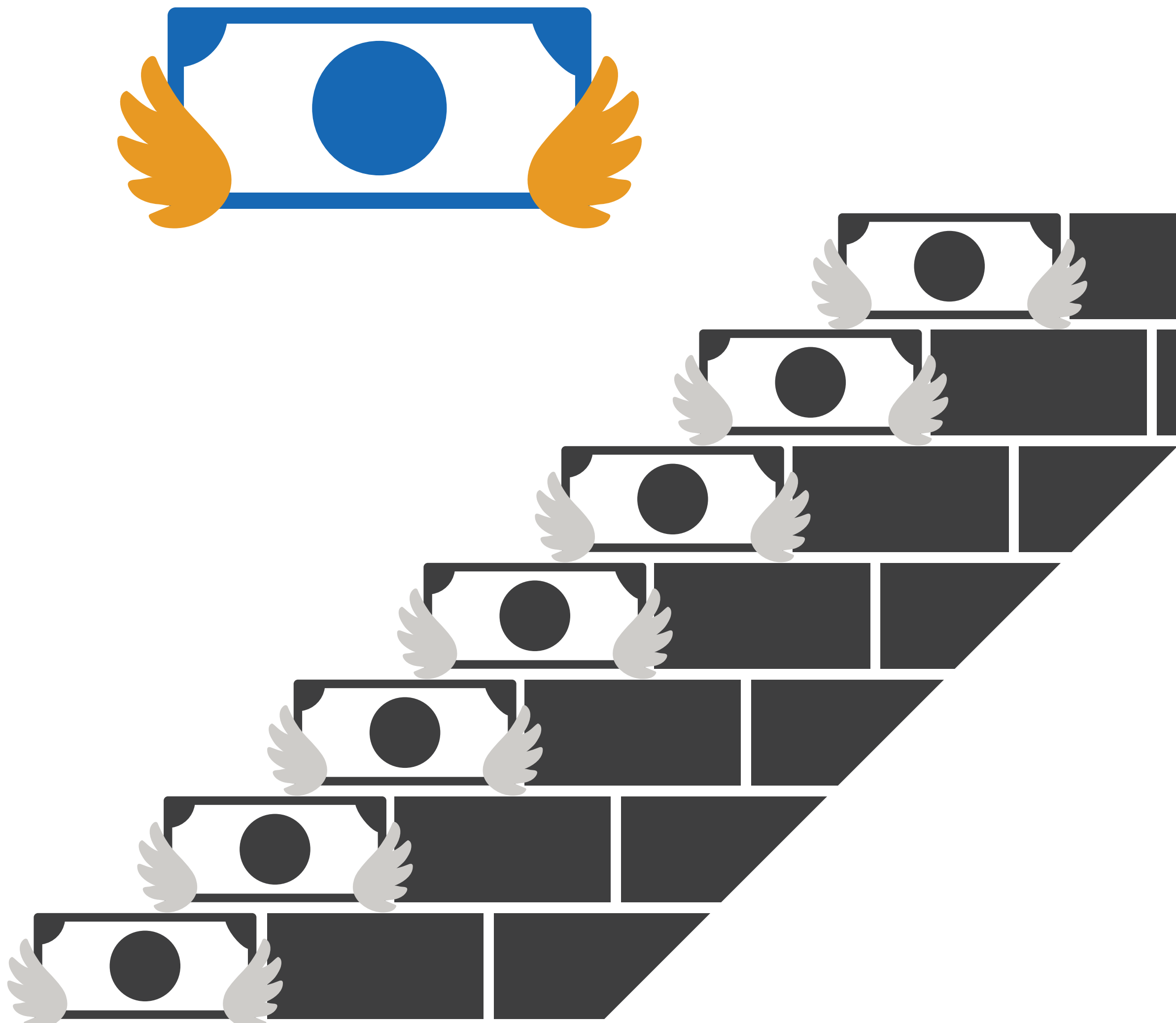
Angel Networks in Emerging Markets:
A Guide for Development Institutions



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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.

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.

5 Opportunities for Development Institutions

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

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

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.

Credit: ManPro

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.

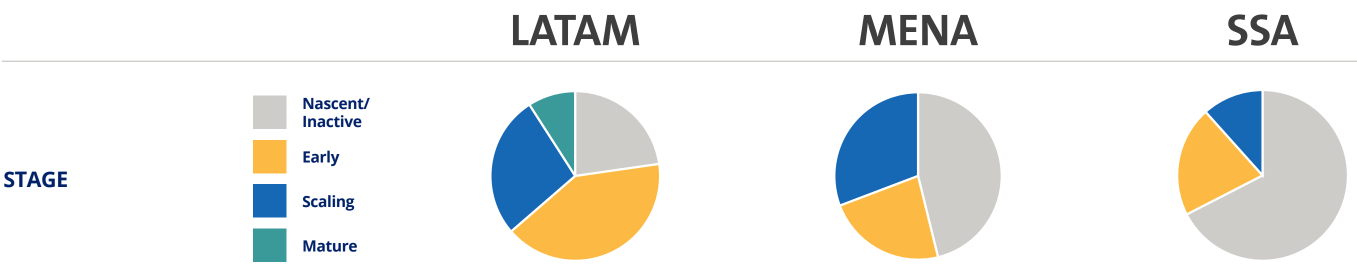
2 **Part 2: Angel Networks Growing Wings in Emerging Markets** provides an overview of the status of angel networks in the target regions selected by USAID – Latin America, Sub-Saharan Africa, and portions of Middle East/North Africa. This section then identifies the challenges angel networks are facing 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



ANGEL NETWORKS IDENTIFIED[2]		LATAM	MENA	SSA
	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

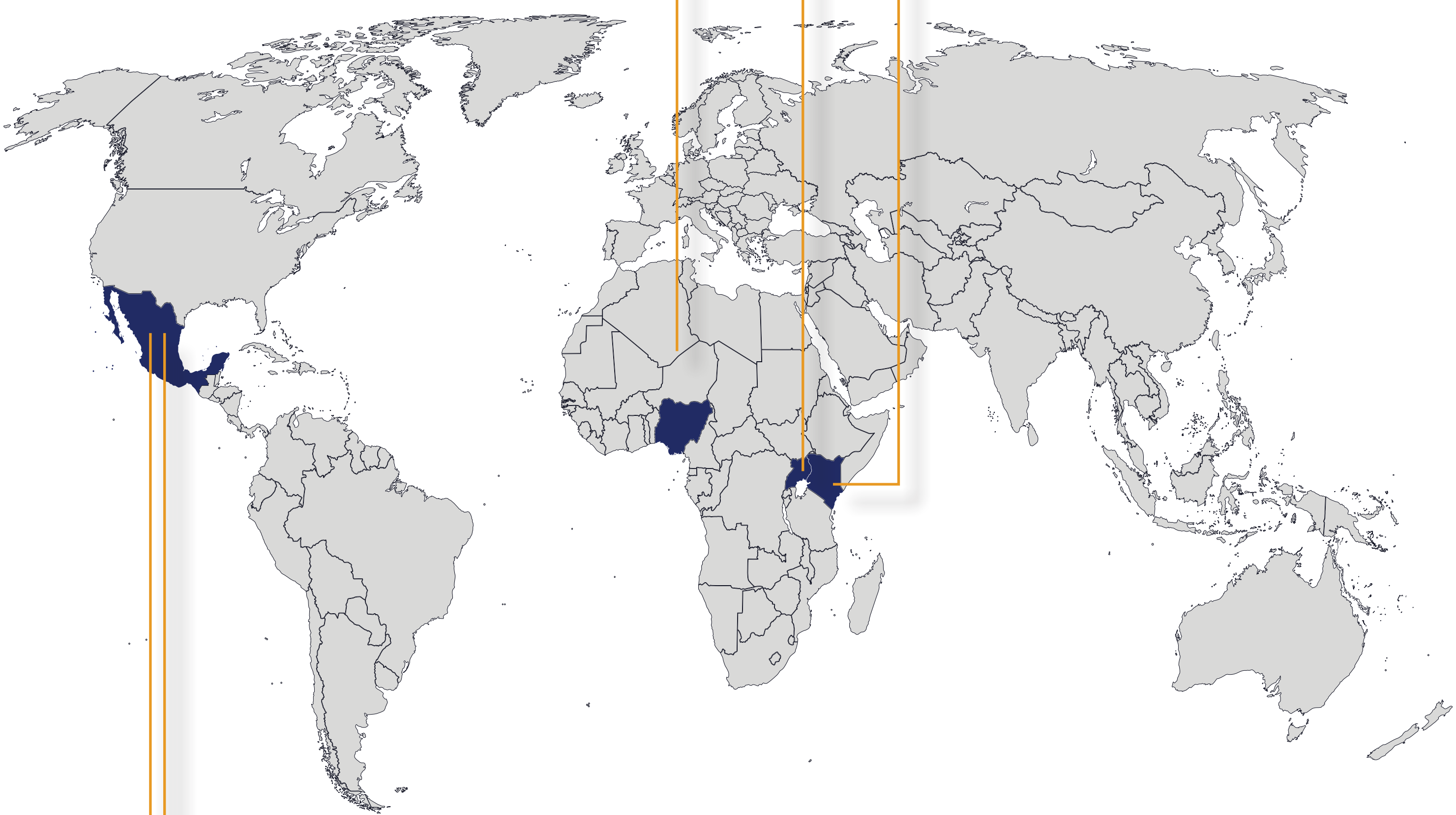
Nigeria | Founded by well-known and respected Nigerian entrepreneurs and angel investors. With the help of development funding and key partnerships, they have leveraged their reputations and skills to build one of the most active angel investor networks on the continent.

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

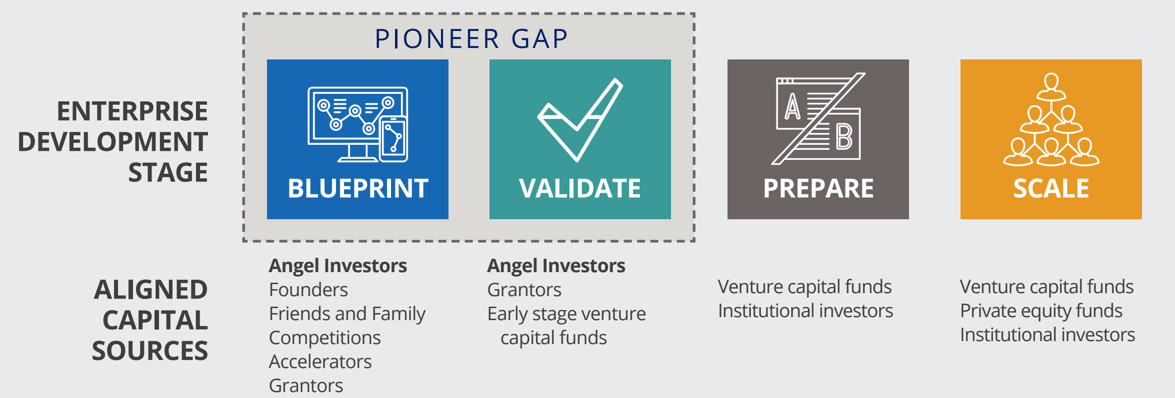
This section serves as a primer for readers unfamiliar with the practice of angel investing and the organization of angel networks. Understanding the structure of formalized angel network investing as it has evolved in developed markets over the past forty years is necessary context for the exploration 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.



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.

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]

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.

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

PART 2: Angel Networks Growing Wings In Emerging Markets

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.

	Challenges	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

BEST PRACTICES

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

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.

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

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.

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

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

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 c**harge 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

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.

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.

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.

> 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

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

- **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.

> **We have to learn with entrepreneurs and investors how things could work for us.**
>
> **Alfredo Montoya**
> Colaborativo

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.

<table>
<tr><th></th><th></th><th>STRATEGIES TO ADDRESS CHALLENGE</th></tr>
<tr><td rowspan="4">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 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:____________________</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
☐ 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:____________________</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>

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.

BEST PRACTICE	QUESTIONS TO ASSESS
Strong leadership: • Committed • Culturally-embedded • Connected	**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.
Angel investor as primary customer	**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?*
Entrepreneurial approach	• *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?*

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.
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- 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/ConocimientoElmpacto/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