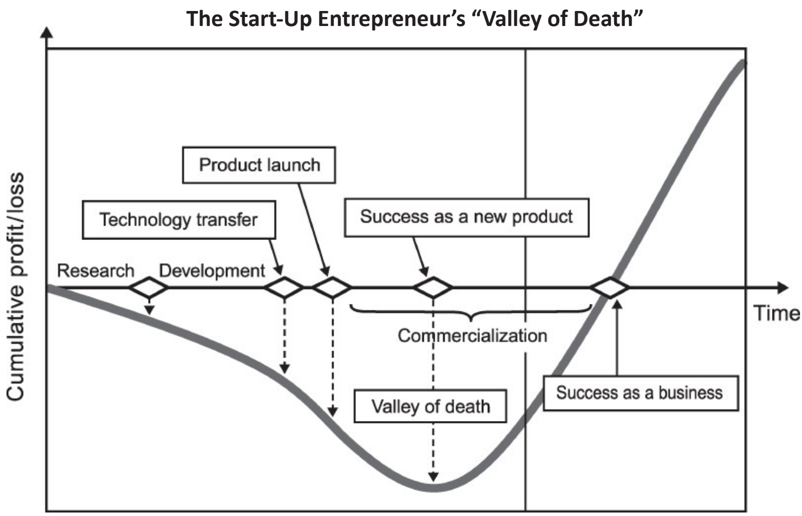
Overview of Angel Investing Worldwide

Angels Without Borders is a geographical narrative at heart. It covers angel investing activities in a diverse array of economies—small and large, developing and advanced, and those with high-tech and traditional sectors. Angel investing is not "going global"; it is there already. It simply has not garnered the recognition it deserves.

Angel investors are now crossing other boundaries—financial, economic, cultural, and technological—that are just as important as political boundaries. They are doing so rapidly, and with an enthusiasm and willingness to experiment. However, they are finding that, to successfully invest across borders, they need to understand better the economic policies, tax requirements (or incentives) and characteristics of other countries and regions.

Angels rarely operate within in a single sphere of investing. They must possess a knowledge of finance, management, market analysis, law, politics, and often science, technology and logistics. Many either have been entrepreneurs or have developed a deep understanding of entrepreneurship. Angels, by necessity, are connectors, people who envision how disparate elements of talent, technology and capital can be combined for success. In many cases, their contribution is a life-saver for start-ups passing through the "Valley of Death" stage.[1]

What is so conspicuously different now is that angels are no longer making such connections in an ad hoc way for their own accounts. They want to change what is sometimes called the "ecosystem" of risk capital into a much larger, more efficient and more systematic



approach, one that informs cultural attitudes about entrepreneurship, identifies promising talent and ideas as early as possible, and creates formal platforms (e.g., clubs, incubators, and accelerators) to make their activities more viable.

To do so, they have had to do more than network with each other, they have had to engage policymakers, politicians, economists, and bureaucrats as never before. Rather than merely assessing the diversity of their own portfolios and their multiples at exit, they have had to design and conduct original research into the profiles and investment strategies of peers. Ironically, even as they have been crossing others' borders, they have had to consider creating some of their own, such as minimum investment commitments for angel club membership or regulatory frameworks for crowdfunding.

Policymakers and the media are increasingly paying more attention to angel investors, but it is important to recall just how recently this attention has come and why. As of the early 2000s, for example, angel investors were providing as much as half the equity financing for start-ups in some countries, but were virtually invisible in research literature. Angel investors have always been more private than their counterparts, venture capitalists. In many cases, they might invest in small deals that were never publicly revealed. Dramatic differences in the evolution entrepreneurship across countries and regions also hindered public awareness and understanding. Similar types of investment activities were often put in different bureaucratic categories or given different names from place to place.

Several forces converged in recent years to bring angel investors to the forefront. The dot.com boom of the late 1990s followed by the bust of the mid-2000s created two cohorts of visionaries with an appetite for entrepreneurial risk: those who had succeeded beyond all expectations and suddenly had capital to invest in more ventures and up-and-comers; and those who had not been so fortunate but had ideas and had seen the angel investment process work well. Of critical importance was the fact that e-commerce ventures had succeeded not just in the United States but other advanced economies as well. The rapid adoption and almost frictionless growth of such ventures created jobs, captured imaginations, and enabled synergies across numerous sectors. Telephones, digital computer networks, and banks for example, had all existed in parallel sectors for decades. However, it was not until the internet and dot.com revolution that a small specialty e-store could sell goods to a buyer using a smartphone on the other side of the planet.

The global economic crisis that reverberated throughout advanced economies beginning around 2007 created other dynamics favorable to the rise of angel investing. In scores of nations, political parties and policymakers alike began to realize that job creation by legacy sectors and financing hrough traditional channels such as SME facilities, venture capital, private equity funds, and investment banks was no longer sufficient. Unemployment rates proved stubbornly high. The pace of start-ups, a key source of additional jobs, was too slow. And there were too few investors prepared to repeatedly back high-risk, early-stage start-ups. Angels came to be viewed as less of a novelty and more of a necessity. The result has been a profusion of public policy experiments with incentives, incubators, accelerators, strategic alliances with schools and industries, as well as public-private partnerships for due diligence and co-investment.

Through the early 2000s, angel investing was largely a domestic activity. Over the past decade, however, angel investors have started to think and act more globally in three respects. E-commerce, of course, necessitated more familiarity with foreign tax laws and commercial regulations than ever before. Second, a growing body of research began to reveal that some nations, e.g., Israel, Scotland, the United States, were consistently outperforming others in commercializing innovative ideas and providing capital to start-ups. Even if the degree of success enjoyed by Silicon Valley might never be replicated, ever more nations believed that moving their economies toward that model was a sound long-term strategy. Indeed, several authors later in the book discuss how their nations or regions have taken schemes or laws from other nations in whole cloth. Third, haltingly at first and then with more momentum, transnational initiatives such as the European Business Angels Network (founded in 1999) and the Business Angel Network of Southeast Asia (2001) began to coalesce to promote their activities, formalize cross-pollination of ideas and encourage deal flow.

As much as the first decade and a half of this century has proven exciting for angel investing, some of its most exciting prospects are ahead. Technological changes, such as crowdfunding platforms, are not only creating new opportunities for innovative ideas and start-ups, they are inculcating an entrepreneurial culture that is broader and less tied to sectors traditionally favored by angels. More profound is the growing awareness that the capital, tools, and networks of angel investors can be used for societal and environmental change under the banner of impact investing. The not-so-secret secret about angel investors is that a large proportion of them, perhaps most, invest for reasons that have little to do with big payoffs. By definition, angel investors already have wealth. The reward that they often seek is intangible: a mentor-mentee relationship, a chance to give back to their community, the satisfaction in seeing a friend or relative succeed, or the chance to participate in a cause larger than the success of a firm.

Enjoy this book. Rarely in the history of modern finance have so many factors converged to create a transformation that will empower so many people. That story is captured here.

Endnotes

[1] Osawa, Yoshitaka and Kumiko Miyazaki, "An Empirical Analysis of the Valley of Death," Asian Journal of Technology Innovation (2006).