Creating Your Own Angel Investor Group:

A Guide for Emerging and Frontier Markets

infoDev
Growing Innovation

THE WORLD BANK

Ewing Marion
KAUFFMAN
Foundation

Copyright

© 2014 International Bank for Reconstruction and Development / The World Bank
Mailing Address: MSN I9-900 1818 H St. NW, Washington D.C., 20433 USA
Telephone: (+1) 202- 458-4070
Website: www.infoDev.org
Email: info@infodev.org
Twitter: @infoDev
Facebook: /infoDevWBG

Some rights reserved.

This work is a product of the staff of *info*Dev / World Bank. Note that the World Bank does not necessarily own each component of the content included in the work. The World Bank therefore does not warrant that the use of the content contained in the work will not infringe on the rights of third parties. The risk of claims resulting from such infringement rests solely with you.

The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the donors of *info*Dev, The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions

This work is available under the Creative Commons Attribution 3.0 Unported license (CC BY 3.0) http://creativecommons.org/licenses/by/3.0. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

Attribution – Please cite the work as follows: Creating Your Own Angel Investor Group: A Guide for Emerging and Frontier Markets
Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0

Translations – If you create a translation of this work, please add the following disclaimer along with the attribution: This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.

All queries on rights and licenses should be addressed to *info*Dev, The World Bank, MSN: I9-900, 1818 H Street NW, Washington, DC 20433, USA; email: info@infodev.org

Cover design: *info*Dev and Corporate Visions, Inc.

Creating Your Own Angel Investor Group:

A Guide for Emerging and Frontier Markets

THE WORLD BANK

MIN
Multilateral Investment Fund
Member of the IDB Group

Ewing Marion
KAUFFMAN
Foundation

MINISTRY FOR FOREIGN
AFFAIRS OF FINLAND

About infoDev

infoDev is a global program within the World Bank Group that supports growth-oriented entrepreneurs through creative and path-breaking venture enablers. Such enablers can be ground-breaking innovation hubs, incubation centers and other business accelerators. It assists entrepreneurs to secure appropriate early-stage financing; convening entrepreneurs, investors, policymakers, mentors and other stakeholders for dialogue and action. We also produce cutting-edge knowledge products, closely linked to our work on the ground.

For more information, please visit www.infodev.org

Acknowledgments

This guidebook is an adaptation of the Ewing Marion Kauffman Foundation's 2004 publication *A Guidebook to Developing the Right Angel Organization for Your Community*. *info*Dev would like to thank the Kauffman Foundation for partnering on this effort and allowing *info*Dev to update and modify the original version for a global audience.

Laura Baker, a consultant for *info*Dev, adapted the guidebook, which was originally authored by Susan Preston. Maja Andjelkovic, Ellen Olafsen and Oltac Unsal provided research guidance.

*info*Dev would also like to thank Susana Garcia-Robles and Marta Patricia Aparicio y Montesinos of the Multilateral Investment Fund at the Inter-American Development Bank for their generous support for the research and review of this publication.

Many thanks to those who were interviewed for this guidebook and shared their knowledge and experiences: Irene Banda Mutalima, Bibhusan Bista, Barry Bogage, Antonio Botelho, Aleksandar Cabrilo, Omar Cisse, Colin Daniel, Harry Tomi Davies, Lianne du Toit, Eric Edelstein, Hernan Fernandez, Luis Galveias, Scott Gillespie, Nelson Gray, Ravishankar Gundalapalli, Hasan Haider, Sam Kamunyu, John Kieti, Derrick Koetze, Bohdan Kupych, Kalsoom Lakhani, Chris Major, Craig Mullet, Torooti Mwirigi, Michael Oluwagbemi, Mobola Onibonoje, Judith Owigar, Gordon Peters, Wissam Rabadi, Sophie Riviere, Ben White, Bagrat Yengibaryan.

Peer reviewers were: Marta Patricia Aparicio y Montesinos (Consultant, IADB), Susana Garcia-Robles (Principal Investment Officer, IADB), Esperanza Lasagabaster (Service Line Manager, World Bank), Samuel Maimbo (Lead Financial Sector Specialist, World Bank), Craig Mullet (Branison Group), Justin Piers William Hill (Senior Private Sector Development Specialist, World Bank).

Thanks also to Machimanda Appaiah Deviah for copyediting and Corporate Visions, Inc. for the design.

The report was made possible by the support of the government of Finland through the Creating Sustainable Businesses in the Knowledge Economy (CSBKE) program.

Table of Contents

Introduction 4

Background 5

Getting started: community assessment 14

Reviewing your assessment 25

Building the framework 28

Membership and culture 29

Organizational structure 34

Legal structure 38

Investment structure 41

Funding your angel organization 43

Group operations 48

Part 1: Launching group operations 48

Recruitment 48

Communications with members 49

Backgrounds/educational needs 50

Time commitments 51

Meeting structure 51

Sponsorship 52

Collaboration with other angels 53

Promotions/public relations 53

Part 2: Identifying deals and investing 54

Deal sourcing 54

Deal screening 56

Coaching 59

Presentations 59

Due diligence 60

Investment terms and negotiations 61

Liability and risk exposure 62

Part 3: Follow-on relationships and activities 63
Board seats 63
Access to information 63
Tracking investments 64
Mentorship 64
Follow-on financing 67
Exits 67
Legal concerns 68
Measuring success 68

Summary 71

Appendices 73
1. Revenues and Expenses Worksheet 74
2. Membership Information 75
3. Membership Agreement 77
4. Membership Survey 79
5. Group Member Responsibilities. 81
6. Funding Application 83
7. Screening Committee Worksheet 85
8. Issues to Consider in Due Diligence 87
9. Due Diligence Checklist 91
10. Sample Term Sheet 98
11. Guidance Note on Sample Term Sheet 101
12. Mentorship for Equity Contract Template 105

- Introduction
- Background
- Getting Started
- Building the Framework

Introduction

In little more than a decade, formal angel investing organizations have shifted from being mostly a U.S. and European phenomenon to being active and visible around the world. From Colombia to Cambodia, Serbia to South Africa, angel investors build networks from scratch and put their own local spin on how these networks are founded, structured, and operated. Most impressively, these angel groups enjoy successes in very challenging environments; many do so with little or no guidance or best practices to follow. However, for every successful angel group founder there are many more potential founders looking for a place to start. This guidebook aims to support such individuals and newly formed angel groups by presenting global best practices and tools and templates for facilitating group operations.

Launching an angel network is challenging in any environment. Doing so in a country with limited deal flow, weak institutions, and limited investor protection can seem nearly impossible. To confuse matters even more, there is no one-size-fits-all solution to set up and operate an angel organization. A diversity of models and structures has been successful worldwide. Given this context, this guidebook cannot prescribe a simple formula to set up and run your angel network. Instead, it will help you navigate the decision-making process at various stages, and give you real-world examples of how other networks have worked through difficult problems. Additionally, for those of you in countries where angel organizations do not yet exist, this guide will offer words of wisdom and encouragement from those who have blazed a trail in their own countries.

This manual is built from the Kauffman Foundation's 2004 publication, *A Guidebook to Developing the Right Angel Organization for Your Community*, which was crafted for a U.S. audience. Many of the decision steps to create an angel network are the same, no matter if you are in the U.S., South East Asia, or Sub-Saharan Africa. Much of the guidance holds true in 2014 as it did in 2004. However, this international edition recognizes the additional challenges that angels face outside the U.S., particularly in emerging economies, and teases out those problems and offers potential solutions. Also, globalization and the fast pace of technology have resulted in important new trends in angel investing since 2004. This edition will explore how the internet and networking platforms have helped international angels connect in new ways and overcome a host of obstacles. It will also touch upon topics such as crowdfunding and diaspora investing.

After you have gone through the community assessment, questions, and options outlined in this guidebook and have decided how your organization will look and operate, you may arrive at a completely new model that is not presented in this manual. What is most important is that your membership is comfortable with the result, and that the group is willing to adjust the model, goals, and orientation as it grows and gains experience. Given its broad geographic scope, this guidebook cannot provide specific guidance for every region and country. Be sure to consult your local legal experts, accountants, and other relevant actors to identify regulations that may influence your group's structure and day-to-day operations.

Background

What is angel investing?

There is no universal definition of angel investing, but it is generally understood as the practice of high-net worth individuals investing their own time and money in new businesses with the goal of profiting from their long-term growth. Such investments are characterized by very high levels of risk as most companies are in the earliest stages and will likely fail. Angel investors are different from venture capitalists (VCs) in that VCs invest other people's money. Motivations are another important distinction between the two; angels are typically interested in more than just receiving a financial return. Personal interest, the desire to give back, and the thrill of being involved with an innovative company are just a few of the reasons why people decide to become angel investors.

The practice of wealthy individuals and groups investing in entrepreneurs has existed for centuries and across many cultures. In some traditions, wealthy family members, friends, and/or community members provide financial support for business ventures, some with expectations of a return on investment or sharing of profits. This is different from most western definitions of angel investing, today, which describe angels as having no meaningful relationship to the entrepreneur prior to investment. Friends and family generally provide the first round of funding to help an entrepreneur get started, and angels step in when the business needs another injection of capital to develop and grow. That is why angels are often associated with high-growth companies.

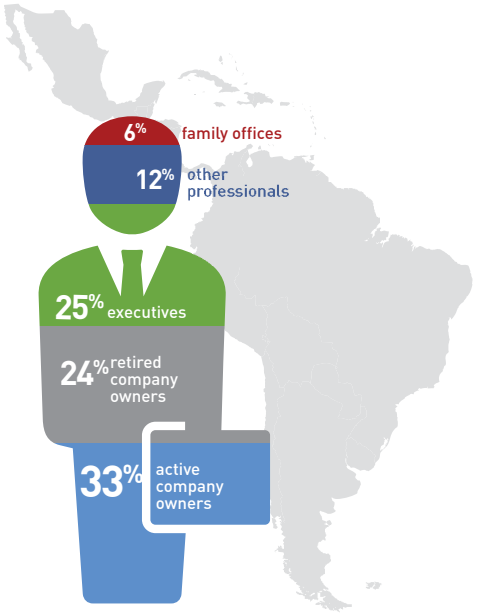
Who are angel investors?

Typically, angels are high-net worth individuals with considerable business experience. Of course, "high-net worth" is a relative term that varies from country to country. In the United States, Canada, and the UK most angels have "accredited investor" status as defined by law (see text box on page 8 for details), although this is usually self-certified. Most countries, however, do not have such criteria for angel investors. The majority of high-net worth individuals in developing countries tend to invest locally, most commonly in real estate, agriculture, minerals or other natural resource extraction, and they tend to find opportunities

and make investment decisions based on personal connections. Some of these investors, however, test the waters of financing high-growth start-up companies that are not in the traditional sectors described above, contributing to the communities of new entrepreneurs and their support structures that make up new start-up communities. Globally, most angels fall into two main categories:

- **Successful entrepreneurs:** These individuals have a close knowledge of the needs of start-ups and are crucial in driving the creation of angel networks. Many want to stay engaged in the start-up scene after cashing out of their own businesses, and help cultivate local entrepreneurial ecosystems in their own countries. In some countries, such as Cambodia and Burkina Faso, angel investors include experienced entrepreneurs from the U.S., Australia and other western countries who live abroad and want to invest in innovative new companies. These angels may be members of the diaspora who want to give back to their home countries or communities.
- **Business executives and other traditional investors:** In many countries, wealthy business professionals from large multinational companies or government become interested in investing in start-ups. In places such as Indonesia, these business heavyweights act like angels and draw on a tremendous amount of capital and business connections. They bring significant financial support to the table, but it can take some time for them to adjust to the scale of start-ups and to find time to connect with entrepreneurs to mentor. In some countries it has taken time for traditional investors to warm up to high-growth, IT-based start-ups, which are relatively new and unfamiliar to most investors. This does not mean, however, that these investors cannot become very effective angels. This manual will demonstrate how traditional investors have transitioned to angel investing and are highly involved with start-ups through angel groups.

angel investers in LATIN AMERICA



Data is from a 2012 survey of 665 angel investors in networks across Latin America. Angel Investor Networks in Latin America and the Caribbean. Private Investors Network and IESE Business School and the MIF, 2012, p. 17.

Research limitations

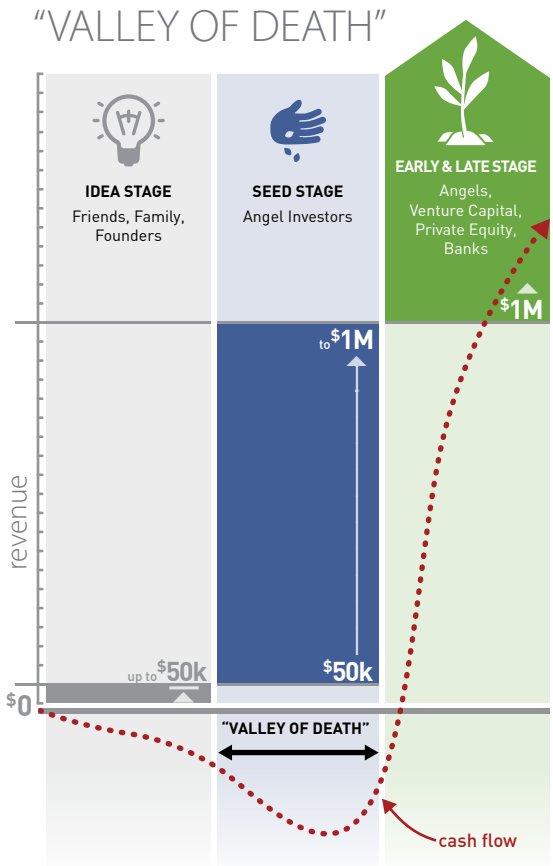
The demand for angel investment—especially syndicated deals where angels invest collectively—increased with the explosion of information technology in the 1990s. The angel industry began to formalize in the U.S. and Europe around this time, which has been well documented by researchers. Unfortunately, research has been limited in other regions of the world. Even though the practice of angel investing is found across Africa, Asia, the Middle East, and Latin America, much of it is informal or has low visibility, and angels are very private about their investments. To overcome blind spots in the research, this guidebook pulls insights from

more than 30 interviews with angels and entrepreneurial enablers from 20 countries. Colleagues from the Inter-American Development Bank and European and U.S.-based angel networks have also been very generous in sharing their experiences working with angels around the globe.

Why is angel investing important?

Filling the funding gap

Entrepreneurs around the world often face funding gaps between what friends and families can offer and what banks, VCs, and private equity (PE) firms are willing to contribute. A World Bank study showed that in developing countries, friends and family usually contribute up to $50,000;[1] enough for an entrepreneur to get started but not enough to generate sufficient revenues to scale the business. To grow rapidly, entrepreneurs may need an injection of capital, but banks have little appetite to lend to high-risk businesses with insufficient cash flows. VCs and PE firms (which may not exist in some countries) usually do not invest less than $1 million; too much for a seed stage start-up. This gap in funding between what friends and family can provide and what VCs and PE firms are willing to invest is referred to as the "Valley of Death," and it can be nearly impossible to traverse without the help of angels and angel groups. In countries that lack VCs and PE firms, angel groups fill the void by supplying additional rounds of funding to growing companies.



Providing business knowledge, networks and mentorship

Angel investors are typically experienced professionals who can offer wisdom and guidance to the entrepreneur and have the patience to wait for normal company maturation. Research shows that entrepreneurs value the expertise and mentorship that angels provide as much as, if not more than, the financing itself.[2] Angels can facilitate new business connections that help start-ups grow, and they can offer insights based on deep knowledge of an industry. They provide support and motivation to entrepreneurs to persevere when launching and growing

1 Zavatta, Roberto, 2008. Financing Technology Entrepreneurs and SMEs in Developing Countries. Washington, DC: *info*Dev/World Bank.

2 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing.

Examples of accredited investor requirements

United States[4] and Canada[5]

The United States and Canada have very similar definitions for the term "accredited investor." Both countries generally define it as "any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds $1,000,000 and who has an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year." With regard to organizations, an accredited investor is "any organization not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000." If angels do not meet these requirements in the U.S., the companies in which they invest could have funding limitations and companies may not seek out investments from unaccredited angels, hurting deal flow for the angel group.

United Kingdom[6]

The United Kingdom has a slightly different system in which investors in unlisted companies are classified as "High Net Worth Individuals" or "Sophisticated Investors." A High Net Worth Individual is defined as a person who has "£100,000 a year or more in income or £250,000 or more in relevant net assets." There are no stated income requirements for Sophisticated Investors, but individuals must be "a member of a network or syndicate of business angels" or "have made more than one investment in an unlisted company" in the past two years. Sophisticated Investors can also include professionals in the private equity sector.

a business inevitably becomes very challenging. Given its importance, this guide has a dedicated section on mentorship that provides tips and answers some frequently asked questions. See pages 64–66 in the Group Operations section for details.

Creating jobs

New businesses are an important engine for jobs creation. Angels play a significant role in helping new businesses get off the ground. Research in the U.S. indicates that start-ups funded by angel investors provided about 274,800 new jobs in 2012, or about 4.1 jobs per angel investment.[6] Unfortunately, the developing world has a much lower rate of business start-up creation and growth. In sub-Saharan Africa, the Middle East, and North Africa, business registrations are 15 percent less per capita than in high-income countries. However, the potential developmental impact of a more dynamic business start-up market could be extraordinary. If the developing world could develop better local ecosystems with soft infrastructure of financing and advice that encourage and allow entrepreneurs to start and grow businesses, new, innovative firms could create millions of new jobs each year.

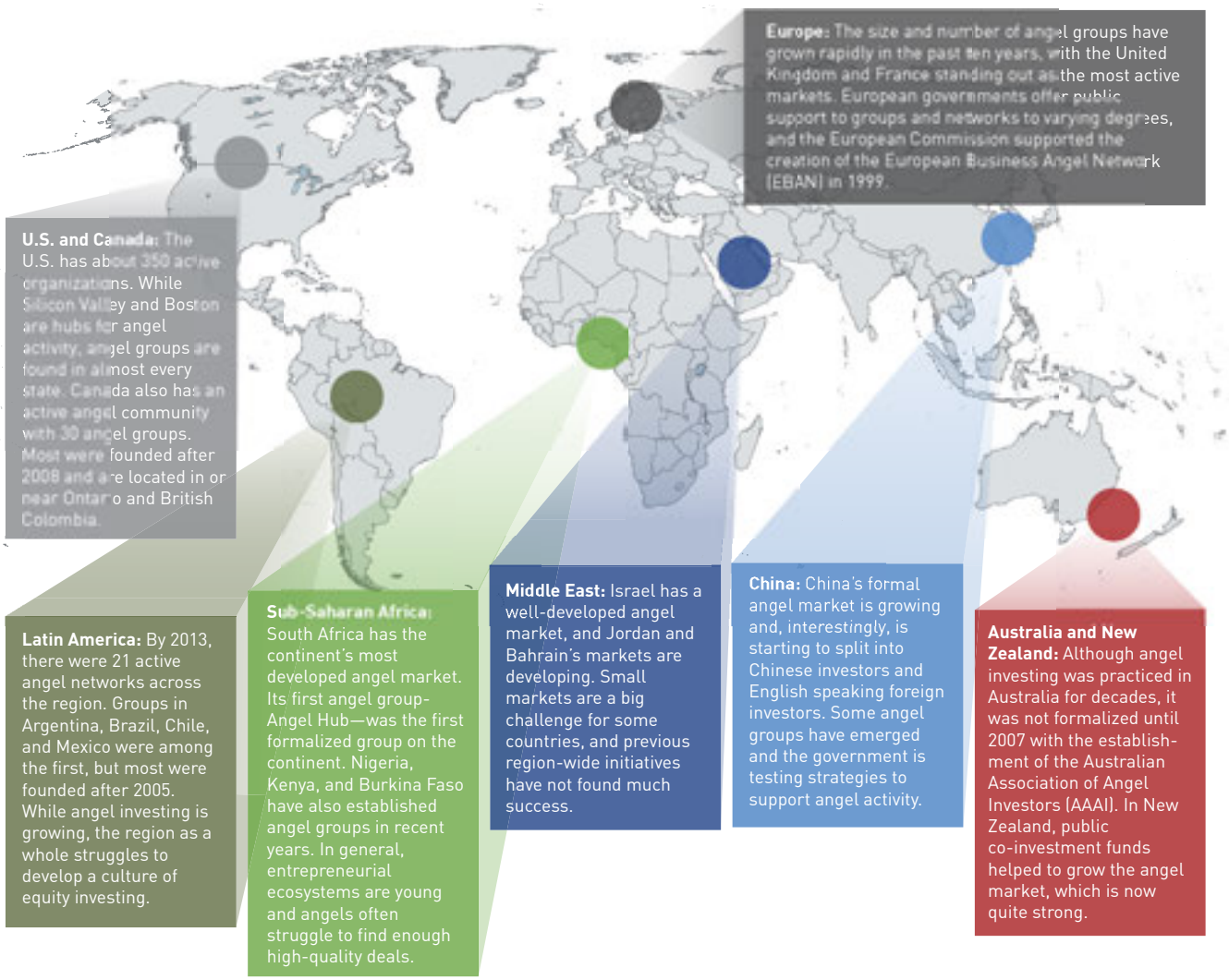
3 U.S. Securities and Exchange Commission on Accredited Investors Rule 501 of Regulation D.

4 Securities Act, National Instrument 45-106 Prospectus and Registration Exemptions Subsection 1.1.

5 Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

6 Sohl, Jeffery, 2012. The Angel Investor Market in 2012: A Moderating Recovery Continues. Center for Venture Research.

A SNAPSHOT of angel investing globally



OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pgs. 80-92.
Angel Investor Networks in Latin America and the Caribbean. Private Investors Network and IESE Business School and the MIF, 2012, p. 17.

How much do angel groups invest, and in how many companies?

This is difficult to track, although some angel networks attempt to do so by polling members. Research from Australia, Europe, New Zealand, and the U.S. shows that in 2009, each angel group invested in 5 to 20 companies per year.[7] Established angel groups in the U.S. make, on average, 7.3 investments annually.[8] Newer groups may do fewer deals or none at all, until they establish reliable deal-sourcing networks. Information on deal size is even more limited, although data on the U.S. market is available through the Angel Resource Institute and the Center for Venture Research. In 2012, most deals (67 percent) ranged from $150,000 to $500,000,[9] with an average deal size of $341,800.[10] Keep in mind that deal sizes vary from country to country based on start-up needs and local costs.

In what industries do they invest?

Angels typically invest in a wider range of sectors than VCs, not necessarily limited to technology intensive companies.[11] Research from Australia, Canada, Europe, New Zealand, and the United States highlights the popularity of investments in information and communication technology (ICT) start-ups, which account for anywhere between 20 to 50 percent of all deals.[12] This is due to the attractiveness of such deals: relatively low capital investments and high profit margins, which result in higher potential returns on equity. Investments in biotech and health companies are also common (roughly 20 to 30 percent of deals), as well as investments in clean tech, manufacturing, and finance.[13] The angels interviewed for this manual invest in similar industries, but also diversify into other areas such as tourism, agriculture, and social marketing. Many cashed-out entrepreneurs who became angels expressed enthusiasm to invest in industries such as ICT and clean tech, but commented on the low number of good deals in developing markets, leading them to explore other options.

What follow-on funding options exist?

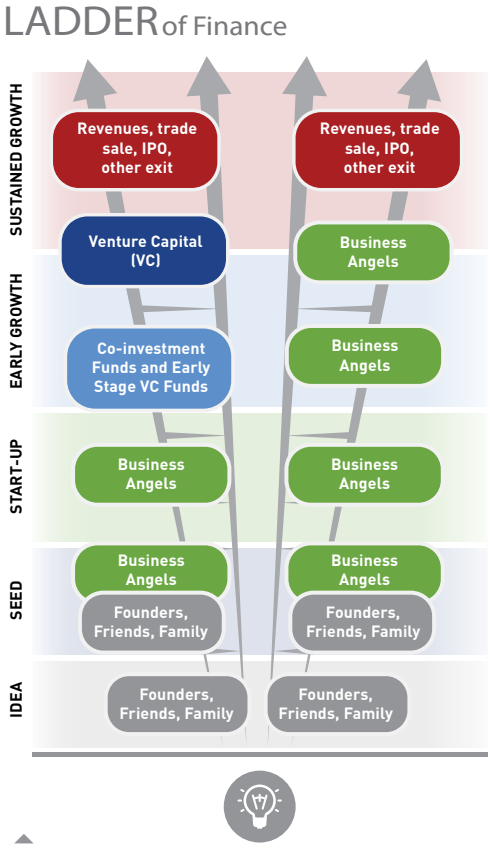
In developed markets, venture capital firms (VCs) provide subsequent rounds of funding to certain companies so that they can continue to grow and eventually be acquired. A lack of VCs in a country should not stop an angel group from kick starting operations, as there is evidence that companies can be quite successful without them. A recent report showed that of the tech companies acquired in 2012, 76 percent had bootstrapped or only used angel financing.[14] If it is likely that your group will be responsible for additional rounds, prepare for this scenario by setting aside funds in advance. If this is not possible, there might be chances of cross-border investments from internationally based VCs or angel groups.

7 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg 55.
8 2008 ACA Angel Group Confidence Survey.
9 Angel Capital Association Confidence Survey, 2012.
10 Jeffrey Solh, "The Angel Investor Market in 2012: A Moderating Recovery Continues," Center for Venture Research, April 25, 2013.
11 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg 62.
12 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg 54, fig. 2.12.
13 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg 54, fig. 2.12.
14 CB Insights. 2012 Tech M&A Report.

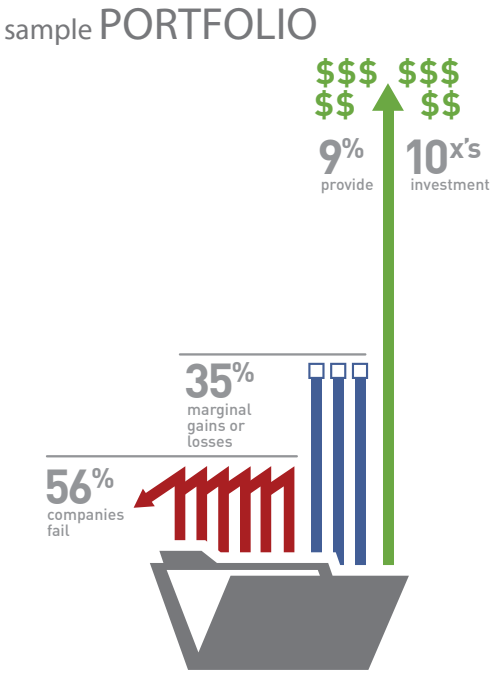
What do exits and returns look like for angel groups?

The reason that angel investing is so risky is that most start-ups do not achieve their founders' goals and are closed. Research indicates that 56 percent of companies fail, giving their investors negative returns.[15] For this reason, angels invest in portfolios of companies. Among the successful companies, 9 percent provide investors with returns of 10 times their investments, which compensates for failed investments. Most exits in the developed world are in the form of strategic trade sales, with overall returns of 2.6 times the original investment in the U.S., and 2.2 times the original investment in the UK[16], with profitable exits taking around 6 to 8 years to achieve[17].

Data on exits and returns in the developing world are much more limited, but some studies indicate that angels in emerging economies enjoy good returns as well. According the Kauffman Foundation's research on angel investors in Asia, between 75 to 79 percent reported returns meeting or exceeding initial expectations. The study attributed the results to angels' commitment to in-depth due diligence before investing and close monitoring of investee companies.[18] Angels in developing countries find exits via trade sales, buybacks, or by selling shares to other funds. Initial public offerings (IPOs) are not possible in most markets. Without foreseeable exits, angels may have to hold onto investments longer than anticipated. Until then, angels can get some cash flow through profit sharing, dividends or royalty payments.



The ladder of finance varies from country to country. Here are just two examples of how angels can contribute to start-ups.



OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg. 63.

15 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg. 63.

16 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pgs. 31, 62-63.

17 Scottish Enterprise, 2013. The Risk Capital Market in Scotland 2009-2011. Prepared by Young Company Finance.

18 Gunawan, Janti, Edmundo Isidro, et al. 2012. Business Angel Investing in Emerging Economies: Policy Implications for Southeast Asia. Kauffman Foundation's International Research and Policy Roundtable, Liverpool UK.

What are the common problems facing angel investors?

Angel investing is a high-risk endeavor no matter where you are in the world. However, certain risks are more prevalent in some countries than in others. According to recent research on angel investing in four Asian emerging markets, angels "face relatively more challenges compared to business angels investing within developing economies."[19] Angels interviewed for this manual agreed, and highlighted the following specific environmental factors:

- Lack of awareness among angels and entrepreneurs of angel investing and that it is a hands-on process
- Weak entrepreneurial ecosystems that fail to produce and support innovative start-ups
- Lack of successful and visible angel investing models to follow in most countries
- Lack of trust among angels and/or between angels and entrepreneurs
- Lack of industry expertise/mentors to help start-ups improve business models, connect with markets and grow
- Weak regulatory frameworks that may discourage, or at least fail to encourage, angel investment and/or the creation of start-ups
- Lack of educational resources for new angels to learn best practices and technical aspects of investing in high-growth companies
- Fear of loss of capital and "face" in this risky asset class.

19 Gunawan, Janti, Edmundo Isidro, et al. 2012. Business Angel Investing in Emerging Economies: Policy Implications for Southeast Asia. Kauffman Foundation's International Research and Policy Roundtable, Liverpool UK.

What are the advantages of creating or joining an angel group?

While individual angels are incredibly important, there is only so much one person can do alone. Angel groups, which pool the resources and knowledge of their members, can overcome many limitations associated with solo investing and investing in risky environments, such as emerging markets. Because of this, angel groups are helpful in the following ways: Through groups, individual angels can access a **higher number of better deals**, especially when groups are recognized as having a particular investment focus.

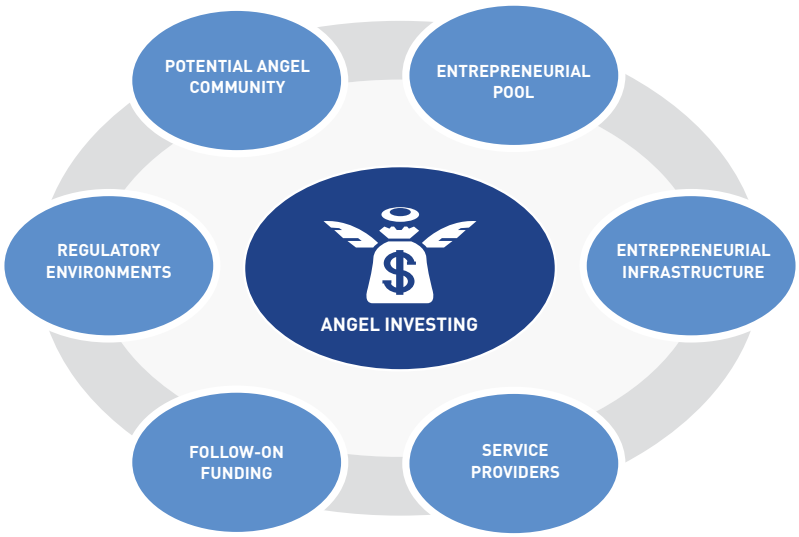
- Groups can **aggregate resources** to secure staff, interns, and facilities to enhance the deal process.
- Angel groups have **more efficient deal screening processes** that allow for multiple "checks and balances" by having a diversity of knowledge about the market, management, and financial assumptions.
- Angel groups can make **larger investments** and fill larger funding gaps by combining resources of individual investors.
- Angel groups allow people to syndicate on a deal and **share the risk.**
- New angels can **learn from experienced angel investors** on all aspects and steps of investing.
- The pooling of investment capital gives angels **greater economic power and influence**, which **enhances investment terms negotiation**. It also **reduces risk** by allowing angels to diversify their investments across several deals.
- Angel groups provide the intangible values of **camaraderie** and sharing of common goals.
- Angel groups can have an influential voice collectively when **raising regulatory and policy issues with government** and can contribute to the creation of new and better policies.

angel GROUPS

Getting started: community assessment

The first step in laying the groundwork for your angel group is to understand your local entrepreneurial ecosystem. This section walks you through a community assessment to help you understand the nature of your investment community, potential group members, and the particular risks that could threaten group sustainability. Try to be as objective as possible when conducting the assessment as it will help you understand the community limitations or market factors that could hamper your attempts to establish a vibrant angel group. The following diagram illustrates the categories included in this assessment. Keep in mind that no single community will have all attributes that support an angel organization. The most valuable part of this exercise is to identify community strengths and weaknesses when considering the viability of a potential angel group. You may find that although important attributes are missing, your community is strong in other areas or has the means to develop those missing aspects.

angel investing ECOSYSTEM



Assessing the potential angel community

A great way to start your community assessment is by looking at the human talent and potential investment capacity of the individuals in your ecosystem. Here are a few questions to ask:

- Is there a **champion** to lead the foundation of the group?
- Does your community have several wealthy individuals, especially those who have made money building their own successful companies?
- Does your community have a number of company corporate headquarters (which would suggest high-net worth individuals in senior positions)?
- Is there a sufficient core of experienced investors or other resources to help with educating nascent angel investors?
- If your country has accredited investor requirements, does your community have a sufficient number of accredited investors?

Champion/s: A key factor in the success of an angel organization is an appropriate and active champion. One cannot over-emphasize the importance and necessity of an individual or small group of people to champion and encourage your angel organization. They will also likely attract other members with similar interests and confidence in your champion or founding group. An organization cannot get off the ground and succeed without a leader. Ideally, the champion should be an experienced investor with sufficient influence and connections within the community to attract other investors as potential group members.

Assessment approach and tools

- **Personal networks:** The overwhelming majority of angels interviewed for this manual said that they relied on personal networks to find and assess potential new members. Most champions were highly connected in their local communities, leveraged networks with business schools and universities, or made significant efforts to expand ties among local businesses and in organizations such as chambers of commerce.
- **Entrepreneurial organizations:** The organizations in your community dedicated to cultivating entrepreneurs, such as incubators, accelerators, and entrepreneurial education centers, will likely have contacts with investors. Staff from these organizations can direct you to individual angel investors who may be interested in joining an angel group.
- **Review census reports, home values, and number of successful industries:** While this data may not be available in every country or city, it can be tremendously useful where it is available. This data can help you estimate the number of high-net worth individuals in your community and compare your community to neighboring cities and regions. It can also reveal trends and the stability in your region's wealthy population.

Some problems you may encounter

Many angel group founders said that identifying wealthy individuals is usually less challenging than finding investors who understand the angel investing process. This is to be expected. As mentioned before, most investors are not used to such a risky asset class. Here are some common problems that you may discover as you conduct your assessment of potential angels in your community:

- **Lack of awareness that angel investing is an active process:** When recruiting new angels to a group, experienced angels have found that newcomers expect to be passive

in the angel process, while the best practice is to be active. They are not used to participating in deal screening, undertaking due diligence and direct mentoring with investees, as they are more familiar with traditional investment approaches.

- **Low risk tolerance:** Angel investing is a high-risk practice, especially when the potential investee is only at the idea stage, but risk tolerance is low among angels in many parts of the world. When there is no precedent in a country and no success stories to point to, it can be difficult for investors to envisage success. New members can be scared off by early failures.
- **Expectations for fast returns:** Investors used to less risky investments that produce quick returns, such as land or real estate, will have to recalibrate expectations when becoming angel investors. Most angels in developed countries do not see returns for six to eight years, and in some markets it could take up to ten years to exit.
- **Unfamiliarity with industries/business models:** Many investors are used to investing in real estate or agriculture, but an important segment of new high-growth companies emerging from incubators and accelerators are in knowledge intensive industries. A recent World Bank study found that the number of angels familiar with the business models prevailing in these industries is still relatively small, and as a result, business angels' investments in the ICT/ICTE sector remains at low levels.[20] This mismatch between angels and entrepreneurs is one reason why angels do not invest more.
- **Lack of trust:** Joining an angel group may mean expanding your professional circle, revealing information about your financial assets and investment approach, and potentially revealing your lack of expertise and knowledge in some areas. In many cultures, this degree of openness is not an integral part of the mainstream business culture.
- **Not wanting to be visible:** Angels are typically private about their investments, and can seem "invisible" to entrepreneurs. This hinders the match making process when entrepreneurs do not know how to connect with investors that could be interested in his or her company.

Recommendations

If your assessment reveals weaknesses in your potential angel community, keep the following in mind:

- **Training for angels and angel group managers:** You may have to invest time in educating potential angels on the process and fielding their questions. Several group founders have commented that they started by simply talking to people and inviting them to pitch events or introducing them to entrepreneurs. As you demystify the angel process for potential members, you will start to see who is comfortable with trying something new and/or has a personal interest in supporting young startups. It may take several months or more than a year of dedicated networking and engaging potential angels before you find the right people, but this approach has worked for many angel founders, especially in countries where no angel groups previously existed.

  You should also know that once angels have joined your group, education should be an ongoing process. Most angel groups, even established groups in the U.S., Canada, and Europe, provide additional training for group members on a variety of topics. The

20 Zavatta, Roberto, 2008. Financing Technology Entrepreneurs and SMEs in Developing Countries. Washington, DC: *info*Dev/World Bank.

Kauffman Foundation developed a proven suite of programs, which is distributed by the Angel Resource Institute. The program covers an array of topics from identifying opportunities to valuation and negotiations.

- **Tap into diaspora networks:** Many diaspora communities already support family and friends in their home countries. Being part of an angel group is just one more way to stay connected. In addition to providing capital, diaspora members may be more familiar with angel investing practices and can contribute expertise and international networks. While angels have traditionally invested in their local communities, cross-border investing is a possibility when the long-distance investor trusts a person, group, or entity to provide local oversight and regular updates.
- **Start small:** It is sensible and quite common to start a network with a small group of dedicated individuals. If your assessment reveals that only three or four people have what it takes to become potential members, do not hold back. Many groups have started small and grown organically as other angels in the community become interested.
- **Visibility is important:** Angels are an important component of the entrepreneurial ecosystem. All parties benefit when entrepreneurs and advisers can interact with and get to know angels and learn what they are looking for in start-ups. They can also deepen their understanding of the angel investing process; and how angels can support their business through networks and industry knowledge.
- **Addressing trust issues:** For angel groups to be successful, members need to develop a level of trust regardless of the business culture, however slowly that may happen. Spending time getting to know other angels and entrepreneurs one-on-one can help break down mistrust and fear. Spend time educating potential group members on angel investing, and allow them to attend angel group meetings to observe the process. Introduce potential angels to entrepreneurs and showcase success stories. Encourage angels to ease into the role by mentoring entrepreneurs, or even offering mentorship in return for a small equity stake—an option explained in more detail on page 66. Before making investments, talk through potential problems that may arise and agree on how each party should handle a situation. This tactic has helped build trust among co-investors and between angels and entrepreneurs in environments where this type of investing is new and legal institutions are weak.

Assessing the entrepreneurial pool

An active entrepreneurial pool is essential to sustain any angel network. In this part of the assessment, try to identify potential and existing entrepreneurial companies in your community. Here are some questions to orient your research:

- Do you have a number of young companies starting up in your area? From the pool of start-ups, do you think your group can find at least three or four investible companies a year to get started?
- Is your community considered attractive to entrepreneurs?
- Does your community have centers of higher education, particularly with graduate programs in the areas of business, engineering, or science?
- Does your community have research centers?

- Does your community have growing business activity around which young firms are being or can be formed? This could be anything from a major public or private sector project, or simply a growing population in need of products and services.

Assessment approach and tools

- **Global Entrepreneurship Monitor (GEM):** Launched in 1999, this report provides information on entrepreneurial activity in 70 economies, representing all regions of the world. It captures entrepreneurial attitudes, such as perceptions of opportunities, capabilities, and fears of failure, and can give you a high-level view of the strengths and weaknesses in your country's entrepreneurial pool.
- **Universities and colleges:** Contact these education institutions to learn about their work with new products and services, which are often found in areas of applied research.
- **Incubators and accelerators:** Visiting these local organizations will give you an idea of the number and quality of deals that are in the pipeline. You can also learn about the industries in which the start-ups are working to see if they match your group members' backgrounds and interests.
- **Business intermediaries:** Professionals such as accountants, commercial real estate agents, recruitment agencies, and equipment suppliers may interact with start-ups and have a feel of local business activity and dynamics.
- **Publicly available information:** Local business trade publications can be a good indication of entrepreneurial activity if available in your community.

Some problems you may encounter

- **Lack of viable companies:** This is a very common problem in young ecosystems where many companies are in the very early stages.
- **Lack of understanding among entrepreneurs of the role of angels:** Even when there are viable companies, entrepreneurs often do not know how to communicate and work with angels, and they can be reluctant to take advice. They can have unrealistic expectations about their company valuations and may not want to give up any portion of their businesses. Some entrepreneurs think that they can build a business alone. Some entrepreneurs are reluctant to share information about their companies with investors, which makes the due diligence process very difficult and reduces the likelihood that they will receive funding.

Syndication: Syndication allows angels to co-invest with other investors. Usually, a lead investor handles negotiations with the start-up and may be paid a percentage of the profits upon exit, called carry. The other angels, called backers, get access to deal flow and may learn about picking and managing investments from a more experienced lead investor. Start-ups benefit from syndication as well, as they get access to more capital and communications are routed though the lead investor.

Recommendations

- **Explore syndication with other angel groups:** If your community does not have enough investible companies to allow for diversification and to ensure the sustainability of the group, see if other angel groups would be interested in syndicating deals. You may find interested parties in your country or region, or among investors that share your group's investment focus.

- **Adjust expectations:** If there are no or few viable companies to invest in, and your group does not want to syndicate with others, it makes no difference how many high-net worth individuals may live in your community. There will not be adequate deal flow to support a formal group. You could be better off mentoring entrepreneurs until there are a good number of companies ready for angel investments.
- **Seek out "coachable" entrepreneurs who possess talent and passion:** Effective entrepreneurs recognize their limitations as well as their talents, and should be open to working with mentors and angels who can help their businesses grow. As you build relationships with potential investees, look for entrepreneurs who are active listeners and who respond well to constructive criticism. If you feel that potential investees do not change their views on mentors and angels, do not invest in them.
- **Build entrepreneur coaching into your angel group strategy or practices:** Most groups offer coaching to entrepreneurs prior to pitch events to ensure that the entrepreneurs present the necessary information in an efficient way. However, in many communities entrepreneurs need more than just last-minute guidance. Your angel group should determine how much time it is willing to spend in teaching entrepreneurs on how to work with angels. Hopefully there are organizations in the community that can provide such training. Some angel groups have formal or informal ties to incubators and accelerators to make sure that all potential investees are well prepared before they meet with investors. If such organizations do not prepare entrepreneurs to engage properly with angels, let the institutions know!

Assessing the entrepreneurial infrastructure

Entrepreneurs, and in turn angel groups, have a greater chance of success when communities support, educate, and foster entrepreneurs. To get a better idea of the number and types of support systems in your region, get answers for the following questions:

- Do organizations exist in your community with a specific mission to support and foster the growth of entrepreneurial businesses, such as incubators, accelerators, or other organizations that provide start-up businesses with services and programs? If so, do these organizations have experienced staff?
- Do you currently have, or is there interest in having, regular entrepreneurial networking events?
- Does your community have high quality educational institutions with programs in business, especially at the graduate level?
- Are there experienced entrepreneurs or business professionals willing to volunteer as mentors, program managers, or trainers as a way to give back to their communities?
- Do local organizations support entrepreneurial programs, such as start-up weekends, hackathons (short, collaborative events centered on developing specific software projects), or demo days to give entrepreneurs opportunities to develop ideas and practice pitching in front of an audience?
- Do trade industry associations exist in your community to support and foster existing and new companies?

Assessment approach and tools

- **Support organizations:** Visit local support organizations and inquire about the services they provide and expertise of the staff. See if they have information about the types and number of start-ups that have grown into successful, sustainable companies. If they have hosted any competitions, inquire about participation, outcomes, and plans to hold future events. Be sure to ask about their business model. Do they take an equity stake in the companies they support? As a potential follow-on investor, what else should you know?
- **Trade or industry associations:** Meet with trade or industry association members to gauge their level of involvement with, or interest in engaging, local start-up organizations.
- **Cashed-out entrepreneurs or experienced business professionals:** Assess the level of involvement that these individuals have with, or their interest in engaging, local entrepreneurs through your personal and professional networks, and through your research. These individuals can contribute greatly to a support system, and if they are active in your community, it will bode well for your angel group.

Some problems you may encounter

- **Lack of support organizations:** Even if you have a solid pool of entrepreneurs, the likelihood of developing successful businesses is diminished, or your community's potential will not be met, without an active entrepreneurial support system.
- **Support organizations not sure how to work with angels:** Incubators and accelerators may also be new to the community and still working out business models. They may provide equity investments to companies, but may not be experienced with handling follow-on investments from angels. Be sure to discuss this with accelerator managers to see if they provide funding for companies and how they work with angels.

Recommendations

- **Manage expectations:** Even if entrepreneurs have access to business advice, resources, and industry expertise outside of what your angel members can provide, these support systems take time to become effective. You may be able to address some gaps in the infrastructure, by leveraging your personal and professional networks to cultivate mentorship programs for entrepreneurs or support the growth and development of local incubators, but there are no quick solutions. Your angel group should be realistic about the amount of support investment recipients will need from members versus how much support they can get from the ecosystem.

Assessing service providers

Having a solid pool of experienced service providers such as lawyers, accountants, and marketing professionals is important to help start-ups get off the ground. These young companies will also need senior managers with business experience at some point as well. Investigate the following to get a better idea of the number and types of support systems in your region:

- Is there a good base of young and/or experienced talent for key roles in companies through local undergraduate and/or graduate school programs, optioned-out high-tech employees, successful corporate managers, or researchers?
- Does your community have legal, accounting, marketing, and other services experienced in early-stage company development and financing?
- Do these service providers often speak on relevant topics at various programs?

Assessment approach and tools

- **Entrepreneurs and entrepreneurial support organizations:** At some point, entrepreneurs and/or support organizations will have reached out to legal or accounting professionals for advice or support, and can give you feedback on the quality of such services.
- **Local colleges/universities:** Find out if the education institutions in your community are producing graduates with the necessary skill sets to advise start-ups, or if they are good candidates to fill human resource needs of the start-up companies.
- **Professional associations:** If there are professional associations in your community, they can help you assess the number of firms and individual professionals that service early-stage companies. This can give you a starting point from which you can investigate the quality of their services.

Some problems you may encounter

- **Lack of professional support:** Without excellent professional support, bright and ambitious entrepreneurs may struggle to create a solid company, placing your investment capital at greater risk. In addition, investment grade companies are not made up of just one person, the presence of key talent is critical to a successful company.

Recommendations

- **Import or outsource talent:** Depending on the services needed, start-ups in which you invest may be able to fill service and local human capital gaps with talent from outside your community. Marketing and accounting services can be provided virtually, and it may be possible to find legal experts among your diaspora network knowledgeable about local laws. Also, platforms like Angel List allow companies to advertise management positions internationally, so it may be possible for attractive companies to import human capital if necessary. In today's global and highly connected world, this obstacle is getting easier to overcome.

Assessing follow-on funding

Many high-growth entrepreneurs will need funding past the initial angel round. As a result, additional funding sources become essential, if for no other reason than to protect your angel investment. It is important to think through how additional funding needs will be met before launching your angel group:

- Could your angel organization support any and all financing needs, and would this fit with member interests?
- Are there other angel groups nearby interested in deal syndication?
- How many VC funds or PE firms are located in your community or general region?
- Are there smaller VC funds or PE firms that may invest in earlier-stage companies?
- Are there any government, philanthropic, or non-profit organizations that may offer grants or other types of financing for start-ups? If so, what stage of financing do they target?
- At what point in a company's growth will banks agree to provide financing?

Assessment approach and tools

- **Angel associations:** Some of the more developed markets have umbrella organizations, called angel associations, that facilitate networking among individual angel groups. For more information about angel associations, see page 24.
- **Corporations:** Investigate the possibility of mature companies providing partnerships or funding to start-up companies. See if any have worked with start-ups in the past or are likely candidates for partnership.
- **Banking resources:** Talk to your local banks to see if they offer debt and/or other types of financing.
- **Regional VCs and PE firms:** In addition to VCs and PE firms that may be in your community or country, you can also research PE firms and VCs that invest in your region, although they may be less common depending on your location.
- **Philanthropic or non-profit organizations:** If you identify some in your area, try to pinpoint the types of recipients they support and the resources they offer.

Some problems you may encounter

- Lack of above-mentioned sources of follow-on funding.
- Presence of philanthropic or non-profit organizations targeting the same deals and offering better terms than angels can provide (cheaper money, essentially). In small markets, this may reduce deal flow for angels.

Recommendations

- **Build connections with other angel groups, PE firms, and VCs:** If possible, develop a relationship with local groups to take advantage of potential follow-on funding and better screening of early investments through reciprocal referrals.
- **Consider funding subsequent rounds:** If your angel group has the capacity to continue investing beyond the first round, you could grow start-ups in the absence of other funds.

As mentioned before, academic research has demonstrated that many angel investors support an increasing number of companies all the way through exit instead of relying on other investors to step in.[21] Groups can plan for this scenario by deliberately reserving cash—perhaps 100 to 200 percent of the original investment—for subsequent rounds of financing.

- **Evaluate philanthropic/non-profit goals and funding models:** The presence of these organizations may actually complement the goals of angel investors and contribute to a more robust ecosystem. Entrepreneurs often struggle to maintain enough operating capital, as angels tend to provide only growth capital. However, if these organizations can supply grants for operating capital, start-ups can enjoy better footing in the early stages, which benefits angels as well. If philanthropic organizations offer growth capital, like angels, they may focus on a sub-set of entrepreneurs who aim to have specific social impacts in areas such as health or education, which may or may not directly compete with angel investors' investment focus.

"There are no angel groups in Nepal. One group tried and there was a lot of media coverage, but the members did not make any investments. They had very strict investing criteria, and maybe it was not the right mix of people."

—BIBHUSAN BISTA
Young Innovations, Nepal

Assessing regulatory environments

Some countries have more welcoming investment climates than others. Governments can actively look for ways to make investing easier for angel investors, or do nothing about the miles of red tape and disincentives that deter investors and limit start-up growth. You can assess how the regulatory environment will influence your angel group by considering the following:

- Is there a legal environment that allows for establishment and operation of an investment structure preferred by venture capital investors?
- Are investment laws overly restrictive with regard to number of investors, amounts they can invest, proportion of ownership, and ease of entry and exit?
- Do investment laws provide appropriate shareholder protection during disputes?
- Do insolvency and bankruptcy laws provide appropriate balance to creditors and debtors, allow for the speedy resolution of cases, and not place unreasonable obligations on entrepreneurs wanting to re-enter the market?
- Are tax laws and administration relatively clear, or do they discriminate against the typical type of investment and investment structure used by angel investors?
- Are intellectual property regimes internationally consistent, inexpensive, competent, and efficient?
- Do laws and regulations applying to employee share schemes tax or employment impede the ability of fast-growing companies to hire quickly, and grow within a flexible employment framework? This includes the ability to offer alternative remuneration incentives like employee share options.
- Do immigration systems allow skilled professionals and management to be brought into a business from overseas?

21 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg 19.

Overview of angel associations

Angel associations are umbrella groups that provide a wide range of services to angel investors in a particular country or region. They do not get involved with investments or investment decisions, but may:

- Offer implementation support to angel groups
- Collect and disseminate angel industry information to members, lawmakers, and researchers
- Support professional development of members through angel investor education and skill development courses
- Represent the angel industry to lawmakers and promote public policies
- Aim to professionalize the angel industry.

Examples:

- The Angel Capital Association represents more than 200 member groups and 10,000 investors,[23] and provides a voice for **U.S.** angel investors by lobbying for tax credits and exemptions. It also provides professional development tools and publishes industry data through its HALO Report.
- **Europe** has many national associations, with the European Business Angel Network (EBAN) and Business Angels Europe (BAE) spanning the region. Scotland has a particularly active association called the Local Investment Networking Company (LINC), and its members meet every two months to address issues and to share ideas with policy makers. While it began as part of Scotland's economic development agency, it is now a separate non-profit entity with public funding.[24]
- Business Angels Network of **South East Asia** (BANSEA) is based in Singapore but connected to groups in China, India, Thailand, Malaysia, Europe, and the U.S.[25]
- The **Latin America** Association of Angel Investors was launched in 2010 to support angel groups and strengthen the industry across the region.[26]

Assessment approach and tools

- **The World Bank Group's *Doing Business* Report:** This resource evaluates business environments in almost every country. It provides specific information on various indicators, such as investor protections and starting a business.
- **Regionally focused reports and scorecards:** If available, regionally focused research will give you more details than the *Doing Business* Report. For example, the Latin America Private Equity and Venture Capital Association (LAVCA) scorecard provides detailed information about tax laws, shareholder rights, and any restrictions that may affect investors.
- **National and local laws:** You should consult legal experts in your country to identify regulatory issues that could cause problems for your group.

Some problems you may encounter

- **Legal disincentives or lack of incentives for investors:** Some countries have legal frameworks and processes that inadvertently discourage investment or new business creation. Often, this stems from lawmakers not understanding the consequences of such legal frameworks, or a lack of interest in the topic.
- **Not a priority for lawmakers:** Some policy makers are slow to act or to listen to investors, as they know very little about angel investing, while others' attention is focused on more urgent regional or national concerns.

Recommendations

- **Legal registration abroad:** If your angel group is structured as a fund and you are worried about the minority rights protection in your country, look into possibly registering your fund abroad. For more information about investment structure see page 41.
- **Outreach to national associations:** Angel associations typically represent the angel industry to policy makers. If your country

22 http://www.angelcapitalassociation.org/about-aca/

23 Ekos, Economic and Social Development. Finance for Business Growth: Interim Report Two.

24 http://www.bansea.org/index.php?option=com_content&view=article&id=81&Itemid=54

25 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg 152.

or region does not yet have an angel association to fill this role, it may be helpful to connect with established associations to see if they can provide you with general resources or guidance on how to approach various issues.

- **Outreach to other local or regional angel groups:** If there are no umbrella angel associations to represent angel investors in your country, try collaborating with other individual angels or angel groups to take issues to lawmakers. It takes patience and persistence to educate government regulators about the role of business angels, so it helps to join efforts with others.
- **Modify group structure:** It may not be reasonable to expect a productive dialogue with officials in your country. Consult your local legal experts to see what legal and investment structures will work best given your regulatory environment.

Reviewing your assessment

Now that you have completed your community assessment, you should have a clearer idea of the viability of sustaining an angel network in your community. Remember that few communities have all of the above-mentioned traits, but your community should have some clear strengths, such as viable start-up businesses, in order for you to proceed with your angel network. In places where no angel groups currently exist and ecosystems are young, there can be a bit of a chicken and egg problem. You need viable companies for angel investing to be sustainable, but viable companies may not get started in your community if they do not see a chance to access capital. You and the angels in the group must have a strong vision for how local start-ups and the ecosystem can grow, and be willing to invest in that slow process. It is critical that you and your group members are personally interested in giving back to the community, because financial returns will not be immediate.

What if my community is not ready?

If, after this assessment, you feel that an angel group is not viable, it may be better to focus your efforts on bolstering the ecosystem. Since no angel group can exist without quality deal flow, bolstering entrepreneurs in your community should be a high priority. Mentorship is a fantastic way to help entrepreneurs improve their businesses and to prepare them for future financing. Page 64 has more information about mentorship. You can also consider the recommendations listed above to address limitations in your community. As your ecosystem develops, you can always return to this assessment to determine the right time to launch your angel group.

Reasons angel groups fail

Even well designed groups in sophisticated markets can fall apart without the right dynamics. At this point in your assessment, it is important to review the top reasons why angel groups fail. Seasoned experts who have seen groups flounder or fade away cite the following reasons for their downfall:

- No committed champion: no leader to drive the implementation or leader lacks vision and persistence
- Lack of deal flow: fatigue from looking for investible deals in local markets
- Lack of successful exits: lots of investing and no profitable exits.
- Personality conflicts: group leaders have clashes or leaders fail to agree on direction and member growth
- Unsustainable business model: lack of member renewals or sponsorship support so budget cannot be met
- Burn out of key volunteers: energy of group wanes, volunteers no longer have energy to continue support
- External factors: economic recession, industry slump, or political instability that affects a start-up's ability to operate and/or grow.

What were your reasons for starting an angel group?

"We wanted to make money and support young IT companies."

— SAMUEL KAMUNYU, Manifest Destiny, Kenya

"We wanted to support the community and innovation."

— HASAN HAIDER, Bahrain Business Angels Holding Company

"To develop the ecosystem and give back."

— TOMI DAVIES, Lagos Angel Network

"There are lots of interesting start-ups that need support."

— SOPHIE RIVIERE, 2IE Business Incubator

My community is ready. What should I expect now?

If you have determined that your community has some of the important attributes, it is time to move on to the development of your angel group. You should be aware that creating an angel group is a significant undertaking. Creating the *first* angel group in your community or country, whether formal or informal, brings an additional set of challenges, but is all the more worthwhile because it is groundbreaking. Here are some things to keep in mind:

- **You will need patience and persistence.** It may take some time to educate investors, entrepreneurs and other important actors about angel investing. In some countries, champions have worked for one to two years to lay the groundwork for a successful network, and then worked for another several months to a year to close the first deal.[26]
- **You do not need a large group to get started.** Some angel groups were started by just two to four motivated champions, who have been able to gradually rally support from others. Starting with the right people and growing organically is a great strategy.
- **Be flexible: Think of your angel group as a start-up.** You should have a plan, but you will also need to be receptive to the context in which you are operating and the needs of the group. Expect some trial and error and do not fear failure. Experiment!
- **You should have clear reasons for forming the angel group.** Make sure that your angel group's plans include a clear set of reasons for establishing the group and that these reasons fit with prospective member expectations and interests. Consider this when defining the vision, goals, code of ethics, and strategies for the group.
- **Understand why your colleagues are angel investors.** Even more basic than the question of why investors join angel groups is the question of why people become angel investors. Angel organizations can also fulfill the motivations of individual angel investors, which should also be considered to ensure the success of any angel organization. Understanding the psychology of angel investors will bode well in structuring your angel group. According to the Center for Venture Research, the top five reasons for becoming an angel investor are: expectations of high financial reward, to play a role in the entrepreneurial process, to have fun and be involved in an entrepreneurial firm, and to have a sense of community and social responsibility
- **Understanding the risks.** One must also be aware of the downsides of angel investing as it is a high-risk game. Angels typically invest at an early stage, and most start-up companies fail. Angels make their money on the small percentage of companies that are successful, and compensate for all the failed investments. Return on investment can often take from six to eight years, if it happens at all. This seemingly negative discussion is not intended to deter your endeavors to establish an angel investment organization but to ensure a good foothold in reality.

26 Center for Venture Research, 2003. Survey of angel organizations in the United States.

Bahrain Business Angels Holding Company

Bahrain's first formal angel group, the Bahrain Business Angels Holding Company, launched in 2011, thanks to the persistent efforts of Hasan Haider. As a successful entrepreneur, Hasan was aware of the innovative start-ups in his country and wanted to create an angel network to help them grow. However, finding willing investors was difficult. The concept of angel investing was new and even the name–angel investing–did not translate into Arabic. People he approached mostly did not understand start-ups and their technologies. Investors were skeptical their investments would pay off.

To get more traction, Hasan realized that the angel group would have to broaden its investment focus to support innovative entrepreneurs in other industries, not just in technology. He also highlighted that an angel network, by investing in local human talent and creating jobs, could benefit the community and innovation in Bahrain, which appealed to investors' desire to give back. Hasan invited investors to pitch events to learn more about the companies and to meet entrepreneurs. Although initially hesitant to write checks, investors eventually decided to take a chance in the interest of supporting the local community.

"There should be an emphasis on getting a core group and just starting. When you have an impact, others will follow. Lead by doing. Sit with angels and entrepreneurs and see what they want and how they feel."

— HASAN HAIDER
Bahrain Business Angels
Holding Company

After the initial investments, the network began to solidify. The more that investors interacted with entrepreneurs the more they became invested in the success of the companies, and the more time they donated their time as mentors. Investors also started recruiting friends and professional contacts to join the network, which has now grown to 16 members and three full-time staff. In all, it took Hasan about one year to set up the network and another six months to make the first investment. Thanks to several events and word-of-mouth, the network's visibility has grown in just two short years. The group was worried about deal flow at first, but it received 60 applications right off the bat. The angel group's investment recipients are now ready for their second rounds of funding, which may be difficult since there are no VCs in Bahrain. However there is a chance a foreign VC may be interested in their companies, although a merger or acquisition is the most likely exit.

Building the framework for your angel group

Now it is time to select the right organizational, management, and membership structure for your group. This section will lead you through several decision-making steps so that you can select an organizational structure that is appropriate in your local context and is based on the goals and preferences of your prospective members. Remember that nearly every decision you make can affect previous assumptions or decisions. As such, continue to challenge your previous choices or decisions for fit and appropriateness with each step. Keep in mind the following:

- **There is no one best model for angel groups.** The angel organization "industry" is still young in many respects, and only limited global research and evaluation have been conducted to date. As a result, one cannot draw any conclusions about the superiority or success of one particular model. In fact, anecdotal evidence suggests that many models have been successful.
- **Form must always follow function.** Do not choose a particular legal model or management structure and then try to shoehorn your members into a model that does not fit their interests or investment orientation. Let your members' interests and comfort levels guide your ultimate decisions.
- **Remember to be flexible.** As much as you would like the process of angel group development to be straightforward, your willingness to listen to input and adjust previous assumptions will bode well in creating a successful organization. Keep in mind that you may need to adjust your model over time to accommodate a larger membership or new strategy.

Decision Step #1

Determination of membership and culture

Nearly all angel groups have established membership criteria. In countries that have accredited investor definitions, membership is usually limited to individuals who meet the criteria. Most countries, however, have no such parameters, and membership requirements are left to the founders to decide. This section will walk you through the numerous factors to consider when determining membership criteria for your group:

Desired culture

Never underestimate the value of defining your group's culture. This is especially important if you are establishing the first angel group in your community or country, as your network may set the tone for future angel groups and ecosystem actors. Keep in mind that people are attracted to a group to not only find investment deals, but also because they identify with group goals and objectives, existing members, group reputation, and group dynamics. To achieve your group's ideal culture, consider how your group structure and membership-selection process and criteria will influence members' interactions and, in turn, the group's personality. The group champion and founding board should spend time discussing and articulating values.

"A group has to define its purpose. All members have to believe in the founding principles for the group to be sustainable. Many people speak of angel fatigue, but it is usually due to a misalignment of interests among members and leads to the group falling apart."

—NELSON GRAY
Archangels, Scotland

Archangels, a group based in Scotland, attributes the group's ability to remain active for more than 22 years to its strong culture and commitment to its core values. Its members share a vision and rally around four main goals: 1) to give back to Scotland by investing in young people and companies, particularly those in science and emerging technologies, 2) to look for investments where they could add value by passing on their own business experiences, 3) to have fun, and 4) to make money. These principles orient the group during decision-making processes and reinforce shared values among the members.

Setting cultural aspirations can be easy but preserving them is more difficult. This can be accomplished through:

- Clear articulation of culture in membership documents and on group website
- Regular reminders to members
- Keeping your culture in mind when considering other types of membership such as sponsors or VCs
- Designing meeting agendas to achieve cultural goals
- Membership limitations
- Internal communications plan that ensures all members are regularly informed and involved in group activities

Membership numbers

- **Small groups (less than 15 members):** Groups often limit membership, if for no other reason than to maintain a desired culture. Intimacy and frankness of discussion may

be overriding goals that naturally limit the number of members. Limited membership can also preserve cohesiveness. Group size should also be compatible with your investment structure. If you aim to establish an angel investment fund with upfront fund commitment, you will want to set a defined size for the fund and a minimum investment per angel investor to give members an understanding of the intended fund size.

- **Large groups (from 16-100+):** On the other hand, many groups find advantages in large numbers. By combining many individual networks, members may enjoy better deal flow, opportunities to make larger deals, and a greater pool of resources in membership skills and backgrounds. However, the larger the group, the greater the associated expenses in terms of communications, need for formality of operations and structure, and meeting logistics. You may be able to leverage membership dues and greater access to sponsors to cover those expenses.

Geographic location of members

Traditionally, angel group members invest close to where they live. Geographic proximity promotes closer personal ties among group members and allows investors to closely monitor and mentor investees. Technology, however, now makes it possible for meetings, pitch sessions, and mentorship to happen virtually. Some angel groups are challenging the notion that all members have to live nearby and invest only in local companies. If your group has limited deal flow or members lack certain expertise, it may be beneficial to have members located elsewhere who can connect the group with new investment opportunities and fill skills gaps. On the other hand, if members do not know each other very well, it may be difficult to build trust among members through email and video chats, not to mention that it will be harder for members to develop relationships with entrepreneurs. Consider how much face-to-face interaction your group will need with each other and with investees when deciding membership criteria and meeting schedules. You can always test out a hybrid approach with some in-person sessions and some virtual sessions until you find what works best.

Member expertise

Functional expertise and/or industry experience may be important membership criteria. Most groups have members with a mix of backgrounds and professional skills such as management, finance, marketing, human resources, or research. Such diversity of professional backgrounds can be critical in conducting due diligence on potential investment opportunities. If your group decides to have a specific investment focus, make sure your community has adequate interest and entrepreneurial base to support this.

Indian Angel Network

When the Indian Angel Network (IAN) launched in 2006, it looked like any other small, newly formed angel group. As IAN was the first formal angel group in India, its Delhi-based founders had no local template to follow. The group tested various operational models and discovered that some approaches common in the U.S. and Europe did not fit well with Indian culture. After some trial and error, the group adopted some new practices and eventually started to enjoy fruitful investments. Their success attracted attention from other angel investors across the country who wanted to invest with the network. The group was open to including new members, but the distances between cities were not conducive to in-person meetings. To remedy this, the group held virtual meetings and pitch sessions for members outside Delhi. Eventually new chapters opened across India, and the members continued to share deals and due diligence virtually. IAN's membership grew to more than 250 angels across the country.

To manage the rapidly expanding growth, IAN's leadership adopted a *glocal* model to leverage local relationships and global expertise. Members who are geographically close to deals are responsible for due diligence regarding the management team, and for mentorship and monitoring the business. Members from other cities collaborate on technology diligence, industry knowledge, and by providing global connections. Pitching happens via video conference, as well as due diligence and contract negotiations. Investors enjoy this model because it allows them to diversify outside their own local communities. The group achieved another milestone in 2014 when it opened a chapter in London, its first outside of India.

Gender considerations

Women are often under-represented in angel groups, even when they make up nearly half of the top wealth holders in countries such as the U.S. and the United Kingdom. In 2010, women comprised just 15 percent of angel investors in the U.S. and only 5 percent of angel investors in Europe.[27] This is unfortunate as angel networks have much to gain from diversifying their membership. The diversity of expertise and perspectives can reduce risks and generate better returns for the group. Research from the European Business Angel Network (EBAN) suggests that women angels help groups widen their sector focus beyond technology and tap into new sources of deal flow. Researchers also point out that women approach due diligence differently than men, often asking more questions and digging deeper into financial projections.[28] As mentors, women bring a different set of experiences and business connections to the table, which strengthens resources available to entrepreneurs.

If your group aims to increase gender diversity among its members, be conscientious of factors that may encourage their participation. Researchers suggest that women entrepreneurs are less likely to seek external financing than their male counterparts,[29] which may contribute to low awareness among women about the risks and rewards of angel investing. If this is the case in your community, be sure to highlight the educational offerings your group will provide to members to enhance knowledge of angel investing practices. Researchers also point out that angel network structures and requirements may be incompatible with women's schedules as women may have family duties and require flexible options to attend group meetings.[30] Some groups solve this by having lunch meetings, allowing virtual participation, or by recording pitch sessions and allowing members to watch and provide comments later.

27 EBAN White Paper, Women & European Early Stage Investing, November 2010.
28 EBAN White Paper, Women & European Early Stage Investing, November 2010.
29 OECD, 2011. Financing High Growth Firms: The Role of Angel Investors. OECD Publishing, pg. 65.
30 EBAN White Paper, Women & European Early Stage Investing, November 2010.

Open membership versus by invitation only

"Be careful of open groups if too many people are sitting around and not making any investments. That can give the impression that entrepreneurs can't go to you because your group doesn't do deals."

—BEN WHITE
VC4Africa

- Most informal groups start organically, with members self-selecting into the group based on social ties and interests. They are generally open to including new members from personal and professional networks. As the group takes shape and sets goals, members then decide if they would like to continue growing in a similar fashion, stop taking new members, or institute a formal invitation and screening processes. Few established groups continue open membership policies.
- Formal groups usually have membership committees, with responsibilities for member recruitment and selection, and member relations. In some groups, potential new members will need to be recommended or sponsored by existing members. With few exceptions, angel groups require members to complete membership applications, which typically contain the organizations' code of conduct/ethics. Most groups require annual renewal of membership, with the pledge to group philosophy and conduct requirements. Ensure that membership-recruitment objectives and requirements are clearly communicated to all prospective members.

Membership tiers

Some groups have tiered membership structures with certain benefits and restrictions for each category. In addition to standard individual membership, affiliate and sponsorship memberships can benefit the group:

- **Affiliate membership:** If there are VCs in your country, you may consider offering affiliate memberships to VC representatives as a way to access and share deals. You can offer a range of member rights, from only attendance at meetings to full participation rights in any deal. Whether or not a VC fund or sponsor is a voting member of your angel group is an individual choice; take care that if voting rights are given, control is not inadvertently shifted away from the angel members. Sharing deals may be a disadvantage for some, as the VC could scoop good deals out from under the group. These concerns can be alleviated to some extent by requiring VC funds to share deals in order to be members. You can also offer affiliate memberships to students or young professionals who may be interested in observing group activities. This is a great way to strengthen ties among various groups in your entrepreneurial ecosystem.
- **Sponsor memberships:** Sponsor members, who are typically professional service organizations such as law and accounting firms, can benefit an angel group by paying for some of the operational or event-related costs. Sponsors are generally not provided memberships but rather allowed to attend meetings for the benefit of finding potential clients. The challenge is allowing attendance without your group meetings turning into a networking event for service providers. Some mechanisms to assure meeting focus include limiting the number of sponsors and sponsor representatives at each meeting and controlling membership lists and correspondence. Benefits that may be provided to attract sponsors include introduction of guest speakers, opportunity to conduct member-training sessions, sponsorship of the angel group's website, and placement of

marketing materials and spiffs at meetings. After the next section on diaspora investing, this guidebook will discuss costs and the options for coverage in more detail.

A note on diaspora investing

Diaspora communities are a source of pride and financial resources for many emerging economies and an important population for angel groups to consider when seeking members. Countless studies have highlighted diaspora economic might, with an estimated $401 billion in remittances flowing to developing countries in 2012.[32] Contributions "back home" are not limited to just family-bound remittances. A 2013 *info*Dev survey of high-net worth Caribbean diaspora in the U.S., Canada, and the United Kingdom revealed that private sector investment is also of interest to diaspora. In the Caribbean, one in ten diaspora invests in a business venture of some form, with up to a quarter of their investments made in the Caribbean.[33] When asked what types of venture investments they preferred, start-ups ranked first among other types of venture investments, such as small and medium enterprises (SMEs).

Of course, not all diaspora groups are eager to invest in risky companies halfway around the world. Just as you would seek out angels in your local community who have non-financial motives, try to connect with diaspora that have a particular interest in giving back to their home country. Diaspora who are entrepreneurs themselves are a good place to start. If diaspora are hesitant to write a check, see if they will commit some time through mentorship. *info*Dev's survey found a relatively high interest among diaspora in mentoring individuals in the Caribbean—68 percent were positively inclined to mentor and 80 percent of those were willing to spend more than one hour per week mentoring.

With these considerations in mind, angel groups in emerging markets can approach diaspora with an attractive value proposition and a bit of patience. Long-distance investments require a high level of trust and assurance of local oversight, both of which in-country angels can provide, in addition to identifying local deal flow for angels living abroad. In return, affluent diaspora can fill important mentorship gaps that exist in many emerging ecosystems, and provide access to international markets.

"I found that you should not make any assumptions with diaspora. They are not necessarily going to be interested. The ones that were the most interested in investing in start-ups were the ones that had built businesses in Pakistan and knew the environment. At first nothing was on the ground, but now that there is and we see more interest from the diaspora."

—Kalsoom Lakhan
Invest to Innovate, Pakistan

31 Aga, Gemechu Ayana, Sonia Plaza, et al. 2013. Migration and Development Brief, Migration and Remittances Unit, Development Prospects Group, World Bank.

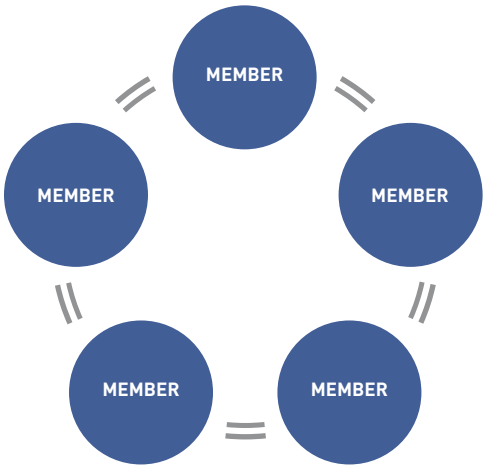
32 Diaspora Investing – The Business and Investment Interests of the Caribbean Diaspora. 2013. *info*Dev, Finance and Private Sector Development Department. Washington, DC: World Bank.

Decision Step #2

Organizational structure

Member-managed

By its very description, a member-managed (or member-led) organization requires active member involvement in nearly all aspects of operation. Member-led organizations usually hire administrative support to handle matters such as member communications, meeting coordination, and database maintenance.

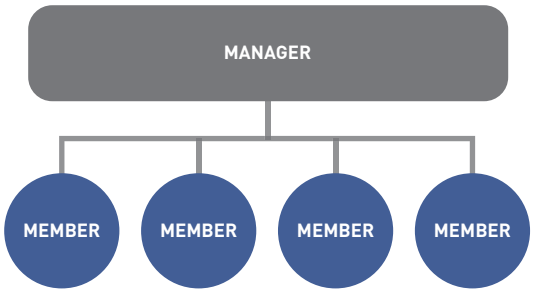


Pros: Greater connection of members to group and deal screening, member recruitment, etc.; involvement provides for hands-on education for members, lower operating costs.

Cons: May require significant time commitment of members; potentially inconsistent operations.

Manager-managed

In contrast, a manager-managed (or manager-led) organization employs the services of an individual(s) with experience and background in the investment process and/or in the industry in which the angel organization intends to focus its investments.



Pros: Professional operation; screening and investment activities conducted by experienced management; manager handles member relationships.

Cons: Operating costs are higher to cover professional management cost, benefits, office space, and admin support.

Typically, a manager does the following:

- Much of the up-front work while vetting possible deals
- Conducts initial interviews with companies
- Coaches entrepreneurs for presentations to the group
- Handles member communications and relationships
- May make recommendations on investments and negotiate investments on behalf of the organization.

The manager does not have authority and control over all investment decisions. Instead, a manager handles the group's processes so that members can focus on investment decisions. Keep in mind that even with active member participation, a manager may still be appropriate, particularly with large groups (more than 75 members); many groups with actively participating members have executive directors, and nearly all have some type of administrative support. Both manager-led and member-led structures are popular among angel groups. Historically, the member-led model has been more predominant, but research by the Organization for Economic Co-operation and Development (OECD) showed that in 2011 more than 50 percent of groups had opted for manager-led model.

Example of member-led organizations

A member-led structure works well for a Cambodian angel group, as members did not want the additional overhead of a management team. The members are actively involved with every step in the decision-making process, as a more hands-on approach is preferred in their community. The business incubator, Emerging Markets Entrepreneurs, and a few angel group members lead the management of day-to-day operations, interacting with potential investees. Meetings occur as needed, depending on the deal flow. All steps of the investment process are done by members, including deal sourcing, deal screening, and handing administrative tasks.

Through active participation and good governance, members feel confident that they can preempt problems that may otherwise slip through the cracks if decisions were left up to a manager. While not having a manager keeps operational costs down, members admit that processes can move more slowly at times. The members are experienced investors, bankers, and entrepreneurs, mainly from the West, who are knowledgeable and active mentors. A few members are also actively involved as mentors in the business incubator, which provides further continuity to the angel group.

Example of manager-led organizations

An excellent example of a manager-led organization is Angel Ventures Mexico. A small group of friends from the Massachusetts Institute of Technology (MIT) launched the group in 2008 with financial support from friends and families. The founders decided that a manager-led structure suited the group, as most members were busy senior executives from multinational companies, just being introduced to the technical aspects of angel investing. Having a manager to shoulder operations and to coordinate due diligence with experts seemed more efficient and easier. Also, working with high-net worth individuals comes with security concerns in certain parts of the country, so it is beneficial to have a manager dedicated to setting up small meetings to brief investors on potential deals.

TIP

Finding the right manager

If your group decides on a manager-led model, you should carefully consider the desired manager attributes. Cohesiveness between the manager and your angel group can be the single most important factor in the success of your organization. While a finance background is certainly important, your manager should excel at working with high-net worth individuals as well as entrepreneurs. Great listening skills are necessary. Other important skills include:

- High level of personal integrity and responsibility
- Business expertise and savvy
- Financial intuition
- Motivations parallel to those of the group
- Domain or investment-focus expertise
- Organizational skills and diplomacy
- Leadership qualities.

Interestingly, these skills are also important in entrepreneurs, and should be part of your due diligence review of management. Remember that a manager is more than administrative support. The manager should be a leader, coordinator, decision-maker, and spokesperson for your angel group. Many angel groups prefer to retain these roles with members and many chose to employ an executive director, who typically handles member relationships, communications, and other operational matters, but plays a minimal role in the investment process. Certainly, some of the skills listed, particularly the second half, would be valuable skills for an executive director. Many groups may have only administrative staff to coordinate meetings and communications. All other functions are left to members. Any of these models is perfectly acceptable and viable; the final choice depends entirely on your needs and member interests.

Of course the group faced the challenge of making it economically feasible to have a professional manager, and they jokingly called their for-profit organization an "unprofitable for-profit" in the beginning. But, the group eventually gained sponsors such as Price Waterhouse Coopers (PWC) and Santander, and started a boutique consulting arm to generate income for group operations. Now the group supports 15 staff (25 if you count interns) who manage 200 members across seven chapters in Mexico, Colombia, and the United States.

Stand-alone organization versus integration with entrepreneurial organization

While some angel groups prefer to be stand-alone entities, others opt to be based out of entrepreneurial organizations, such as incubators, accelerators, tech parks, business schools, and public agencies. In such cases, the partner organization often provides event and/or office space, and may share overhead and operational costs. Some administrative staff even split their time to support both entities. This is an attractive proposition for new angel groups to minimize start-up and operational expenses. Sometimes the relationship happens in reverse, where an entrepreneurial organization leads the development of an angel group to increase chances for incubated companies to find funding. No matter the origins, there can be a downside to this arrangement. One of the biggest disadvantages is that the partner organization might expect the angel group to invest regularly in its incubated start-ups. If the deals are not attractive to the angels, there could be some tension between the groups. If your group decides to pursue this option, ensure that both sides have a clear understanding of how investment decisions will be made and how resources will be shared. The angels should be free to invest in the best deals in the market.

The stand-alone option works well if your group has the resources to cover costs, or does not mind bootstrapping in the beginning. In certain communities, it may be the only choice. This option allows the group to have more control over its branding, and it certainly motivates members to focus on group sustainability! To a certain extent, these groups can negotiate with sponsors and get many of the same benefits enjoyed by angel groups embedded in entrepreneurial organizations. For more information, see page 43 about funding your angel group.

Panama: linking angel investors with an accelerator

Panama's entrepreneurial ecosystem grew in the early 2000s with the establishment of incubators and university-based entrepreneurship centers. However, access to capital remained a challenge for entrepreneurs. Concerned by the lack of capital and with support from the Multilateral Investment Fund (MIF), an established accelerator, City of Knowledge, conducted a study on the state of start-up financing in Panama in 2007. The study found that Panama had no seed capital, no refundable or non-refundable aid, and no entrepreneur or angel investor capital. The only capital that entrepreneurs could access was through personal networks.

Manuel Lorenzo, former software entrepreneur and manager of City of Knowledge, and a team of six entrepreneurs, executives, and potential angels decided to change the status quo by creating Panama's first angel investor network. They weighed various options, and eventually decided to create a fund where all members were committed to providing capital and investing together.

"We saw that, given the limited risk investment culture in the country, it was better to have a fund rather than an open platform. We wanted to avoid a scenario where one person would back out of a deal and cause the others to follow. We had seen that happen in other countries and we wanted to avoid it."

—Manuel Lorenzo

The founding members also decided that the angel group would be integrated into the City of Knowledge's organizational structure. Both entities would share management, staff, and overhead costs, which would greatly reduce start-up and operational expenses. The angels could also count on City of Knowledge to ensure investment readiness of companies selected for presentations, as all companies that reached out to the angels would be redirected to the accelerator. The accelerator generated sufficient funds to support operations by holding forums and promotional events. There were drawbacks, however; staff could not focus exclusively on the needs of the network, and group members may not have been as driven to become sustainable. There was also a risk that the group would not receive deal flow from outside the City of Knowledge due to its close linkages with the accelerator.

"At first we were very picky and we missed opportunities that we now regret. For example, in 2009 we passed on a company that was bought by Groupon seven months later, and for a very high multiple. This happened two or three times. We were not very successful, but gradually we learned that we had to take risks."

—Manuel Lorenzo

Manuel and his team officially launched Venture Club in 2009 with 35 investors and $1.5 million to invest in six companies. Most of the members were between 40 and 50 years old, had studied at American universities, and were knowledgeable about venture capital in Panama. The core team consisted of two technical directors and one business support person. For all of their training, however, they initially struggled to take risks.

By 2012, Venture Club had screened more than 275 deals, pursued due diligence on 40, and invested in five. With a few deals under their belts, they set a new target to attract new members for a second investment vehicle, raising $10 million, and making a total of nine investments.

Decision Step #3

Legal structure

Multiple legal structures work for both member-led and manager-led organizations. The preferred structure will again depend on your group's desired complexity and level of member involvement, as well as appropriateness for your community. Member familiarity with a particular structure and the angel group's goals may be factors in a legal structure choice. The currently prevailing angel organization legal structures are:

Affiliations may be best for:

- Small groups (fewer than 15)
- Getting started, before membership is fully identified and there is uncertainty about group desires and needs
- Each member desires to remain independent in all aspects of the investment process.

Affiliation without formal structure

A loosely affiliated organization is appropriate for member-led groups, particularly those with similar numbers of members and/or early in their operation. Informal groups usually work well with up to 15 members, when more structure is needed for basic operations. Part-time administrative staff may be helpful to handle matters such as member communications and meeting logistics. Generally, these groups have regular meetings, with all investment decisions made on an individual basis. Members usually are active in all aspects of the group, from screening business plans to membership recruitment.

Obtaining financial support for informal groups can be challenging, depending on the desired level of sophistication. Costs can include items such as member communications and information management, meetings, and due diligence. Typically, members should cover costs; the advantage is that costs are usually relatively low because of the lack of formal structure and limited membership. No particular documentation is necessary, but the group may wish to have some agreement or code of conduct between members requiring that they respect one another's confidences. Additionally, decisions regarding membership should be made through group consensus to maintain the desired culture and intimacy of the group.

Affiliations work well as a first step to introduce the concept of organized angel investing to a community. Individuals may have trepidations about plunging into a highly structured organization or actual angel fund, and they may prefer to build up trust levels before developing a more formal organization. Similarly, some investors are fiercely independent and private about their investment decisions, and while they appreciate and enjoy group camaraderie, they consider the actual investment choice and process to be their own business. For these investors, an affiliation is a good choice.

Kenya has many affiliations, known locally as "chamas." These groups typically start organically among a group of friends or professional colleagues and generally have four to twelve members. While most traditional chamas invest in real estate, some groups with a higher risk tolerance have started to invest in Kenyan start-up companies. These groups tend to have a mix of entrepreneurs and individuals who work in strategic sectors, such as IT. They enjoy working with local entrepreneurs and can bring industry expertise to the investments. One of the main advantages of the informal affiliation structure is that it provides flexibility to members as the group forms. Members can focus on making deals and developing group dynamics without worrying about formalities. As the group matures and enjoys successful investments, members may decide to register as a formal limited liability corporation (LLC) or as another for-profit entity.

Non-profit corporation

Many organizations that start out as informal groups to test member interest will migrate toward a more formal structure. As discussed above, this is particularly true when the group grows and adds members. The non-profit corporate structure normally allows for the establishment of formal decision-making processes to handle group dynamics and operations through a governing board. The non-profit structure usually facilitates the establishment of bank accounts and hiring of staff and enhances the group's ability to enter into contractual arrangements.

It is important to note that laws defining and governing non-profit organizations vary from country to country. Generally, however, the term "non-profit" refers to organizations that are either mutual-benefit entities that exist for the benefit of their members, such as private clubs, or public-benefit entities. Non-profit organizations may be tax-exempt if they meet specific requirements. In the U.S., requirements can be restrictive for those intending to invest through the group organizational structure. On the other hand, tax-exempt status is well suited for groups in which individual members make their own investments outside the group structure. In this case, the angel group exists to promote the group's purpose or to educate its members on angel investing. A non-profit would be appropriate for a fund or group that intends to invest though a separate legal entity, since non-profits cannot provide shareholder benefits in most cases. Check with your local and/or national laws to learn more about the benefits and limitations of setting up a non-profit in your country.

The Bedaya Angel Network in Jordan is an excellent example of a non-profit organization. Its founders, former entrepreneurs who were involved with the iPark incubator in Amman, launched the network in 2010 after they realized that entrepreneurs were having trouble finding financing between $30,000 and $250,000. The founders wanted the angel network to help companies grow and create new jobs for the betterment of the local economy. Given

Non-profit angel groups are best for:

- Nearly any group other than an angel investment fund in which members share in investment profits and losses through the fund structure
- Angel funds whose group operations may be supported through a non-profit structure, and investments can be made through separate legal structures such as one or more LLCs.

this publicly-focused goal, and the existing non-profit structure of the incubator, the founders decided that the network should be structured and managed under the iPark framework. In this arrangement, the groups facilitate deal sourcing, deal screening, and match making events, but allow the angels to make investments on their own. Since its inception, the Bedaya Angel Network has grown to include 20 members who meet for match making events every two months.

For-profit structures are best for:

- Angel investment funds, although the structure can be used for any angel group. This structure typically has a more complicated tax structure, so if your group intends to have individual members make their own investments in portfolio companies (no pooled or combined funds for investment), a simpler structure such as a non-profit corporation may be best.

For-profit company

For-profit structures and the laws that govern them vary from country to country. They are generally more complex in operations but offer flexibility and benefits that non-profits cannot provide. This structure typically allows both individuals and entities to be members. Most countries offer tax benefits to for-profit companies, such as being taxed as a partnership. A for-profit company will work well for angel groups that require an up-front commitment of capital from members and then make investments through the fund (as opposed to individual investments). Thus, it can function as the operational structure as well as the investment vehicle. Employees may also receive the legal benefits of a corporate shield. A corporate board of directors usually governs this type of organization, providing operational oversight, strategic planning, and approving certain organizational matters. A for-profit structure suits both manager-led and member-led organizations.

Manifest Destiny Ltd. demonstrates the success of a limited liability company (LLC) in Kenya. The group was formed by friends who believed that wealth creation requires a long-term investment outlook. The group started as an informal "chama" in 2008 with a capital base of 100,000 Kenyan shillings. Since then their investment portfolio has grown to a net value of around Kenyan shillings 25 million, and the organization has evolved to keep pace with the growth of the business.

Recently, the members decided to formalize their organization as Limited Liability Company to be eligible for sponsorship and to broaden its investment base. The group has a pooled investment structure, so the LLC structure made sense. Manifest Destiny has a full time investment officer who coordinates day to day activities under the direction of a four-member board of directors. For deal sourcing, Manifest Destiny looks to local innovation hubs such as mLab (mobile lab), iHub, online platforms, and local angel forums that gather investors and technology entrepreneurs. Members participate to varying degrees in due diligence, investment terms negotiations, and post-investment relationships. Their current portfolio holds investments in IT-related companies, a publishing house, and real estate.

Decision step #4

Investment structure

Individual investment

- Based on group due diligence, individuals can decide if a company fits their investment criteria and portfolio. They can invest directly and individually or with other interested angels through a single investment vehicle, such as an LLC. The basic difference between these approaches and the pooled funds approach is the understood intent and the group's investment process. With a pooled fund, group members understand that investments will be made through a group decision process, with pooled or combined funds invested into the portfolio company. On the other hand, even with group due diligence, an individual investment structure allows each angel investor to make his or her own decision for investment. From this individual decision, based on group (or individual) due diligence, the group can always decide to combine their investment amount into a single investment. Keep in mind that local financial regulations will vary. Check with legal experts to understand more about individual and group investment mechanisms in your city or country.

Group investment

- **Pooled funds** with each investment: Some groups combine the financial power of individual investments into a group or pooled investment, giving the group collective negotiation power. Angel groups that decide to pool funds also need to make a decision on how to manage 'idle' funds between deals. Investment pipelines in emerging countries have their cycles. There will be periods when there are no good deals. Sometimes, even when good deals are identified and funds committed; processing transactions—especially those relating to land—can take a very long time to execute. The group can choose to leave the money in a current account or participate in short terms deposit accounts. Again, be sure check with local legal experts before deciding to use pooled funds. This option is not permitted in some jurisdictions.

- **Pledged** or **committed funds** invested by group decision. The group invests a defined amount based on a majority decision. The investment amount can be decided by vote of committed and pledged fund members or by individual members. Additionally, the manager can recommend an appropriate investment amount based on company analysis. It is uncommon for groups to require a unanimous affirmative group vote for investment. Even with group investments, most organizations allow members to make additional, separate investments in companies chosen for group investments, and anyone is entitled to make an investment in companies not chosen for group investments once the decision is final and made public.

Pooled funds: A process in which individual members make their own investment decision, and then the group combines all member dollars into a single investment.

Pledged funds: A member commitment of a certain dollar amount, but the money is not transferred to the angel group organization until needed for investment. The amount invested can be a group decision of an investment amount, or a group may allow individuals to decide personal investment amounts, with the latter having an annual investment requirement.

Committed Funds: Members place their investment amount in the fund upon membership acceptance, or in stages and timed quantities for cost coverage and investment purposes.

Sidecar funds

A sidecar fund is a fund through which individuals, groups, and institutions can invest passively alongside angels. Just as a passenger in a motorcycle sidecar puts trust in the rider, investors in the sidecar fund trust in the due diligence and decision making of angels who handle the fund. A sidecar fund gives angels the ability to invest more money than what the group can afford by itself. It can also boost the angels' negotiating power with other institutional investors in later investment rounds. Investors in the fund also benefit, as they might want exposure to risky asset classes, but do not have the confidence or ability to invest on their own. Many groups use sidecar funds, such as Angel Ventures Mexico. The group previously raised $20 million USD through this vehicle, with investors from the Multilateral Investment Fund, the Mexican government, and other high-net worth individuals.

If your angel group decides to have a sidecar fund, be sure to outline how it will be invested and governed. It is a best practice to have the investment decisions for the fund mirror those of the angels in your group. This gives confidence to the fund contributors that their money is being invested alongside that of experienced angels. Some groups have a formula to determine when to invest the fund, such as when a minimum number of angels in the group are investing. Your group should identify a group, such as a committee of member or the board of directors, to oversee decision-making for the fund. Of course, there may be conflicts of interest between individual angels and the decision-makers. It may take some trial and error to determine the best way to manage such conflicts, but you can temporarily try removing conflicted individuals from the fund decision-making committee, or allowing your angel group leadership to weigh in on the problem. Sidecar fund investors usually pay a management fee to help cover the costs associated with its management.

Decision step #5

Funding your angel organization

The costs associated with operating your angel group will vary depending on your group's size, structure, and services you provide to members. To calculate your group's revenues and expenses, use the worksheet in Appendix 1. Having an estimate in mind will help you determine how much, and what type, of funding is appropriate for your group to ensure sustainability. As with many organizations, funding an angel group adequately can be challenging at best. This section explores the following options to give you a sense of your various funding options.

Membership dues and/or investment pledge

Members should expect to pay some type of dues to cover the group's operational costs. It is unrealistic to expect members to continually donate materials or volunteer administrative and other support services. Most groups with tiered membership have higher membership fees for VCs and other entities. You can also have different fees for members outside your regional area (if accepting such members) and providing for their attendance at some percentage of total annual meetings (with corresponding reduction in fee). Membership fees depend on costs and other sources of revenue, as well as membership fee tolerance. Members should be involved in the decision making of type and amount of dues.

If membership dues are the sole source of funding, they must be set at an amount sufficient to cover all contingent costs and allow for a modest reserve. Annual membership renewal and dues payment will help with budgeting. Also, rather than having rolling renewal dates for members, choose a fiscal-year structure and have annual renewals some time before the start of your next fiscal year. For members joining mid-year, you can offer a percentage discount on dues to encourage membership.

"We probably should have charged a membership fee from the beginning. We were free for the first year because we could afford it with a grant from the United States Agency for International Development, but now it is hard to get members to pay. We are discussing a transaction fee to cover event fees and operational costs. We have been successful finding sponsors to provide venues and coffee breaks for our events. It is not costly for them."

— WISSAM RABADI
Bedaya Angel Network, Jordan

Percentage of committed capital or pooled funds

Angel funds in which members are required to commit capital up front typically have a portion of the committed capital allocated to cover operational costs. Along with the industry standard 2 percent to 3 percent to cover management costs, staff can be compensated to maximize investment value and return by directing a percentage of the deal (referred to as the "carry") to them. In countries with accredited investor status, there may be a problem if the carry is given directly to staff-members who are not accredited investors. The discussion on limited partnerships under Legal Structure offers one structural alternative to resolve this problem. Your lawyer can recommend other solutions, including a possible LLC.

Another form of "percentage of committed capital" is to allocate a portion of the group's specific investment commitment to cover operational costs related to investments. This can be a bit complicated but, arguably, fairly allocates expenses. The mechanics would be that after individual members make their contribution to the group investment, but before the actual investment is made, a percentage of the investment amount is carved out to cover related costs. Problems that can arise from this approach that must be considered include:

- The possible need for a separate legal entity for each investment, since members for each investment will be different (although some groups already successfully use this model.
- No one invests after expenses are incurred, but they still must be covered. This is called a "broken deal fee."
- Disagreement as to the value and time contributed by staff and, even possibly, other members. This issue is coming up with more frequency as member-led groups struggle with how to encourage members to volunteer for the time-consuming task of due diligence. A possible solution is to offer these members some form of compensation. Since cash is usually not appropriate, offering a percentage of the group investment or warrants (if the company is amenable) may be a good solution, but this takes advance planning and group agreement.

Sponsorships

Sponsors can be an effective and significant source of funding, as long as the group ensures that member meetings maintain their focus on member needs. It is important to control the number and nature of sponsors and representatives. The Group Operations section contains parameters for sponsorship and its benefits. Remember, however, that service providers do not sponsor an angel organization or any other group/event just to be good citizens. Budgets are often tight, and sponsors need to have some return for sponsorship dollars.

One caveat: many professionals are also high-net worth individuals and qualify for membership. An individual's professional background should not prevent membership; otherwise, your membership numbers will be limited. However, all members should understand that meetings are for evaluating investment opportunities and not selling services. Some groups have gone to the extent to include rules that prohibit members actively soliciting other members during meetings.

Events and programs

Investment and educational forums can be an effective mechanism to introduce promising new companies and educate the public. Events are complex and time consuming and you should recognize this. They can include public educational programs. Some nonprofit organizations use investment forums as a source of group funding, which can work particularly well in a community with unmet needs to match investors and entrepreneurs or in which the angel organization has a strong presence that attracts investors, presenting companies, and sponsors.

Company fees

In developed countries, some organizations charge selected companies for the right to present at a member meeting. Most are willing to pay a reasonable amount for the privilege of exposure to a group of potential investors. However, the amount should not be so large as to drive good companies away or raise possible issues of broker-dealer status for the angel group. Some groups also charge a small administrative fee to all applicants. This amount helps cover the administrative activities associated with processing applications.

Grants

Some governments and international development organizations provide grants to cover the start-up and short-term operational costs of angel investing groups. In Europe, start-up subsidies are common. Grants from the U.S. Department of State, United States Agency for International Development, and the European Union have played an important role in helping angel groups get off the ground in countries such as Jordan, Bahrain, and Serbia. Although these angel networks must rely on alternative sources of funding to sustain long-term operations, the initial grant funds can help establishing a group framework to attract members. If you are in the process of launching an angel investor network, it is worthwhile to see if your city, country, or development agencies in your country offer such grants.

Summary of building the framework

We hope that this first part of the guidebook has given you considerable food for thought and valuable guidance in the establishment of your own angel organization. Although not mentioned before, do not forget the most important reason for devoting thousands of volunteer hours to creating an angel organization—the journey and resulting successful group are rewarding, personally satisfying, and fun.

How do most angel groups cover operating costs?

The results of a CVR angel organization survey showed that most groups have multiple ways of covering costs. The most popular include:[34]

- 67 percent used membership dues.
- 33 percent identified sponsorships.
- 31 percent listed percentage of committed capital.
- 20 percent used events, but none used it as their sole source of funds.

33 Center for Venture Research, 2003 angel organization survey.

Group Operations

Part 1: Launching group operations

Part 2: Identifying deals and investing

Part 3: Follow-on activities

Group operations

In many respects, deciding the structure of your organization is the easy part, the actual operations can pose the most difficult issues. Proper and thoughtful implementation of your plan will determine the future of your group, member satisfaction, investment success, fulfillment of your group's objective, and group culture. This section is divided into three parts: ❶ launching group operations, ❷ identifying deals and investing, and ❸ follow-on activities.

PART 1

Launching group operations

Recruitment

The ease with which you can find other angels to join your group will depend on your membership criteria as well as the results of your community assessment. In some cases, you may already have strong community of high-net worth individuals enthusiastic about creating an angel group. In others, you may have to work much harder to get the right investors. Below are a few approaches to finding new members:

- **Personal and professional networks:** The overwhelming majority of champions interviewed for this manual said that they approach recruitment by first looking within their personal and professional networks. Each new member could then provide suggestions for good candidates to join the group.
- **Pitch events:** Some angel groups connect with local incubators or other entrepreneurship centers to have innovation and/or pitch events that may interest angels. This is most successful when a targeted communications campaign reaches potential angels, such as a pitch event for companies in a certain industry.
- **Networking events:** Tap into people's desires to network by hosting interesting events related to your angel network's investment focus or desired culture. For example, you can ask IT companies or leaders to give a presentation on an interesting topic and invite successful local entrepreneurs from that industry. Usually, well-known entrepreneurs or investors, domestic or foreign, can draw a crowd. For help finding a big-name speaker or an extensive invitee list, see if your chamber of commerce can offer support. This tactic worked well in Serbia and Cambodia where the respective chambers of commerce played an important role, using its convening power to help bring potential group members together.

- **Training seminars and workshops:** Hosting educational events is another way to attract potential members. For example, the U.S.-based Angel Resource Institute offers a full suite of courses entitled The Power of Angel Investing. Such events help bridge the knowledge gap in places where angel investing is new. You can also conduct this training seminar for members once your group is established.

Communications with members and potential members

Once you have set criteria and parameters for membership, the next step is to carry out a good communications strategy for existing and potential members. Good communication is the key to any successful relationship, and an angel organization and its members are no exception.

"People who want to start angel groups usually know a network of investors that could be formalized. The biggest obstacle is creating incentives for people to want to join."

— LUIS GALVEIAS
European Business Angel Network (EBAN)

Ensure that your written materials and/or website content clarifies the following to potential members:

- *Membership qualifications* — desired member attributes, such as skills and background, as well as investment beliefs (see appendix 2 for sample membership information).
- *Overview of organizational structure* — your organizational structure, possible investment expectations, and group philosophy. A code of ethics for members, which includes respect for other members' privacy, and the confidential nature of information received at meetings.

Identify the following members within your group:

- Member recruitment and selection committee members who understand your group and can effectively communicate, to become group spokespersons and ambassadors.
- Well-connected committee members willing to thoughtfully review applications, interview candidates, and host prospective members at group meetings.

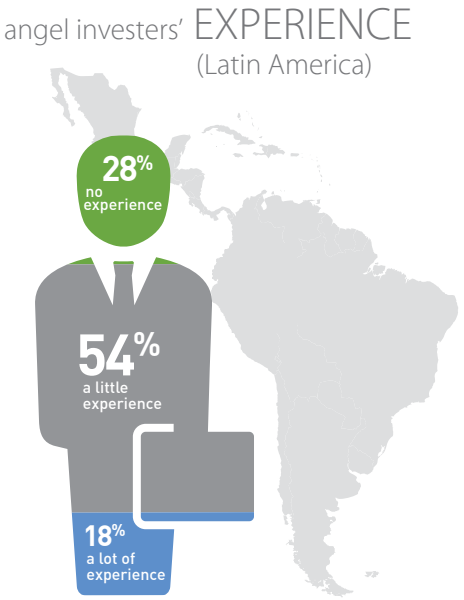
Document and communicate the following:

- A membership application with qualifications, group philosophy, code of conduct and ethics, and reasons for removal stated on the application (see appendix 3 for a membership agreement).
- A stated mechanism and well-understood reasons for termination of membership.
- An annual renewal and application review process (see appendix 4 for membership survey for new or renewing members).
- A written process reflecting all these steps.

Potential members should get the opportunity to experience a group meeting. This allows the guest and the group to evaluate fit and mutual interests. Guests can be handled in a number of ways. One effective mechanism is to offer complementary attendance at a meeting, including the meal, or charge the guest a nominal amount. However, you

should limit the number of "free lunches" and require a decision on membership after a potential member attends a meeting. People requesting additional meeting attendance before making a membership decision should be asked to pay an amount equal to annual membership dues divided by the number of meetings per year.

Backgrounds/educational needs



Data based on a 2012 survey of 665 angel investors in networks across Latin America. Angel Investor Networks in Latin America and the Caribbean. Private Investors Network and IESE Business School and the MIF, 2012, p. 17.

Your members will bring different skills and experiences, but there will likely be some gaps, or missing "pieces," which you should identify and seek to minimize through additional education. Keep in mind that angel investing is a learned profession, and it can take a long time to experience a normal cycle of angel investing. Here are some things to consider:

- **Members' backgrounds and experience in investing:** During membership recruitment, your group should seek out potential members who complement the skills and experiences of existing members to give the group a solid core of knowledge. Expertise may include marketing, financing, information systems, research, operations, manufacturing, human resources, and senior management.

- **Education programs:** Few new members will have had previous angel investing experience, and very few angels have adequate knowledge in all facets of investing. Part of the concept of an angel organization is to cultivate new, active angel investors and to further educate members. Hands-on learning through doing deals and informal mentoring by experienced members are valuable learning mechanisms. However, the fear is that critical and basic aspects of angel investing are missed in this semi-disjointed education. A separate training series can make the new investor more comfortable writing initial checks.

  One should strongly consider periodic intensive training for new members, including training on the basics of company assessment that covers many topics, from financial and market analysis to management. Such training can be done by the angel organization itself or through third-party education programs. Many angel groups also invite guest speakers to regular meetings to discuss relevant topics such as market trends and investment terms. As previously mentioned, Angel Resource Institute's program Power of Angel Investing is a popular, established program that can be used for training members.

Time commitments

Willingness by members to volunteer time is an important factor in determining whether your group should be manager or member-led. Groups surveyed for this manual met anywhere from four to twelve times a year depending on deal flow and the needs of the group. For more detail about individual responsibilities, see appendix 5.

Meeting structure

Surprisingly, meeting time, format, and content can often be the most difficult points of agreement for members. Everyone has different schedules, different interests, and individual circadian rhythms. Here are some parameters to consider:

"Organizing and getting everyone in the same place is difficult. Sometimes the invited people do not show up. That's okay, the group eventually picks itself."

— ANGEL INVESTOR
Lagos Angel Network, Nigeria

Time and Location:

- How often? Monthly, semi-montly? Summer and/or holiday hiatus?
- Time of day? Meal included?
- Length of meeting?
- Meeting location for convenience of members? Same or rotational locations? Transportation issues? Need for privacy?
- Can the meetings be virtual?

Format:

- Networking time desired? With or without presenting companies?
- Where in the meeting schedule are company presentations? Will you require a PowerPoint presentation from companies?
- Do you desire a "members-only" session after company presentations?
- What preparation is needed, what information should be provided, and who will coordinate?
- How far ahead of meetings should the screening committee meet to select the presenting companies? Do you plan to coach the presenting companies, and, if so, how much time is needed before the meeting?
- What are the manager/executive director/administrative staff responsibilities?
- What is the timing of board meetings in relation to regular member meetings?
- What is the role of sponsors?

Education:

- Do you want regular educational sessions as part of member meetings?
- If so, would you like guest speakers? Can management handle speaker coordination, or should there be a member committee on education?
- Do your members need intensive, initial training on angel investing? Should other members, local professional service providers, or third-party programs conduct the training?

Sponsorship

As discussed under the Building the Framework section, sponsorships can be an effective and viable mechanism for funding (at least partially) your angel group expenses. Many groups shy away from sponsorships fearing that meetings will become a vendor event rather than staying true to angel investing. Steps can be taken to prevent or minimize sponsors monopolizing meetings. At the same time, remember that sponsorship is not provided out of charity. Sponsors represent legitimate and important business services and need recognized benefits for the money they spend.

Control of sponsorship activities

"Be open and flexible. Do not be too rigid or start off with too many procedures. Ask for something from people in a way that makes it easy for them to say yes."

— SOPHIE RIVIERE
2IE Business Incubator

- **Limit the number of sponsors.** If you have a tiered sponsorship structure, you may want to offer exclusivity for particular professional categories (for instance, accounting, law, investment banking) for the highest sponsorship level. The overall number of sponsors should remain at a level so that representatives will still be a minority of meeting attendees.
- **Limit the number of sponsor representatives.** Even for large, top-tier sponsors, meeting attendance must be limited to two or three representatives. A rule of thumb is a ratio of six members to one sponsor representative at a meeting (a total for all sponsors).
- **Clearly articulate the rules of attendance for sponsors.** Let a sponsor know that their presence is to be low key. Allow sponsors to place marketing materials at a designated location in the room, but not set up booths. Giveaways are often fun or useful, so allow sponsors to place items by their materials or on dining tables, but with quantity and frequency controls.
- **Ensure that sponsors understand and value your group philosophy, goals, and objectives.** The better everyone understands the opportunity the more successful the relationship. Be honest and up front about limitations and requirements.

Sponsorship benefits

- **Interaction with members at meetings.** Sponsors are unlikely to sign up unless they understand the opportunity to interact with group members. But, as discussed above, the number of representatives should be limited.
- **Exclusivity for top-tier sponsorship.** If you create a tiered sponsorship structure, you can often give the top-tier sponsors exclusivity in their professional category. This gives a sponsor the comfort of having no competition in their professional field.
- **Marketing materials and promotional materials.** Allow sponsors to place marketing materials at a designated location without dominating a meeting. Passive use of materials satisfies sponsorship needs for take-away reminders but allows members the choice of taking or not taking the materials.
- **Training/speakers/event coordination.** Sponsors can play a valuable role in coordination of group training, guest speakers, and events. Not surprisingly, sponsors are attracted to groups and events that complement their area of professional expertise. Coordinating and conducting member education and training can be a very effective way

for sponsors to showcase their skills. Sponsors often have good connections to relevant speakers and would enjoy introducing speakers at member meetings. Events such as investment forums also fit well with sponsor interests.

- **Website and program recognition.** An easy benefit to offer is prominent display of sponsor logos on the group website, in meeting programs, and even on group letterheads. This allows for recognition of sponsorship level, if you offer tiered sponsorships.
- **Company coaching.** Sponsor representatives may be very effective coaches for company presentations. This also allows sponsors the opportunity to interact with promising new businesses and possible new clients. Coaching often needs a set location, which some sponsors can provide.

Collaboration with other angel groups

As you launch your group, consider reaching out to established angel groups or plugging into international angel networks. You may be surprised at the wealth of knowledge and resources that you can tap into simply by networking. Angel Venture Mexico, for example, worked with the Angel Capital Association and the U.S. Embassy to hold one-day workshops for its various chapters on the technical aspects of angel investing, and invited other local angel groups to attend. While some groups may hesitate fearing that outsiders will "steal" their members or deals, it is much more likely that you will find professionals committed to strengthening the industry and syndicating deals. The Lagos Angel Network in Nigeria found the help of an angel group in Texas as it was sorting out its structure, and Angel Ventures Mexico met with angel groups in Rwanda, South Africa, and Lebanon to guide them on setting up operations. To kick off networking for your group, you can reach out to networks such as the ACA, EBAN, or any other professional association of angels to learn about upcoming events and/or networking opportunities.

Promotions/public relations

For many groups, community awareness or public familiarity is essential for quality deal flow and member recruitment. Most groups want to be known for their professionalism, supportive environment, and positive culture. Small informal groups that are satisfied with their membership structure and numbers will not be interested in public relations from the context of adding additional members. But even for such groups, some level of public awareness is important, if just to ensure good deal flow. Public familiarity often increases quality deals and applications that relate to the group's investment goals. Angel groups may wish to host an investment forum or participate on various committees for investment or entrepreneurial programs. All these activities relate to image and public face. The more that is known of your group's active investment history, intelligent and thoughtful review of applications, and active involvement with portfolio companies, the more the group's reputation is enhanced, and the more new members and good investments are drawn to the group.

"We attribute our success to being open and collaborative with other angel groups. We share tools and templates and syndicate deals, and we invite other angels to participate in our trainings free of charge. It makes the angel industry stronger when we work together and share knowledge."

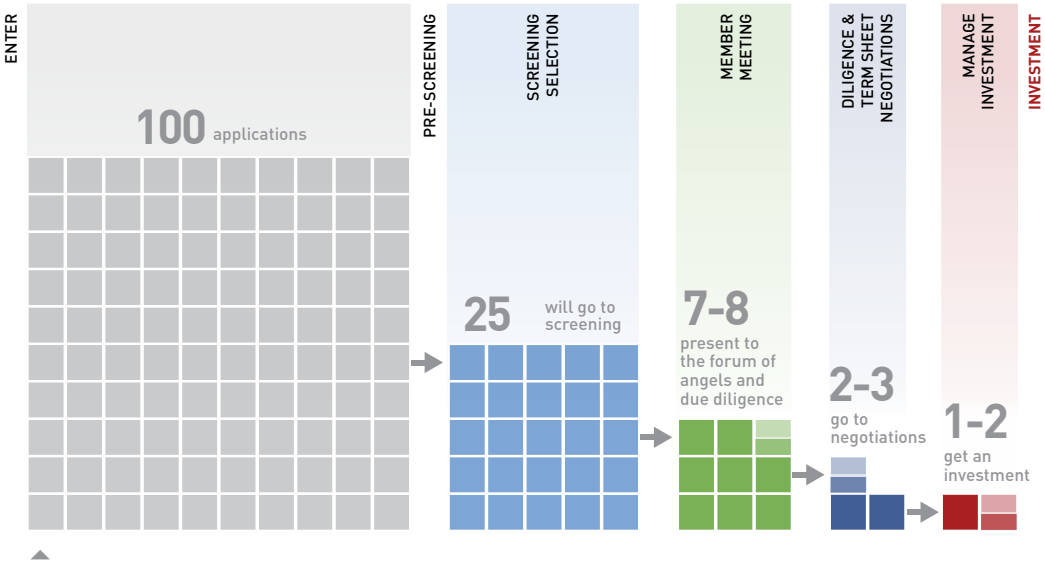
— HERNAN FERNANDEZ
Angel Ventures Mexico

PART 2

Identifying deals and investing

The investment process can take many routes. These range from members making their own investment decisions to investment of group funds based on committee or manager recommendations. The actual investment structure can vary from individual investments to creation of a limited liability company for each investment to investments from an established fund. For purposes of this discussion, let us walk through the entire investment process, discussing alternatives for each step.

process of DEAL SCREENING to investment



Data based on the Angel Capital Association presentation, ACA, Angel Groups, and Angel-Backed Companies. September 2012.

Deal sourcing

The success of any angel organization ultimately depends on the quality of investment opportunities available to its members. These opportunities can come from several sources:

- Generally, **members** are the best source of business plans. If members are active investors in the community, they become well known and have their own deal sources.
- **Local incubators and accelerators** are also a good place to find talent. Certain organizations, such as mLabs (mobile labs), support specific types of entrepreneurs that may fit into your investment focus.
- Some groups have found good potential deals through **local universities** that have strong technology-transfer programs and **enterprise centers**, which support development of entrepreneurial companies and community entrepreneurship.

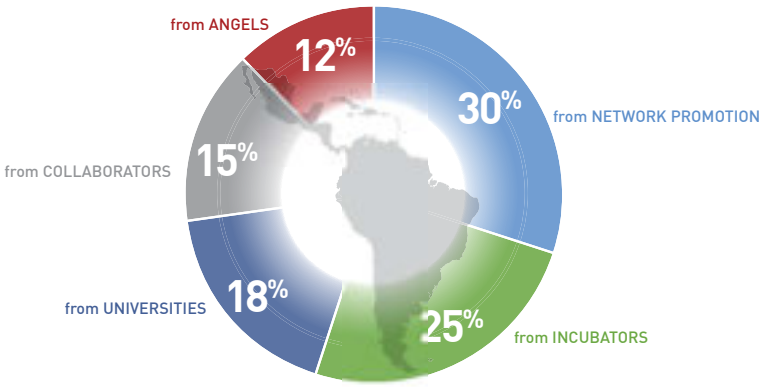
- **Investment forums** and similar events can be a good source of presenting companies, as these businesses generally have already gone through some form of screening to qualify for presentation at the forum.
- **Online platforms**, such as Angel List, VC4Africa, and other websites facilitate deal discovery and networking around the world. See text box on page 57 for details on platform offerings.
- Direct application through a **group website** can generate possible investment companies, although most angel investors generally prefer a referral from a member or trusted service professional.
- **Service providers**, such as lawyers, accountants, and investment bankers, are good sources of deal flow. Many conduct their own analysis of early-stage companies before agreeing to accept them as clients. If sponsorship is one of your group funding sources, providing an opportunity for sponsors to submit clients for possible presentation can be a defined benefit.
- Another source of deal flow is **venture capital funds**. Venture funds often receive business plans from entrepreneurs at too early stage for VC interests. Inviting regional venture capital funds to be associate members or establishing an ongoing relationship with them can provide an early look at companies for VCs and encourage them to send interesting business plans for your group's investment consideration. Additionally, VCs may offer the angel group limited opportunities to participate in first-round venture financings because of this relationship.

"In the beginning we made many mistakes. We were excited by the short-term prospects and we did not think about the long term. It has been a process to find the correct partners and businesses. Now our networks for deal sourcing are getting better."

— ANGEL INVESTOR
Kenya

Even with companies sourced through members, professional service organizations, VCs, and other methods, the best angel groups use one uniform mechanism for company applications, typically the angel group website. This provides an opportunity to inform applicants of your rules of presentation as well as the screening and selection process, and to handle any charges associated with company applications (appendix 6 shows a sample funding application).

sources of DEAL FLOW in Latin America



Angel Investor Networks in Latin America and the Caribbean. Private Investors Network and IESE Business School and the MIF, 2012, p. 29.

Deal screening

The screening process provides a mechanism to sort through applications to select only the most promising companies to present their businesses to the entire angel group. This process is beneficial to other members of the group who are likely busy and do not want to waste time at periodic meetings listening to business plans not worthy of investment review and consideration. You want to give a great first impression to build a good reputation and pull in good angels.

"When we looked at the first batch of investments we did not really know what we were doing. We eventually set investment criteria to determine which companies should receive investment. We decided that the companies needed to have a unique idea that can expand beyond Bahrain, and we wanted to know the entrepreneurs and believe in them."

—HASAN HAIDER
Bahrain Business Angels
Holding Company

Mangers or members reviewing applications should be experienced in evaluating early-stage companies. Depending on the number of applications, you may consider a tiered review approach, with initial selection of several companies for presentation to the screening committee. From these presentations, a smaller number (say two to four companies) can be selected to complete the coaching process and eventually to make presentations at a group meeting. Some groups have college students or MBA interns serve on the screening committee alongside members, often completing initial screening of all applications against a list of group criteria.

All applications come through one avenue, whether that is the group website, the screening committee chair's email, or the group manager's address. Screening should be done using a well-developed and uniform evaluation form or matrix. This is not as in-depth and complex as a due diligence checklist because it is only the beginning of the introduction process. Knowing the group's criteria for investment size, stage, location, and markets, helps guide the screening process. Such forms help to ensure that evaluations are thorough, fair, and objective. See appendix 7 for a sample screening worksheet. Non-disclosure agreements and confidentiality requests sometimes crop up at this stage. If entrepreneurs think that just the business idea itself is confidential and must be protected with signed documents, it may not be the right opportunity for sophisticated angel investors. Venture capitalists and angel groups in most part of the world do not sign non-disclosure or confidentiality agreements—they just want to know the non-proprietary nature of the concept or product to review—not the secret sauce to begin with.

Finally, after you have selected a few companies to present to the group, be sure to notify the companies that were not selected.

TIP

Training new members

For groups with screening committees, have a small group of experienced angel investors lead the screening process, with two or three apprentice members learning the ropes but not voting on company selection. Learning angel investing occurs in many forms, and this type of mentoring and hands-on education can be beneficial.

A Note on Platforms*

Online platforms are a popular tool for angel investors because they can streamline group operations and help fill gaps in local ecosystems, such as access to deal flow and other investors. The best platforms have some type of screening mechanism and are highly transparent, which reduces the costs of due diligence and makes investors more comfortable with doing deals at a distance. Most are U.S.-based, but interesting websites are starting to pop up in emerging markets that have a strong focus on building communities and educating users. While there are too many platforms to mention here, it is helpful to know the types of products in the market and the benefits that they offer to angels. It may be worthwhile for your group to consider using a platform to facilitate internal operations:

- **Platforms for fundraising**: One of the most popular and reputable websites for deal discovery and fundraising is Angel List. Entrepreneurs create profiles describing their companies and fundraising goals, and angels, usually accredited investors, can scroll through their various investment options. Angels can see other investors who are interested in syndication, and they can work together on due diligence and term sheet negotiations. Most companies that post on Angel List are based in the U.S. or Europe, although there is some representation from Asia, Latin America, and Africa. Crowdfunding platforms are also rising in popularity, although not without controversy. The following page provides a more in-depth look at this growing phenomenon.
- **Platforms for managing the deal process:** GUST is another popular website that allows angel groups to manage an influx of deals and facilitate virtual due diligence. The platform offers tools and templates to guide investors through the process. Another tool, Caplinked, provides virtual storage space for your investment documents that can be shared among members. Similar to Angel List, these are mostly used in the U.S. and Europe, with growing popularity in other regions.
- **Mentorship platforms:** These tools help entrepreneurs in remote locations connect with experts around the world. These platforms offer a range of features, such as educational materials for entrepreneurs, ability to share business plans and track progress over time, and the ability to set and manage meetings with mentors. Most platforms facilitate existing mentor-mentee relationships, but a growing handful facilitate the matching process online. Launchpad Central is one platform that encourages the lean start-up methodology and gives good direction to entrepreneurs on customer development. A few others include Chronus, Insala, and MentorCloud.
- **Community and educational materials:** As interest in angel investing grows around the world, platforms are cropping up to educate newcomers and to grow networking opportunities. VC4Africa is one platform that strives to build a community among African angels and entrepreneurs. It has succeeded in attracting members from 40 countries, including entrepreneurs at all levels and more than 400 investors. It also has a fundraising component through which entrepreneurs have raised $12 million. Expect to see similar platforms in your region in the near future!

**Most of these platforms offer reasonable monthly or annual costs, with tiered pricing and services.*

A look at crowdfunding

The practice of crowdfunding has generated buzz as an innovative new way to invest in start-ups. The basic model is an online platform that posts start-ups' business plans and financing needs, and allows potential investors to peruse the listings for investment opportunities. Start-ups typically receive investments from a variety of sources. Since the investors and recipient may be far apart geographically, the practice hinges on a high degree of transparency and trust. Crowdfunding works best when platform managers are diligent about vetting deals before they are posted online for investment, and when there is a strong local ecosystem to support the investment recipient. This support could be in the form of a reputable incubator, accelerator or a lead angel investor who works closely with the start-up and facilitates reporting and communication with investors.

How can crowdfunding help angel groups?

The answer to this question is highly disputed, and it is still quite early to have a definitive answer. One possible scenario is that angels will use crowdfunding as way to measure demand for a product or service. Some angel groups require start-ups to prove market acceptance through a successful crowdfunding campaign before receiving an investment. Angels see this as a way to reduce the risks associated with investing in a new idea. Crowdfunding also has the potential to help angels find high quality deal flow, facilitate cross-border flows of capital, and improve the availability of information, as some platforms have stringent vetting requirements. The U.S.-based Heartland Angels is one group that is testing the waters by operating its own crowdfunding portal.

Where is crowdfunding a viable option?

Crowdfunding is still a nascent phenomenon that exists mostly in the developed world. In Australia, Italy, the Netherlands, and the United Kingdom, crowdfunding has been operational for several years. Canadian and Mexican governments are currently discussing regulatory frameworks, and the U.S. government is on the verge of allowing equity crowdfunding investments (debt and rewards-based funding are currently allowed). Based on estimates of household income and savings, East Asia, Central Europe and Latin America/Caribbean have the potential to deploy $93 billion a year in crowdfunding by 2025. While Asia represents a huge opportunity, there may be reasons to believe that Central Europe, Latin America/Caribbean, and Africa may adopt crowdfunding investing sooner. These factors include willingness to takes risks, support for free market innovation, strong diaspora communities, early stage entrepreneurial activity, and education.

What are the risks and how can they be mitigated?

There are high risks associated with investing in any startup, but with crowdfunding there is the additional threat of fraud. While instances of fraud have been impressively low, this may become a greater concern as crowdfunding expands. Good legal frameworks and systems are necessary to protect investors, and small business regulations should be updated accordingly. There should be country-specific regulations for attracting diaspora remittances, and burdensome regulations should be removed. As mentioned above, it is more difficult for angels to oversee crowdfunded investments, so having a credible third party to facilitate investor relations and communications is critical. Lastly, some platforms add additional controls by limiting access to the platform. For example, some platforms only accept screened and approved high-net-worth investors. Other platforms may have open membership but limit investments based on income.

Coaching

Once the screening committee has selected promising companies to present, the entrepreneurs must present to the angel group as effectively as possible. Experienced angels want to see the best opportunities and entrepreneurial teams with good communication skills. Coaching the selected businesses can make a significant difference in ensuring that companies present the right information, in an effective format, using their best representatives. Some groups give presenting companies exact instructions on what to include in their presentation and meeting handouts. Sponsors (such as law or accounting firms) are often keenly interested in providing these coaching services at no cost and, in fact, as a benefit of sponsorship. These service providers see the opportunity to coach presenters as a chance to promote their services and possibly obtain a new client that is already considered a cut above.

Most companies see coaching as a benefit, particularly if a group charges companies for applying and/or presenting. As with other steps in the investment process, the manager of a manager-led organization may take on the responsibility of coaching companies along with other aspects of deal screening and investment. The allocation of these various responsibilities will depend on member preferences, interest in participating in various steps of the process, legal structure, group collective experiences, and manager experience, as well as the level of organizational funding (more work by the manager and staff equals greater overhead costs).

Company presentations

Many groups have company presentations at regular group meetings. Typically, two to four companies present for a limited period (ten to fifteen minutes), followed by a short question-and-answer session (five to ten minutes). After the presentations, groups ask the companies to step out of the room to discuss investment interest. This group-only discussion serves a greater purpose than just a "go" or "no-go." Members have the opportunity to share additional information they may possess about the market, product innovation, and management, and to develop an effective message to communicate to the entrepreneur, particularly if that business is not selected for funding. These discussions also provide an excellent learning experience for new members.

Your actual group structure will dictate a variety of approaches to follow-up activities. For instance, if you are member-led and members make their own investment decisions, you may have a process in which those members expressing an interest in continuing discussions with a presenting company form a due diligence committee to thoroughly evaluate the company. That group could then divide up the duties, depending on expertise, with investments still being made on an individual basis. At the other end of the spectrum, if the group is an angel fund, the group may vote on whether to proceed with due diligence and members may volunteer to support the diligence process based on their background and expertise, often led by a manager. It is not unusual to have dozens of opportunities come to a group, many pass the screening stage,

"One of the early mistakes we made was having too many companies present at one time. After the first three or four presentations, it is hard for angels to focus, and that is not fair to the people who present last. Three is a perfect number. Also, it is much more serious and effective if the entrepreneurs present to ten interested angels than to 80."

— WISSAM RABADI
Bedaya Angel Network, Jordan

"It is hard for entrepreneurs in our country to accept failure. Becoming an entrepreneur is a big decision, and we do not want to kill someone's motivations by declining to invest. Since we see ourselves as ecosystem developers, we make sure that every entrepreneur that touches IAN gets feedback so that he or she can come back with a better proposal."

— PADMAJA RUPAREL
Indian Angel Network, India

but only two or three are invited to present to the group, and only one or two go to due diligence and term sheet negotiations. Time is the most precise resource of the angel—screening and coaching and presentation feedback all help to reduce time spent on final due diligence.

One final point to consider is how you will communicate with companies that did not make the cut. Some groups provide written feedback or have one member share with the entrepreneur the reasons why he or she was not selected. Entrepreneurs fail many times before they succeed, so constructive feedback from your group will help them in their journey.

Due diligence

Due diligence can be the most complicated and time-consuming part of angel investing. Very few opportunities reach this stage—since groups receive many more plans than they can review each month. **Good due diligence can make all the difference in a positive return on investment**. Uncovering fatal flaws or problems should come during due diligence, not at the operating stage. The due diligence process must be driven by experts, who must educate other members who may handle due diligence in the future. While this guidebook does not intend to provide technical guidance on due diligence—many publications have been devoted to this topic—sample due diligence questions and a checklist are provided in appendices 8 and 9 to get you started.

The documents provide sample questions on the following topics:

- Corporate structure and governance
- Financial assumptions and revenue sources
- Market assessment
- Competitive landscape
- Management team
- Technology assessment
- Operations
- Comparables (for exits)
- Things to watch out for.

If you would like additional resources, look online at angel association websites. The ACA, EBAN and the Angel Resource Institute have a wealth of detailed resources on this topic.

In a manager-led organization, the manager typically leads the investment-evaluation process. The manager also often negotiates the structure of an investment or participates in the negotiation process with the lead investor. In member-led groups, whether an informal group with individual investment decisions or one in which members invest collectively, the due diligence process must ensure coverage of relevant topics and should be conducted by those with experience and expertise in particular areas. Some groups retain university or MBA students to support due diligence through an internship program with local business schools. Other groups retain outside experts to evaluate a company or give a briefing on cutting-edge technology related to the potential investment, although most do not have budgets to pay for outside consultants. After due diligence is complete, those involved with the process present findings to the angel group, and members vote on whether or not to fund the company.

Investment terms and negotiations

The purpose of this guidebook is to help champions select appropriate structures for their angel groups but not to delve into the intricacies of investment terms and negotiations; however, such a critical part of the process cannot be ignored. Luckily, there are many publicly available resources. This guidebook provides a sample term sheet and an explanatory term sheet (see appendices 10 and 11). These examples introduce some of the terms and options that angels use. The Angel Resource Institute provides free, detailed materials on its website, and offers in-person full and half-day seminars for a fee. The website also has up-to-date research and news on trends in angel investing. Online tools may be helpful as well, such as the Wilson Sonsini Goodrich and Rosati Term Sheet Generator. Although it may not be relevant in all jurisdictions, the notes for each section are helpful as they explain the terms and options at each step.

Angel investors, often being the first outside money in a company, need to be aware of follow-on funding needs and possible sources for this additional company capital. Do not make the terms so complicated or onerous as to effectively prevent attracting follow-on financing, which is undesirable for the company and the angel investor. From an operational perspective, in manager-led groups, the manager often plays an integral in determining and negotiating investment terms. A manager's (and, for that matter, a member's) ability to negotiate investment terms will depend on a few key factors:

- Is your group the lead investor? If not, you probably have little influence over the terms and must rely on the sophistication of the lead investor to negotiate investor-favorable terms. If a VC fund is leading the round, you will most likely receive favorable terms.
- Does your manager (or do your members) have the requisite experience? Professional advice should be sought and used with the first few investments and even thereafter as a safety factor.
- Has the company already established terms, and does it have multiple sources of funding? Entrepreneurs usually know if they are a "hot" deal. If this is the case and you want to play, both your ability to get in on the deal and your negotiation leverage may be limited.

One of the most important lessons learned by experienced angel groups is the timing of the initial "hand shake" on terms between company founders and angels. It is wise to get to a memorandum of understanding or term sheet on key terms—valuation, board seats, information rights, dividends, etc.—before competing due diligence.

Liability and risk exposure

With any structure in which members make independent investment decisions, there should be a strong disclaimer of organizational liability. The disclaimer should indicate specifically that each member makes his or her own investment decision and that the organization is not recommending any particular company for investment. (See appendix 3 Membership Agreement for sample disclaimer.) Members with a relationship to any company presenting (as a board member, adviser, officer, or current investor) should disclose to the group their relationship with the presenting company to ensure fair and equitable review of the potential investment. In theory, with greater organizational structure, you should provide insulation from liability for board members and others actively involved in organizational management. However, there are no risk-free circumstances, and you should consider obtaining insurance for directors and officers, as appropriate, depending on your legal structure.

PART 3 Follow-on relationships and activities

So what type of relationship should an angel investor expect with an entrepreneur after investment, and how much time should be devoted to post-investment monitoring? One study from Germany shows that angels spend an average of 6.2 days per month working with investees, which comes out to 1.34 days per month on each investment.[34] The answer for your group will depend to a great extent on investment size, specifically the percentage of the round or the percentage of the company acquired by the angel investor or angel group.

The first step in this section is to determine who among your angels will be involved with the invested company. The selected person should be able to devote some time to monitoring the company, including tracking the milestones your group has set for the company. Even if your group does not take a board seat, someone should be responsible for monitoring the entrepreneur informally.

Board seats

Taking the lead position in a funding round provides leverage to request a board seat or board-observation rights. Whether an angel investor, or representative of an angel fund or pooled investment, the decision to take a board seat depends on fit with existing board members, skills needed on the board, investor recognition of the increased time commitment, and possible increased liability exposure as a director. Whether the role is board representative or observer, there should be an ongoing relationship and transparency of data sharing. It is the sharing of information and communication of the good, the bad, and the ugly that marks the nature of the angel experience.

Access to information

Outside of the more active role of board director, all angel investors should insist on information rights, which include access to annual financial statements and annual reports. Some investors ask for management visitation rights, and others request additional information, such as all business plans, monthly or quarterly financials, and annual operating plans. The amount and quality of information you receive will depend on your desired level of involvement and the company's willingness to share information with a minority investor.

34 Ekos, Economic and Social Development. Finance for Business Growth: Interim Report Two.

Tracking investments

Equally important in the follow-on relationship is the tracking of investments. Individuals and groups should have a list of benchmarks that are periodically analyzed. Groups should have a reporting system for sharing this information with the entire group. Organizations may even wish to periodically survey companies, members, and selected members of the public about group perceptions, company experiences, and member satisfaction.

"You can do injustice to an entrepreneur by giving him/her money without mentorship. It's like giving a teenager a car without driving lessons."

— RAVI GUNDLAPALLI
Founder &CEO, MentorCloud

Mentorship

In many ways, the mentorship that angels provide to entrepreneurs is more valuable than any financial investment. By helping start-up founders understand and validate their markets, connecting them with new sales channels, or generally guiding them through the ups and downs of being an entrepreneur, angels can improve chances that the businesses will grow and generate returns for the investors.

Many angel groups interviewed for this manual, however, commented on the lack of a mentorship culture in their countries or ecosystems. On one hand, entrepreneurs may be reluctant to accept guidance from outsiders, either out of pride or mistrust. Many entrepreneurs, especially first-timers, do not even realize what they 'need to know' and fail to seek help. On the other hand, angels who are used to traditional passive investments may not understand the active role that they need to play, and the value they can add beyond their capital investments. They may also have limited time to offer to entrepreneurs. For your angel investing group to be successful, it is critically important to address these challenges and build a culture where mentorship is embraced and practiced. Individuals seeking only passive investment opportunities should consider venture capital funds or a private equity manager.

What type of mentorship should I provide?

Everyone has something to offer. Here are just a few ways that mentors can add value to start-ups:

- **Strategic connections:** Access to industry players, supply chain partners, and consumers in new markets are ways to improve a start-up's chances for success. Mentors who can facilitate these connections can help pave the way for rapid growth and potentially an acquisition or another type of exit.

TIP

Mentorship Tips

Best practices:

- Identify entrepreneurs with passion who are open to being helped.
- Listen closely to identify issues they face.
- Know how you are adding value.
- Offer honest guidance. Good angels point out problems, but also help find solutions.
- Connect with the entrepreneur on a deeper level about why they are championing the business. Passion and dedication are essential.

Things to avoid:

- Do not demand control of the business. Remember that it is a partnership and that you want to nurture and inspire your partner. Leave egos at the door.
- Do not criticize entrepreneurs for mistakes. Entrepreneurship is all about trial and error, and entrepreneurs need room to fail while searching for what works.

- **Technical skills or knowledge:** Deep knowledge of a specific technology, industry, or business model is very valuable to young start-ups. Mentors can help entrepreneurs work through kinks in a product or service to give the company a competitive edge.
- **Knowledge of local environments:** Mentors from different industries than those in which they are investing can still leverage their knowledge and connections in the ecosystem. Seasoned businesses men and women often know how to maneuver various business, legal, and operational challenges that the environment presents, and can help remove roadblocks for new companies.

How should I decide whom to mentor?

The best angels are those who approach mentorship with a clear vision of how they can add value to a start-up beyond a financial investment. For this reason, it is important that entrepreneurs make their needs known and pitch for expertise, not just money. Here are some steps you can take:

- **Make sure that your angel group encourages entrepreneurs to share their mentorship needs with you.** This can be done formally during company presentations or informally during networking events. Entrepreneurs may be reluctant to admit they need help, or are unaware of what they lack. Do your best to express to entrepreneurs that the angels in your group have a wealth of experience, and by asking for specific expertise, the entrepreneurs can leverage the angels' knowledge, connections, and passion, which will greatly improve the chances of their success.
- Once the entrepreneur's needs are known, **angels should reflect on their own professional and personal experiences to determine what kind of additional value they can bring to the start-up**. It could be specific industry experience, or a network of international business connections. It may be deep knowledge of a target market, or personal experience working with a specific business models or problems. No matter what you and the other angels bring to the table, the most important part is that the mentors can see how their contributions can benefit the company. If an angel cannot see a connection, it may be better to let someone else with more relevant experience mentor an entrepreneur.

What if there is significant mentor-entrepreneur mismatch?

Matching of entrepreneurs and mentors is not always easy. For example, some countries may have burgeoning IT or mobile app entrepreneurs, but do not yet have a pool of successful experts in these industries to provide mentorship. You may be interested in investing in one of these companies but hesitate due to your lack of knowledge of the industry. If you are facing this problem, you may want to tap into diaspora networks and other international groups to find the right expertise.

How much time should I dedicate to mentorship?

There is no hard and fast rule on how much time angels should spend mentoring entrepreneurs. It should be a function of the needs of the start-up and type of support you give. Some angels spend as little as one hour a month working with an entrepreneur, while others can spend up to six hours a week. Prioritize quality, not quantity, and be sure to listen to entrepreneurs and ask tough questions that help them see their blind spots. Once you begin working with the entrepreneur, you will organically see what works best.

How have other angel groups approached mentorship?

The Bahrain Business Angels have a structured program for mentorship. Each investor spends two hours with the entrepreneurs for the first three months after making an investment, totaling 32 hours of mentorship from senior members of the business community. Then, strategic partners give specific advice on finance, human resources, and other topics for an additional 32 hours. Entrepreneurs are then given 30 minutes of unstructured time with the founder of the angel group who is a former entrepreneur and incredibly dedicated to the angel network, on a weekly or bi-monthly basis. Any additional mentorship beyond that is left to the angels. The founder of the angel group notes that many angels were not interested in being mentors in the beginning, but through the mentorship program they have developed personal relationships with the entrepreneurs and are genuinely excited about their innovative start-ups. There has been a clear shift in attitudes among angels, with many of them continuing to meet with entrepreneurs for one to two hours per month on average, even after they have finished the requisite two hours.

"Sometimes both sides, angels and entrepreneurs, do not realize how important mentorship is. Although entrepreneurs typically decide to join incubators and receive angel funding for financial reasons, mentorship is a critical and valuable input to high growth business."

— GORDON PETERS
Managing Director, Emerging Markets Consulting, Cambodia

The Lagos Angel Network discussed setting prerequisites for their angels, but ultimately decided to let individual members make that decision, while in **Burkina Faso** the group suggests angels dedicate at least one to two days a month. On the other end of the spectrum, angels in **Cambodia** do not have any specific requirements, but angels are more than willing to help entrepreneurs when needed.

Although it is not an angel group, the Meltwater Entrepreneurial School of Technology (MEST) in Ghana has an interesting approach to mentorship, as it facilitates **mentorship in exchange for equity**. Through the incubator program, an advisor works with a group for a few months to decide if they want to formalize the working relationship and be compensated with a .5 to 2 percent equity stake in the company. MEST currently has six start-ups with variations of this agreement, and entrepreneurs are more than willing to offer a bit of their company for the valuable connections and guidance of mentors. The agreement recognizes that the earlier the start-up, the riskier the "investment," so mentors are compensated more. Mentors are also compensated on the type of expertise they bring to the table, with a higher premium on specialists. A generic version of this type of agreement is included in appendix 12, and can be customized to fit your needs.

What are some additional resources for mentorship?

Some emerging platforms help match mentors and entrepreneurs globally, which helps fill gaps in expertise among angels and mentors in developing economies. See the text box on page 57 for more information on mentorship platforms.

Role of angels in exits and follow-on financing

A major aspect of angel relationships with start-ups is securing follow-on financing and planning for eventual exit by investors. Most angel groups plan for the provision of follow on funding by reserving 100 to 200 percent of the original investment to support additional rounds of funding. Few investors provide all the funding a company needs at one time, preferring to match the funding with the company's achievements. Such milestones can include the completion of a prototype or the securing of the first customers. Even when angels plan to bring in new funding from other sources, such as venture funds, it is a good idea for the angels to reserve some funds to invest alongside the new investors. This allows angels to get better terms, and it encourages the new investors to become involved if they can see that the existing investors are willing to "follow their money."

A common refrain among angels is that "it takes twice as long and twice as much money as you think it will to be successful." Thus, honest dialog among the stakeholders about timing and amount of follow-on financing is key. Whether it is internal resources or searching for new funders in the community, it is the responsibility of the angels to research and network alternative funding sources until the company reaches cash break-even. Company founders should inquire about the resources available from the angels, especially downstream funders like private equity, banks and—if there are any in your community—venture capitalists. Business plans should spell out future funding needs. Monthly meetings between investors and entrepreneurs should include updates on funding and eventual exit options.

Exits

It is worth repeating that the most common exit for start-ups is that they fail and close down. In these cases, investors can lose their entire investment unless they are able to recover some assets when the company shuts down operations. Angel groups should prepare for this scenario during the contract negotiations stage, and legal agreements and discussions should outline the responsibilities of each party if the start-up happens to goes under.

For companies that are successful, there are several ways to exit and generate returns for investors:

- **Trade sale/acquisition:** This is the most likely exit for angels, especially as established companies in developed countries seek to gain market share in emerging markets. This option provides cash to angel investors who often enjoy one to five times their original investment. Angel Ventures Mexico has exited this way on two occasions, providing investors with an internal rate of return of more than 26 percent.
- **Fund acquisitions:** There is a possibility that other fund managers may be interested in buying shares from current investors, giving angels an opportunity to exit. If you think this may be a possibility, be sure to include language explaining this option in your contractual agreements.

GenKey acquires ClaimSync

The acquisition of Ghanaian software provider, ClaimSync, exemplifies the most likely type of exit that angels can expect. ClaimSync is an Accra-based company that offers technology solutions to healthcare providers, such as electronic patient records and platforms to facilitate preparation and payment of medical claims. In October 2013, ClaimSync was acquired by GenKey, a Netherlands-based company that provides biometric identity management solutions, including in the healthcare field.

- **Buyback:** At some point in the growth of the business, founders may wish to buy back shares to increase their controlling stake in the company. Companies usually offer to buy back the shares at a premium to compensate investors.
- **Dividend or royalties:** When none of the above-mentioned options is likely, a dividend or royalty model can provide investors with returns of about 5 to 8 percent annually. While not ideal for such a high-risk investment, this is at least a realistic option in markets that have not yet attracted larger industry players or fund managers.
- **Initial public offering (IPO):** IPOs are rare, even in highly developed markets. Stock exchanges in places like Brazil, China, India, and Russia are seeing more IPOs, but most countries do not have the financial infrastructure to support such offerings or enough companies that are ready to go public.

Legal concerns

As mentioned throughout this guidebook, some angel groups operate in countries that lack investor protection or strong judicial systems to uphold the rule of law. Investors are at risk of losing their money to entrepreneurs who fail to hold up their end of a contractual agreement. Research by the Kauffman Foundation and interviews with angel groups conclude that contracts and agreements can be effective in these contexts, as long as investors are willing to commit time to developing relationships with entrepreneurs and providing oversight.

Cambodia is one example of a country that lacks some components of investor protections typically found in more mature economies. An informal angel group operating there has executed contracts with start-ups, even though both parties know that legal recourse is unlikely. What makes the written agreement effective is that it allows angels and entrepreneurs to talk through various scenarios and agree how each party should handle a potential disagreement. The contract provides for arbitration procedures that should allow for dispute resolution outside of the judicial system. The process clarifies expectations on both sides, and the threat of legal recourse can deter unethical behavior in some cases. Angels are also active mentors as they know that a strong, trusting relationship, also acts as an informal insurance.

Measuring success

There are many ways for angels to measure success. Your group should have several metrics that make sense in your local context and which do not speak solely of financial returns, as it could take years before you see any financial benefit from your investments. Other short-term metrics could be the number people who are interested in joining your group, and the satisfaction levels among members. On the qualitative side you can observe if there is an improvement in members' understanding of angel investing and if internal operations are improving. The number of quality deals seeking funding from your group is a fantastic indicator as well. If your group has a socially focused mission to support your community, you can also measure the number of entrepreneurs that are getting funding and their ability to grow companies and create jobs. After a few years, your group can then start counting the number of successful exits and returns. Whatever your goals, it is good practice to identify what success will look like for your group.

Summary

Summary

This discussion of angel group operations may have left you wondering how to pull everything together successfully. The appendices should help you with many of the mechanical processes. Also knowing that many other angel groups have started and continue to operate successfully should give you comfort that you are not alone. The Building the Framework section of the guidebook took you through the formation process, keeping in mind, at all steps, the purpose of your investment and steering you in the right direction in terms of structure and membership. Similarly, the Group Operations part covered the investment process once the group is operating. To summarize the investment process from the operations perspective, here are a few simple rules that will help, regardless of structure or process.

- **Keep the terms simple if follow-on funding will become necessary.** Nothing can prevent follow-on funding faster than an overly complicated and burdensome first round, which later investors must try to unwind, often demanding discounted values and other requirements to offset onerous or overreaching first-round terms.
- **Reserve an investment amount if you expect to support the next round of funding.** One of the biggest concerns for angel investors is lack of follow-on funding. In addition, entrepreneurs often need more funds than they originally expected in order to meet the goals connected to the funding round in which the group participated. You must plan for this possibility or work to help the company find the next round of funding; otherwise you have just thrown your investment away.
- **Double-check due diligence and ask yourself:** Are all areas covered? Was information objectively reviewed? Is the company structured appropriately for investment? Do you understand the reasons for investment? Do you understand the risks and potential for return on investment?

- **Be realistic.** Investing in any venture has risk, and early-stage investing represents particularly high risk, with little or no company track record, no market, and unproven technology. An investor must have the capacity and willingness to lose his or her entire investment.
- **Do not put all your investment eggs in one basket.** A balanced portfolio will help ease the pain of a bad investment decision. Do not expect all, or even most of your investments to be home runs. Statistics are not in your favor. Most angel investors continue this form of high-risk investing because their overall, long-term returns are positive, and because of personal satisfaction and an interest in working with entrepreneurs.

As with the Building the Framework part of this guidebook, stay nimble and willing to accommodate your group's changing needs. This means good up-front development with contingency planning. But most importantly, have fun. Enjoy the entrepreneurs you choose to work with or invest in, enjoy the investment process, and enjoy spending time with your group members.

Appendices

1. Revenues and Expenses Worksheet
2. Membership Information
3. Membership Agreement
4. Membership Survey
5. Group Member Responsibilities
6. Funding Application
7. Screening Committee Worksheet
8. Issues to Consider in Due Diligence
9. Due Diligence Checklist
10. Sample Term Sheet
11. Guidance Note on Sample Term Sheet
12. Mentorship for Equity Contract Template

APPENDIX 1: Revenues and Expenses Worksheet

Revenues	Monthly Budget	Annual Budget
Membership dues		
Sponsorships		
Company application fees (optional)		
Presenter fees (optional)		
Endowment/donations (if non-profit)		
Events		
Publications		
In-kind contributions		
Total Revenues		

Expenses		
Manager/executive director and/or administrative support (salary + benefits)		
Website development/maintenance		
Meetings		
Member relations and communications		
Public relations		
Programs/events		
Office expenses		
Total Expenses		

APPENDIX 2: Group Membership Information

Group Summary

[Angel group name] facilitates the introduction of entrepreneurs to potential investors through presentations and other mechanisms. It consists of individual angel investors interested in financing privately held companies or ventures typically in an early stage of development.

[Group name] is focused on potential investments in [industry, geographic focus, etc.]. Potential members must have prior experience in the [industry, geographic focus, etc.] or a strong desire, willingness, and capability to learn about the areas of interest.

Sample Membership Requirements

- Members must qualify as [insert accredited investor criteria, if relevant].
- Members must [specify criteria such as angel investing experience, industry experience, geographic location, etc.].
- Members must be sponsored by a current member.
- Members must agree to abide by the terms and conditions of the membership agreement.
- Members must pay annual membership fee.
- Members must make minimum angel investments of $_____ per year.

Process for Membership Qualification

- Qualifying individuals are invited to consider becoming members of [group name]. Membership is at the discretion of the membership committee and is subject to annual renewal, non-renewal, revocation or termination by the membership committee.
- Interested parties must complete the Membership Agreement and Membership Survey.
- The membership committee will review all applications for membership and endeavor to provide applicants with a written response within thirty (30) days of completed application submission.
- Membership may be terminated or revoked at the discretion and determination of the membership committee, should it be determined that a member has breached any term of membership. A member will be notified in writing by the membership committee of the intent to terminate or revoke membership, and the member shall have thirty (30) days in which to submit a written response should the member deem his/her actions or inactions do not warrant or qualify for termination or revocation of membership. The membership committee shall consider, in good faith, the written response within sixty (60) days. The decision of the membership committee is final.

Benefits of Membership

- Events-Investor meetings [6, 7, 8, etc.] times a year with presentations from two to four pre-screened companies for members' investment consideration. Afterward, there will be time for discussion of members' observations and analysis.
- Access to "Members Only" section of the website, which includes:
  - Access to all deal flow through online database.
  - Copies of all presentations and materials provided at meetings.
  - Members' online forums to confidentially discuss or comment on business plans, companies, and general angel investing topics with other members.
  - Best-practice sharing of investment tips and documents.
- Educational programs in terms sheets, balanced investment portfolios, case studies, due diligence, and other topics in angel investing.
- Opportunity to interact with other angel investors and meet individuals experienced in working with young companies.

Additional Topics

(Consider including additional sections in your membership-information documents.)

- Requirements for minimum investments (amount or number) in order to remain a member.
- Minimum or maximum amount that can be invested.
- Explanation of how investment decisions will be made.
- Explanation of how presenting companies will be selected.
- Description of how due diligence will be conducted.
- Overview of group governance.
- Overview of group financing.

APPENDIX 3: Group Membership Agreement

[Angel group name] facilitates the introduction of entrepreneurs to potential investors through presentations and other mechanisms. It consists of individual angel investors interested in financing privately held companies or ventures typically in an early stage of development. Membership is a privilege, which is subject to renewal, revocation, or termination for a member's failure to abide by the group's (one or more of the following: by laws; code of conduct; code of ethics; confidentiality requirements; membership agreement, membership requirements.)

Process for Membership Qualification

- Qualifying individuals are invited to consider becoming members of [group name]. Membership is at the discretion of the membership committee and is subject to annual renewal, non-renewal, revocation or termination by the membership committee.
- New members must be sponsored by a current member.
- All new members must complete the membership agreement and membership survey.
- The membership committee will review all applications for membership and endeavor to provide applicants with a written response within thirty (30) days of completed application submission.
- Membership may be terminated or revoked at the discretion and determination of the membership committee, should it be determined that a member has breached any term of membership. A member will be notified in writing by the membership committee of the intent to terminate or revoke membership, and the member shall have thirty (30) days in which to submit a written response should the member deem his/her actions or inactions do not warrant or qualify for termination or revocation of membership. The membership committee shall consider, in good faith, the written response within sixty (60) days. The decision of the membership committee is final.

Name: _____

Address: _____

Phone: _____ Email: _____

New Member or Renewing Member: _____

If new member, Sponsoring Current Member: _____

APPENDICES

To qualify for membership, I agree that:

- I am an accredited investor (if relevant) under the rules and regulations of [governing body, country].
- I have such knowledge and experience in financial and business matters to be capable of evaluating the relative merits and risks of any investment.
- I agree to abide by the terms and rules of [group name]'s (one or more of the following: by laws; code of conduct; code of ethics; confidentiality requirements; membership agreement, membership requirements.)
- I understand that [group name] is not a venture fund, investment bank, broker/dealer, or any other form of investment adviser. The group does not provide advice, recommendation, or any other indication of appropriateness or inappropriateness for a particular investment. [Group name] does not endorse any investment opportunity and makes no independent investigation to verify information provided by companies submitting to the group for a presentation or otherwise, and makes no representation or warranty regarding the same.
- I must conduct my own analysis and due diligence to determine the appropriateness of any investment I make in any company to which I am introduced through [group name]. As a result, I recognize and agree that the group is not liable for any investment decision I make as a result of being a member of [group name]. The choice to use and the manner of utilization of information and knowledge gained through the group is my individual and personal choice.
- I understand that [group name] meetings are not an offer to sell or solicitation to buy any security by the group or any other entity.
- I agree to pay the annual membership dues as set by [group name].

Please forward your application to:

[Group Name]
[Address]
[Email]

Read, understood, and agreed to by:

_____
Signature

Please submit this membership agreement along with a completed membership survey and annual membership dues of [amount].

APPENDIX 4: Group Membership Survey

[Group name] is interested in providing members with maximum benefit, which is aligned with member interests. One of the few ways we have to better understand these interests is to conduct membership surveys and carefully review the results for trends, such as: 1) investment interests; 2) need for expertise among membership, and 3) membership skills which may be valuable to the group as well as portfolio companies. Individual data will be treated confidentially and will not be shared internally or externally; only selected board members will be privy to individual responses. The survey results may be used in aggregate to present [group name] as an entity to venture capitalists, businesses, and the media for the purpose of securing high-quality deal flow, membership, and public relations.

Completion of this survey is a condition of membership, new or renewing

1. What is your membership status? ☐ New ☐ Renewing

2. Have you ever been an angel investor? ☐ No ☐ Yes

If yes, how long? ____ year(s)

If yes, how many companies have you invested in as an angel? ____ (number)

3. In what industry(s) do you have professional experience? (check all that apply)

☐ Health care ☐ Media ☐ Manufacturing ☐ Telecommunications

☐ Environment ☐ Biotechnology ☐ Business/Financial ☐ Energy

☐ E-commerce ☐ Industrial ☐ Software ☐ Consumer Products

☐ Agriculture ☐ Hardware ☐ Semiconductor ☐ Other _____

4. What business skills/expertise do you have? (check all that apply)

☐ Board member ☐ Operations ☐ Marketing ☐ Senior management

☐ Legal ☐ Financial services ☐ Strategic planning ☐ Business plan development

☐ Employee benefits ☐ Sales ☐ Insurance ☐ Research & development

☐ Public relations ☐ Infrastructure ☐ Accounting ☐ Other _____

5. Have you ever been a company founder or officer (check all that apply)

☐ Founder ☐ CEO ☐ President ☐ VP R&D ☐ CIO

☐ COO ☐ CFO ☐ VP Sales & Marketing

If you answered Yes to question 2, please complete the following questions

6. As an angel, what is the typical stage a company is in at the time of your first investment?
(give percent for each, totaling 100 percent)

Start-up/seed ____% Early stage ____% Expansion ____% Later stage ____%

Mezzanine to IPO ____% Public ____%

APPENDICES

7. As an angel investor, what is the typical relationship you have with portfolio companies?
(check all that apply)

☐ Board member ☐ Adviser/mentor ☐ Officer ☐ Employee
☐ Consultant ☐ Passive ☐ Other: _____

8. As an angel, what has been your typical investment range?
(give percent for each, totaling 100 percent) [modify for local currency]

Under $5,000 ____% $5,000–$10,000 ____% $10,000–$25,000 ____% $25,000–$50,000 ____%
$50,000–$100,000 ____% $500,000–$1 million ____% More than $1 million ____%

9. If a renewing member, have you invested in any of the group's presenting companies?

☐ Yes If yes, which company(s)?
☐ No If no, why not?

10. What is your preferred form of investment? *(rank 1 through 4 with 1 highest)*

___ Equity ___ Debt ___ Combination ___ Case by case

11. What is your general expectation on length of time until return on investment?

☐ Less than 1 year ☐ 1 to 3 years ☐ 3 to 5 years ☐ More than 5 years

12. In what industries have you invested?
(check all that apply)

☐ Health care ☐ Telecommunications ☐ Media ☐ Manufacturing
☐ Environment ☐ Industrial ☐ Biotechnology ☐ Business/Financial
☐ Energy ☐ E-commerce ☐ Software ☐ Consumer products
☐ Agriculture ☐ Hardware ☐ Semiconductor ☐ Other: _____

13. What has been your historical angel investment rate of return?

☐ Negative ☐ 0 to 10 percent ☐ 10 to 30 percent ☐ 30 to 50 percent
☐ 50 to 100 percent ☐ 100 to 200 percent ☐ More than 200 percent

14. What do you enjoy about being part of an angel group?
(rank all that apply, with 1 being highest)

___ Deal flow ___ Education ___ Camaraderie/social ___ Joint due diligence
___ Guest speakers ___ Meeting companies ___ Shared expertise ___ Administrative support
___ Professional support ___ Other

15. How would you rate your overall satisfaction with [group name] ____ 1–5 *(1 being highest)*

16. How might we improve the group and your membership experience?

Name: _____

Thank you for completing this survey.

APPENDIX 5: Group Member Responsibilities

Activities	Possible Responsible Party
Governance: • Strategic direction/philosophy/goals • Development of operating documents • Development of operating plan	Members/board of directors (or equivalent), with support from manager or executive director.
Operations: • Member communications • Website development and maintenance • Meeting coordination • Training • Speakers • Finances, including dues and sponsors • Events • Group management	Board committee, manager and/or executive director, with support from administrative staff. Executive director or administrative staff with member oversight. A manager can handle all of these duties as well, although fiduciary duty dictates that members must have financial oversight or ultimate responsibility. Members can handle any or all of these duties on a volunteer basis. If you choose this structure, be aware of volunteer "burn-out," consistency of structure and application from one group of volunteers to another, and loss of momentum.
Membership: • Recruitment • Screening • Relations	The membership committee is an important attribute of any angel group. Executive and administrative staff can have varying degrees of responsibility, but members should have an active role in member relations.
Deal sourcing: Potential sources of deals include members, professional service providers, entrepreneurial support groups, investment forums, and venture capitalists, along with your group website.	Members are the best source of deal flow and, as such, need to actively seek out potential companies. The group manager and/or administrative staff can handle the coordination of these activities.
Deal screening: By definition, angels are active investors, and one of the important steps in the investment process is deal screening.	A selection committee made up of a subset of the members can initially screen to select presenting companies.
Entrepreneur communication: Active and constructive communication with applicant companies, as well as with those chosen, improves the public image of your group and attracts good deals.	Managers often handle company communications, as can executive directors. Administrative staff can also coordinate the correspondence, with member oversight of content.

Activities	Possible Responsible Party
Presentation coaching: Every selected company needs coaching before presenting at a group meeting. Your group may have specific information needs, and companies should be coached to include this information. Companies also need coaching on how to effectively communicate the essential aspects of their business in a short time period.	As with deal screening, member involvement in coaching is important. Some manager-led groups allow the manager to do most of the coaching, but for member-led organizations and at early stages of a group's maturation, members should take an active role in company coaching to better understand the investment process.
Due diligence: • Coordination • Actual analysis	Members should be involved in the due diligence process. Administrative staff can carry out coordination, and a manager can facilitate and support much of the actual analysis. However, to make intelligent, informed investment decisions, members must take an active role in due diligence.
Investments: • Negotiations • Coordination In most organizations (70 percent), individual members make their own investment decisions. Even with individual decision-making, group due diligence still has tremendous value.	Seasoned management can negotiate the actual investment, with member involvement to ensure agreement with the terms and to gain experience. Depending on group structure, the manager or executive director may be appropriate for coordinating actual investment.
Investment follow-on: Once the investment is made, either through the group or individually, staying abreast of company progress and adding value as appropriate are essential.	Managers are valuable for follow-on communications and updates as can be executive directors. With member-led groups, a lead investor is often chosen to maintain the ongoing relationship with the invested company and keep other members informed. If the group investment is significant, a board position may be negotiated and the lead investor or another group member may take a seat.
Promotion/public relations: The first reaction to this category is why does an angel group have to worry about promotion? A group will have little or inappropriate deal flow unless there is public familiarity with the group's existence and investment focus. Websites, community involvement in regional investment forums, and promotion of a positive public image are critical to the success of an angel group.	All members of an angel group should be considered group ambassadors. A board committee, manager, or the executive director can coordinate activities. The website can serve as a primary window into your group, with the content well thought out to keep current.
Attention to exits and follow on financing:	Manager or designated member should be involved with post-investment monitoring.

APPENDIX 6: Funding Application

[Note: Company applications should be limited to an executive summary or response to specific questions. Accepting entire business plans can be an exercise in futility as business plans often exceed 30 to 40 pages, in addition to attachments. Members seldom have the time the time or patience to read through numerous, lengthy business plans, and often the essential information needed for this initial screening step is not readily apparent in a large document.

You should also have a page limit for the company application. Requiring answers to specific questions, as opposed to accepting executive summaries, gives greater assurance of receiving all information your screening committee desires in reviewing applications, but you risk losing the unique story-telling quality that an executive summary has, which often tells you much about management style and communication skills. Additionally, some companies will not want to take the time (or have the time) to answer a series of questions, and these are often the "hot deals" that do not need to go through additional processes to raise money. The brevity requirement may seem harsh, but through experience, companies able to clearly articulate their mission, product, market, and future in five pages or less have the greatest chance for success.]

Please submit your executive summary of NO MORE THAN FIVE PAGES (including attachments, appendices, and exhibits, which contain information on the subjects identified below. Material beyond the five-page limit will not be reviewed or considered. The list below is not intended to suggest any particular order of information; the entrepreneur should consider the arrangement best suited for describing his/her company.

Submission Content:

The Company

- History, including accomplishments to date
- Mission

Products/Services

- Description of product(s)/services
- Ownership
- Development stage
- Timing of, and process to, commercialization
- Unique attributes and opportunities

Market

- Size and definition
- Industry trends
- Needs for product(s)/services
- Customers
- Sales/distribution plan
- Necessary partnership and status

Competition

- Comparative analysis, including key features and benefits
- Competitive advantage/market differentiators
- Barriers to entry for competitors and company

Management

- Experience of all senior management, including previous start-ups
- Previous experience working together
- Needs/key vacancies
- Board of directors
- Adviser

Financials

- Founder's investment
- Fully-diluted capitalization table (including options, warrants, and debt)
- Summary projected financials (one and three to five years)
- Funding needs for this round and subsequent rounds
- Use of funds
- Exit strategy and timing
- Business milestones for next six months and next two years

Submission Process:

- All executive summaries received by the [date] of the month will be considered for presentation at the member investment meeting held in the same month. Any submissions after the [date] of the month will be held for the following month's review and consideration. Companies must submit executive summaries on-line through the website at [web address] or directly to [group email address].
- All executive summaries are posted under a members-only section of the website and will remain posted for approximately 120 days.
- The screening committee will consider all timely filed and completed submissions and will inform selected companies by the [date] of each month. Non-selected companies will be informed by the [date] of each month and will receive standardized feedback from the screening committee.
- Selection criteria are based on review of each executive summary against a screening matrix, a copy of which is available on the website.
- Selected companies must agree to coaching in preparation for their presentation. The schedule for coaching sessions will be informed at the time of selection notification.
- Materials for member investment meeting: Selected companies must give a presentation or equivalent presentation of no more than 15 minutes in length, followed by a five-to-seven-minute question and answer period. Copies of the presentation must be provided to members at the investment meeting and an electronic copy provided to the group for posting under the members-only section of the website. Companies may offer other materials at the member investment meeting. Space will be made available for a company display or demonstration immediately prior to, during, and after the investment meeting.
- Neither investment solicitation nor comment will be made at the member investment meeting, and presenting companies are expected to bring with them information on the timing and location for a follow-on meeting with interested group members.
- Any questions should be directed to [group email address].

APPENDIX 7: Screening Committee Worksheet

Scoring: 1=Unsatisfactory 2=Weak 3=Satisfactory 4=Good 5=Excellent

Category and Questions	Score
General Information	
Was all requested information submitted?	1 2 3 4 5
Was the overall content understandable and well presented?	1 2 3 4 5
Did the applicant stay within the page-submission requirement?	1 2 3 4 5
Products/Services	
Is the company product/service adequately described?	1 2 3 4 5
Is the ownership well understood?	1 2 3 4 5
Is it clear that the company owns or has licensed all relevant technologies?	1 2 3 4 5
If the company is dependent on patents or other intellectual property ownership rights to succeed, has the company obtained such protection or taken all steps to date to obtain such protection?	1 2 3 4 5
Are there large industry competitors, which could engineer around the company's patents?	1 2 3 4 5
Does the product/service solve a current market issue?	1 2 3 4 5
Are there unique attributes to the product/service which provide market differentiation?	1 2 3 4 5
Is this a single product/service company or a suite of potential products/services applicable to more than one market (1: single/narrow niche to 5: numerous/highly diverse)	1 2 3 4 5
Market	
Is the market adequately described?	1 2 3 4 5
Is the market realistic?	1 2 3 4 5
Is there a well-defined marketing plan, including distribution?	1 2 3 4 5
What is the size and scope of the market? (1: less than $10 million and regional to 5: greater than $1 billion and global)	1 2 3 4 5
Is the market considered a growth market?	1 2 3 4 5
Is the customer base well defined, including compelling reasons for customer purchase?	1 2 3 4 5
Is there a need for follow-on customer relationships (for example, maintenance services), and, if so, has this been well defined and addressed?	1 2 3 4 5
Competition	
Does the company recognize competitors?	1 2 3 4 5
Has the company done a competitive analysis, with attention to key features and benefits?	1 2 3 4 5
Has the company fairly analyzed and compared or contrasted itself with the competition?	1 2 3 4 5
Does the company present a strong and factually based reasoning for its competitive advantage?	1 2 3 4 5
Are you aware of other players in the market that the company has not identified?	1 2 3 4 5

Category and Questions	Score
Does the company need a first-mover position?	1 2 3 4 5
If a first-mover position is needed, will the company have adequate financial resources and/or first-to-market timing advantage to make this approach succeed?	1 2 3 4 5
Management	
Does management have adequate experience and expertise to properly build the company?	1 2 3 4 5
Is the management team complete?	1 2 3 4 5
If not complete, does management recognize these needs?	1 2 3 4 5
Has the management worked together before?	1 2 3 4 5
Has management been previously funded?	1 2 3 4 5
Does the board of directors include outside directors?	1 2 3 4 5
Does the board have diversity of skills and background?	1 2 3 4 5
Does the company have a board of advisers?	1 2 3 4 5
Financials	
Has the company provided adequate and understandable current and projected financial statements?	1 2 3 4 5
Are the company's projections realistic?	1 2 3 4 5
Do the financials show a viable and sustainable revenue model?	1 2 3 4 5
Has the company adequately considered all costs associated with developing and marketing its product/service?	1 2 3 4 5
Has the company articulated the use of raised funds? (1: More than 50 percent used for debt reduction or elimination to 5: No use on debt)	1 2 3 4 5
Has the company considered a reasonable exit strategy?	1 2 3 4 5
Have the founders contributed their own capital into the company?	1 2 3 4 5
Is the company dependent on others for success? (1: Yes, nearly completely to 5: None whatsoever)	1 2 3 4 5
Total Score	

Comments: _____

_____

_____

_____

_____

_____

APPENDIX 8: Issues to Consider in Due Diligence

Corporate Structure and Governance

(Review documents and interview management, board, and adviser)

- What is the company's corporate structure? Does this model allow for a liquidity event and/or return on investment?
- Is there an exit strategy?
- Is the corporate structure overly complicated? If so, why, and might it be simplified?
- How many existing shareholders? Too numerous, and, if so, why?
- Does the corporate structure fit with the business model?
- Does the corporate structure allow for growth?
- What is the founder share allocation? Do they have a large enough stake to have the incentive to succeed, but not so large as to ignore board and other adviser? Is the founders' stock vested over time?
- Who is on the board of directors? Do they have the right background for the company? Is there a sufficient number of outside directors? How are board members compensated?
- Does the company have a board of advisers and, if so, who is on the board? Do the advisers actively participate in the company's development? How are advisers compensated?
- Has the company been involved in any litigation or been involved in any litigation or been threatened with litigation?
- Does the company have all required permits and licenses?

Financial Assumptions and Revenue Sources

(Review all financial documents)

- Has the company completed one, three, and five-year financial projections?
- Have the financial documents been properly developed according to applicable accounting rules?
- Has the company used an outside, independent accounting firm to compile, review, or audit financials?
- How good are the assumptions (rate of growth, acceptance rate, pricing, multiple revenue streams, costs)?
- Are revenues realistic?
- When does the company reach cash flow positive, and what cash requirements will it take to get there?
- Has the company already received funding, and, if so, how much; what are pre-money valuation and terms?

- What are the follow-on funding requirements and sources? Has the company properly anticipated future needs, and is it already working on those?
- Have all tax returns been properly filed?
- What is the company's debt carry? What are the ratios?
- Is the company's current valuation aligned with its current stage of development and market potential?

Market Assessment

(Do independent market analysis and require customer references if applicable)

- Does the company's product or service address a new or existing market?
- Is the product or service platform-based, with the opportunity for additional products or services? Or is this potentially a one-trick pony?
- Does the company have a well thought out sales and marketing plan?
- Does the company have key relationships in place, or is it working on the same, with marketing and/or sales partners?
- Does the company have or need key joint venture relationships?
- Is the company focused on the appropriate market development, or is it trying to do too much at one time?
- Has it chosen the right first market?
- Does its product or service represent a market push or pull?
- What is the potential market size?
- Has it conducted thorough market research to support its financial assumptions, revenue model, and valuation?
- What is its stage of development?
- If the company has already introduced its product or service into the market, what is the number of current and potential customers?
- What is the length of its sales cycle?
- What are the channels of distribution?
- Does the company's product or service have a seasonal aspect?
- Is this a stable market and are the costs of goods sold stable?

Competitive Arena

(Do independent competitive analysis)

- Who are the company's competitors?
- Has the company realistically assessed its competitors?
- What is the company's market differentiator? Is this enough to make it superior to competition from the customer's prospective?
- Is this a market or product consolidation?

- How entrenched are its competitors?
- What is the financial stability of competitors?
- What does the market share look like?
- How will this company win?
- Has the company done a detailed feature-by-feature analysis?

Management Team

(Interview all team members and key employee references)

- What is the caliber/pedigree of the team?
- What is the team's overall track record?
- Does it have the combined requisite skills and experience?
- Does it recognize limitations in management, and is it seeking candidates?
- Is the management open to discussion and suggestions on improvement to its business model?
- Has the management team been previously funded?
- How are management and all other employees being compensated?
- Does the company have an option plan, and have options been granted to all employees? What percentage do the founders have compared to other key management?

Technology Assessment

(May need expert or professional assistance in technology assessment)

- Does it have market requirements and functional specifications?
- At what stage is development?
- Does the company have any usability studies?
- Does the company have adequate intellectual-property protection? Does it need it?
- Is the company relying on being first to market, rather than on any IP position, for competitive advantage, and is this realistic?
- What is product quality assurance like?
- Is it proprietary architecture or open-source code?
- Does it have adequate systems in place to identify and protect IP?
- Who in the company is focused on these issues?
- Has the company properly set up relationships and documentation to ensure ownership of all intellectual property?
- Does the company own all necessary intellectual property through internal development or licenses?
- Do any other companies have potential claims to the IP resulting from previous employment relationships or for any other reason?

Operations

- Does the company have an operating plan or outline of the same, even if early stage?
- Has the company considered all aspects of operations to successfully launch a product or service?
- Does the operating plan anticipate growth? Is anticipated growth realistic?
- Has the company received any citations or notices of violation?
- For more mature companies, does each division of the company have an operating plan, and are they compatible with each other?
- Does management meet regularly to ensure compliance with plans or make needed adjustments?
- Has the company been able to stay on plan?
- Does the plan take into consideration all cash needs and anticipated cash flow?
- Does the company have an alternative plan if assumptions do not hold, such as for product rollout, cash needs, and market response?

Comparables

- Recent companies funded in this space
- Third-part (including government) databases, reports, publications, and market analysis
- Comparable financial models
- Recent IPOs (10ks, annual reports)

What to watch out for

- Unrealistic valuation (or revenue model)
  - Affects percentage ownership
  - Affects possible subsequent rounds
  - May end up with "down round" on next financing
- Complicated investment terms
  - Preferred fine, but careful of other complicated features such as rights of first refusal; onerous liquidation preferences; registration rights; no lock-ups; co-sale
- Heavy debt
  - New investment dollars should be used to advance the company, not for paying old obligations
- Missing key assumptions about market or financial model
- One-product or service company
- No board per se
- Inexperienced management
- Poor advisers

APPENDIX 9: Due Diligence Checklist Table

The documents and materials itemized below should be reviewed for any financing. However, many early-stage companies will not have some or many of these documents, as certain events may not have occurred.

Section	Documents Requested	Should Have	Date Received	Date Delivered	Reviewers Initials	Comments
I.	**General corporate materials (company, all subsidiaries, partnerships and joint ventures)**					
A	Business plan, including executive summary, market analysis and plan, operational plan, and complete financials					
B	Minutes					
1	Minutes of stockholders' meetings, including those of any predecessor corporations					
2	Minutes of board of directors, including those of any predecessor corporations					
3	Minutes of permanent committees of the board, including those of any predecessor corporations					
4	Authorizing resolutions relating to this offering and related transactions					
C	Charter documents					
1	Articles or certificate of incorporation, as amended to date, including current drafts of pending charter amendments, and recapitalization documents					
2	Drafts of documents related to proposed reincorporation					
3	By laws, as amended to date					
4	Good standing (and tax) certificates					
5	List of jurisdictions in which the company or any of its subsidiaries or affiliates is qualified to do business					
D	Corporate organization					
1	List of officers and directors					
2	Management structure organization chart					

continued on next page

Section	Documents Requested	Should Have	Date Received	Date Delivered	Reviewers Initials	Comments
3	Stockholders' lists (including list of options and warrant holders), including number of shares and dates of issuance, and consideration paid					
4	Information regarding subsidiaries, i.e., ownership, date of acquisition of stock and/or assets, all closing binders relating to acquisitions					
5	Information regarding joint ventures or partnership, i.e., partners, date of formation, all closing binders relating to joint ventures or partnerships					
6	Agreements relating to mergers, acquisitions, or dispositions by the company or its subsidiaries or affiliates of companies, significant assets or operations involving the company or any of its subsidiaries or affiliates since inception, including those of any predecessor or subsidiary corporations					
E	Capital stock					
1	Stock records, stock ledgers, and other evidence of securities authorized and issued					
2	Agreements relating to the purchase, repurchase, sale or issuance of securities, including oral commitments to sell or issue securities					
3	Agreements relating to voting of securities and restrictive share transfers					
4	Agreements relating to preemptive or other preferential rights to acquire securities and any waiver thereof					
5	Agreements relating to registration rights					
6	Evidence of qualification or exemption under applicable laws for issuance of the company's securities					
7	Documents relating to any conversion, recapitalization, reorganization, or significant restructuring of the company					
II	**Litigation**					
A	Any litigation, claims, and proceedings settled or concluded, including those of any predecessor corporations and subsidiaries					

continued on next page

Section	Documents Requested	Should Have	Date Received	Date Delivered	Reviewers Initials	Comments
B	Any litigation, claims and proceedings, threatened or pending. Please include potential litigation—for example, employees who may be in breach of non-compete agreements with prior employers					
C	Any litigation involving an executive officer or director, including executive officers or directors of predecessor corporations and subsidiaries, concerning bankruptcy, crimes, securities law, or business practices					
D	Any consent decrees, injunctions, judgments, other decrees or orders, settlements, agreements, or similar matters					
E	All lawyers' letters to auditors, including those of any predecessor corporations and subsidiaries					
III	**Compliance with laws**					
A	Any citations and notices received from government agencies, including those of any predecessor or subsidiary corporations, or with continuing effect from an earlier date					
B	Any pending or threatened investigations and government proceedings					
C	All material government permits, licenses, etc., of the company currently in force, together with information regarding any such permits, licenses, etc., which have been canceled or terminated, required to carry out the business or operations of the company or its subsidiaries or affiliates, including such permits, licenses, etc., required by foreign federal, provincial, or local authorities, and any evidence of exemption from any such permit or license requirement					
D	All documents files with any securities regulatory agency, if any					
E	Any material reports to and corresponding with any government entity, including those of any predecessor corporations or subsidiaries					

continued on next page

Section	Documents Requested	Should Have	Date Received	Date Delivered	Reviewers Initials	Comments
IV	**Employee matters (including items regarding any predecessor or subsidiary or affiliated corporations and all items currently in force and drafts of any pending amendments or new items)**					
A	Employee agreements					
B	Consulting contracts					
C	Employee benefit and profit-sharing plans, including stock options, stock purchase, deferred compensation, and bonus plans or arrangements					
D	All other employee compensation, bonus, incentive, retirement, benefit (for example, life or health insurance, medical reimbursement plans, etc.), or similar plans					
E	Employee confidentiality and proprietary rights agreements					
F	Officers and directors questionnaires					
G	Contracts with unions and other labor agreements					
H	Loans to and guarantees for the benefit of directors, officers or employees					
I	"Key person" insurance policies					
J	Listing of employees by office and department					
K	Affiliation agreements with advertising agencies or public relations firms					
L	Stock ownership of directors and of the five most highly compensated officers					
V	**Real property**					
A	Deeds					
B	Leases of real property					
C	Other interests in real property					
D	Any document showing any certification of compliance with, or any deficiency with respect to, regulatory standards of the company or any of its subsidiaries' or affiliates' facilities					
E	Financing leases and sale and lease-back agreements					
F	Conditional sale agreements					
G	Equipment leases					

continued on next page

Section	Documents Requested	Should Have	Date Received	Date Delivered	Reviewers Initials	Comments
VI	**Intellectual property matters**					
A	List of all foreign and domestic patents, patent applications, copyrights, patent licenses, and copyright licenses held by the company					
B	List of any trademarks, trademark applications, trade names, or service marks					
C	Claims of infringement or misappropriation of others' patents, copyrights, trade secrets, or other proprietary rights					
D	Copies of all agreements in-licensing or acquiring any technology, including without limitation software licenses, patent licenses, or other technology licenses, or any development or joint-development agreements					
E	Copies of all agreements out-licensing or selling any technology, including without limitation software licenses, patent licenses, or other technology licenses, or any distribution or sales-representative agreements					
VII	**Debt financing**					
A	All debt instruments, credit agreements, and guarantees entered into by the company, including leasing financing, which are currently in effect					
B	All material correspondence with lenders, including all compliance reports submitted by the company or its accountants					
C	Any loan and guarantees of third-party obligations					
D	Any agreements restricting the payment of cash dividends					
VIII	**Other agreements**					
A	Marketing agreements					
B	Management and service agreements					
C	Forms of secrecy, confidentiality, and nondisclosure agreements					
D	Contracts outside the ordinary course of business					

continued on next page

Section	Documents Requested	Should Have	Date Received	Date Delivered	Reviewers Initials	Comments
E	Indemnification contracts and similar arrangements for officers and directors					
F	Agreements with officers, directors, and affiliated parties					
G	Any agreements with competitors					
H	Any agreements with governmental agencies or institutions					
I	Any agreements restricting the company's right to compete or other agreements material to the business					
J	Any material insurance agreements (including property damage, third-party liability, and key employee insurance)					
K	Agreements requiring consent or approvals or resulting in changes in rights in connection with change-of-control transactions					
IX	**Financial information**					
A	Audited/unaudited financial statements, including those of any predecessor corporations					
B	Interim financial statements					
C	Budget plan, including revisions to date with respect to the budget plan for the current fiscal year for the company and its subsidiaries and affiliates					
D	The company's long-range strategic plan, any other documents concerning its long-range plans, and any information concerning the company's compliance therewith					
E	Disclosure documents used in private placements of the company's or any of its subsidiaries' or affiliates' securities, or institutional or bank-loan applications since inception					
F	Any other material agreements with creditors					
G	Significant correspondence with independent public accountants, including management letters					

continued on next page

Section	Documents Requested	Should Have	Date Received	Date Delivered	Reviewers Initials	Comments
H	Any report, studies and projections prepared by management on the company's or its subsidiaries' or affiliates' business, financial condition, or planned operations, including business plan					
I	Any reports and studies prepared by outside consultants on the company's or its subsidiaries' or affiliates'' business or financial condition					
J	Reports and materials prepared for the company's board of directors or a committee thereof					
K	Contracts with investment bankers and brokers					
X	**Tax matters**					
A	Tax returns, including those of any predecessor corporations					
B	Audit adjustments proposed					
XI	**Acquisitions/divestitures**					
A	Acquisitions or divestitures (including related documentation)					
B	Current plans or negotiations relating to potential acquisitions or divestitures					
XII	**Public relations**					
A	Annual reports and other reports and communications with stockholders, employees, suppliers, and customers					
B	Advertising, marketing, and other selling materials					
XIII	**Press Releases and clippings**					
A	Analyst reports					
XIV	**Miscellaneous**					
A	All market research or marketing studies conducted concerning the company's business					
B	Significant agreements currently in draft stage					

APPENDIX 10: Sample Term Sheet

[Reproduced with permission of Archangel Informal Investment group, Scotland.]

Summary of Terms For Sale of Series Seed Shares

Company	*[Company]*
Founders	*[Founder 1], [Founder 2], & [Founder 3]*
Investors	*[Lead Investor]* (the **"Lead Investor"**) in conjunction with other investors (the "Investors") mutually agreeable to the Lead Investor and the Company.
Structure of Financing	The financing will be up to an aggregate of [___] at a fully diluted pre-money valuation of [___], including an unallocated employee share option plan (**"ESOP"**) of [___] percent. The Lead Investor will invest up to [___] and would hold no less than [___] percent of the Company on a fully diluted basis.
Conditions to Close	(i) completion of confirmatory due diligence and anti-money laundering checks (ii) all employees having entered into service agreements containing IP assignment provisions (iii) receipt of all necessary consents and (iv) incorporation or re-incorporation in Home Country.
Estimated Closing Date	*[Closing Date].*
Type of Security	Ordinary Shares
[Priority Payment on Exit]	This provision will only apply to the Lead Investor. In the event of a (i) liquidation (ii) sale or (iii) exclusive license or other sale of substantially all of the assets of the Company (an "Exit"), the Lead Investor shall be entitled to receive the higher of: (i) The financing of [_____] (being the original purchase price paid by the Lead Investor) plus any declared but unpaid dividends; or (ii) The Lead Investor's pro rata share (based on its ownership of the shares) of such assets or proceeds.
Important Decisions	[Option 1] Certain important actions of the Company shall require the consent of the Lead Investor, to include amongst others, actions to: (i) alter the rights of the Ordinary Shares (ii) allot any new shares beyond those anticipated by this investment (iii) create any new class or series senior to the Ordinary Shares (iv) increase the number of shares reserved for issuance to employees and consultants, whether under the ESOP or otherwise (v) redeem or sell any shares (vi) pay or declare dividends or distributions to shareholders (vii) change the number of board members (viii) take any action which results in a Change of Control (ix) amend the constitutional documents (x) effect any material change to the nature of the business plan (xi) subscribe or otherwise acquire, or dispose of any shares in the capital of any other company. [Option 2] [The consent of the holders of a majority of the Seed Shares held by the Investors (an "Investor Majority" shall be required for the important decisions, substantially in the form listed in Appendix [___]

Pre-emption	All shareholders will have a pro rata right, but not an obligation, based on their ownership of issued capital, to participate in subsequent financings of the Company (subject to customary exceptions). Any shares not subscribed for may be reallocated among the other shareholders. The Investors may assign this right to another member of their fund group.
Right of First Refusal and Co-Sale	The Investors shall have a pro rata right, but not an obligation, based on their ownership of Ordinary Shares, to participate on identical terms in transfers of any shares of the Company, and a right of first refusal on such transfers (subject to customary permitted transfers, including transfers by Investors to affiliated funds). Any shares not subscribed for by the Investors would then be offered to the other holders of Ordinary Shares.
Drag Along	In the event that the holders of a majority of the Ordinary Shares wish to accept an offer to sell all of their shares to a third party, or enter into a Change of Control event of the Company, then subject to the approval of the Lead Investor and the Board, all other shareholders shall be required to sell their shares or to consent to the transaction on the same terms and conditions [subject to the liquidation preference of the Lead Investor].
Restrictive Covenants and Founders Undertakings	Each Founder will enter into a non-competition and non-solicitation agreement, and an employment agreement in a form reasonably acceptable to the Investors, and shall agree to devote their entire business time and attention to the Company and to not undertake additional activities without the consent of the Investors. A breach of any of the foregoing restrictive covenants or undertakings by a Founder shall result in immediate dismissal for cause of such Founder.
Founder Shares	Shares held by the Founders will be subject to reverse vesting provisions over three years as follows: [25 percent to vest one year after Closing and the remaining 75 percent to vest in equal monthly installments over the next two years]. If a Founder leaves the Company voluntarily or is dismissed for cause, they shall offer for sale to the Company (with a secondary purchase option for the holders of Seed Shares) any unvested shares at the lower of nominal value or subscription price. [There shall be acceleration upon double trigger provisions so that if a Founder leaves after a Change of Control, unvested shares may become vested.]
Board of Directors	Option 1 [The board of directors of the Company (the "**Board**") shall consist of a maximum of three members: the holders of Ordinary Shares other than the Lead Investor may appoint two directors and the Lead Investor may appoint one director.] Option 2 [The Lead Investor may appoint a non-voting observer to attend meetings of the Board.]
Information and Management Rights	The Lead Investor shall receive weekly reporting and monthly financial information [and a management rights letter to satisfy its venture capital operating company requirements.]
Documentation and Warranties	Definitive agreements shall be drafted by counsel to the Lead Investor and shall include customary covenants, representations and warranties of the Company (which shall be liable up to a maximum of the investment amount) reflecting the provisions set forth herein and other provisions typical to venture capital transactions. The Founders will also complete a personal questionnaire.
Expenses	Option 1 [The Company shall pay the Lead Investor's fees and expenses in the transaction at Closing, anticipated not to exceed [_____].] Option 2 [Each party shall pay their own legal and other fees and expenses in the transaction. If the financing does not complete within 60 days or because the Company withdraws from negotiations (except as a result of the Lead Investor making a material change in the terms), the Company shall bear the Lead Investor's legal costs incurred to that date.]

Exclusivity	In consideration of the Lead Investor committing time and expense to put in place this financing, the Company and Founders agree not to discuss, negotiate or accept any proposals regarding the sale or other disposition of debt or equity securities, or a sale of material assets of the Company for 45 days from the date of the Company's signature below.
Confidentiality	The Company and Founders agree to treat this term sheet confidentially and will not distribute or disclose its existence or contents outside the Company without the consent of the Lead Investor, except as required to its shareholders and professional advisers.
Non-binding Effect	This Summary of Terms is not intended to be legally binding, with the exception of this paragraph and the paragraphs entitled Expenses, Exclusivity and Confidentiality, which are binding upon the parties hereto and shall be governed and construed in accordance with the laws of Home Country.

Acknowledged and agreed:

[Lead Investor]

By: _____

Print Name: _____

Title: _____

Date: _____

[Company Name]

[Founder 1]

By: _____

Print Name: _____

Title: _____

Date: _____

[Additional Investor]

By: _____

Print Name: _____

Title: _____

Date: _____

[Founder 2]

By: _____

Print Name: _____

Title: _____

Date: _____

Capitalization Table

Shareholder	Class of Shares	No. of Shares	Ownership (%)
[FOUNDER 1]	[Ordinary Shares]		%
[FOUNDER 2]	[Ordinary Shares]		%
[FOUNDER 3]	[Ordinary Shares]		%
Lead Investor	[Ordinary Shares]		%
Additional Investor	[Ordinary Shares]		%
Option Pool	[Ordinary Shares]		%
Total			**100 percent**

APPENDIX 11: Guidance Note on Sample Term Sheet

[Reproduced with permission of Archangel Informal Investment group, Scotland.]

The purpose of this guidance is to provide a narrative on the model term sheet, to highlight common legal and practical issues that arise in relation to the term sheet and to provide guidance on how best to deal with these. The term sheet is not intended to be exhaustive and will need to be tailored to the particular circumstances of each deal. The term sheet should be used to assist in agreeing upon the terms of the deal and to ensure that all key points in relation to the deal are discussed at an early stage. Further, the term sheet will be used to ensure that certain matters (such as exclusivity, confidentiality, and fees) are contractually agreed upon by the parties.

The term sheet has been designed to be used as an instruction sheet for the professional advisers involved in the deal and has been drafted to include all relevant information that they will require. It is intended and recommended that each party involved in the deal passes the completed term sheet to their advisers so each adviser receives the same information.

It is a recommended good practice that all fundamental points in relation to the deal be included in the term sheet and agreed upon at an early stage. Raising key and fundamental points later in discussions may increase the amount of time involved in finalizing legal documents, cause unnecessary tension between parties, and increase costs.

The term sheet and this guidance note are not a substitute for full legal advice. Appropriate legal and accountancy advice should be taken for each deal.

General

Objective

The objective of the investment and the intended exit strategy should be discussed with the management team at an early stage. This will ensure that the investors and management team are aware of the long term goal of the investment and that there is a focus on an exit. The proposed exit should also be considered and provided for in the business plan.

Investment

Lead Investor

The lead investor should be identified as early as possible and her/his remit should be clarified and agreed upon. In particular, it should be clear whether the lead investor has the authority to agree or not to matters relating to legal documentation. This should prevent other investors (who are not directly involved in negotiating the documents) from raising additional matters later in the process that have been agreed to or negotiated by the lead investor. It is important to set out early in the deal who has the authority to make decisions, who is pushing the deal forward, and that all relevant contact details are included in the term sheet (particularly in syndicated deals).

Tranches

The investment may be provided in a number of 'tranches' (or separate stages) for which specific milestones (such as the achievement of certain financial targets) may be set. This helps investors reduce the risk involved

in the investment and to incentivize the management of the company. If this is the case, the basic terms of this arrangement should be set out in the term sheet. The investors may require further warranty protection on each closing date of a tranched investment. Careful consideration should be given to how milestones will be measured and that these details are included in the investment documents.

Options/ Warrants

There are a number of different ways in which share options or warrants can be structured and again, this may be a useful manner in which investors can minimize their risk/exposure in an investment. For example, a shareholder or employee can be given the right to acquire shares at a later date (usually on an exit) for a price agreed upon at the grant of the option/warrant. Brief details of any such provisions should be included in the term sheet with full details being provided in the investment documentation. Full legal and accountancy/tax advice relating to the structure of any such arrangement, should be taken both by the investee company and individual shareholders.

Loan/Loan Notes

The investment may comprise an equity investment (subscription for shares in the investee company) and a loan element. The loan may be constituted by way of loan notes (which are often convertible into shares). If this is the case, details should be included in the term sheet and further detail (relating to interest rates, repayment dates, and conversion rights, etc.) should be included in the capitalization table of the term sheet. Again, full details of these provisions will be included in the investment agreement and associated loan documentation. Full advice should be taken about the structure of the investment to ensure that the most efficient and appropriate structure is used (both from the company and shareholder perspective) and tax reliefs are not jeopardized.

Conditions Precedent

Key conditions precedent in relation to the deal should be identified at an early stage. The term sheet includes a number of standard conditions precedent but these will need to be added to in light of the diligence carried out. Any unusual or particularly onerous precedent conditions should be highlighted to the company as early in the deal process as possible. Where other funding is being provided, and it is a condition that this is in place prior to the investment being made, this should be made clear to all parties at an early stage and other parties should be asked to ensure that funding is arranged appropriately. The management team should be instructed to contact the company's bank and organize all other funding (including grants and government-assisted loans) as soon as they know that the deal is proceeding and well in advance of completion so that these matters do not delay completion.

Ratchets

No provision relating to ratchets has been included in the term sheet as it is fairly unlikely that a ratchet mechanism will be used in a typical deal of this nature. Ratchets are performance related price adjustment mechanisms designed as an incentive for owner managers. Mechanisms vary but generally ratchets have the effect of increasing the amount of equity held by managers if certain targets are reached. Ideally these should be kept as simple as possible and companies, investors, and their advisers should keep in mind the size of the deal and the fact that complex price mechanisms may not be appropriate or helpful in the circumstances. However, these mechanisms can be an effective incentive and a manner in which differences in opinion on the valuation of the company between the investors and managers can be addressed. If ratchets or similar price mechanisms are to be part of the deal, brief details of these provisions should be included in the term sheet and the structure of these should be considered and agreed upon as early as possible. Again, full legal and accountancy/tax advice should be taken in relation to the structure of any such price adjustment mechanism.

Return of Capital

It is fairly common for all investors and existing shareholders to rank equally on a return of capital (on winding up/liquidation or otherwise); but if this is not the case (for example, if investors are to rank ahead of the existing shareholders) this should be provided for. Investors should consider what rights they would expect on a return of capital.

Legal Structure/Investor Rights

Investor Director/Observer

The composition of the board should be discussed at an early stage so that a clear management structure for the company going forward is agreed upon. Confirmation of whether or not investor director(s) will be appointed should be discussed and any such investor-director should be carefully chosen to ensure that she/he adds value to the company. Remuneration or monitoring fee of any such investor director(s) should also be agreed upon. Replacement directors may be appointed by the investor majority. Investors may also require the right to appoint an 'observer' to attend board meetings.

Investor Majority/Investor Protections

Consideration should be given to what needs to be decided at board level with the approval of the investor-director (usually matters of management) and what needs to be decided at shareholder level subject to the consent of the investor majority (usually more fundamental matters). Although adequate investor protections should be included, these should be kept to what is required to adequately protect the position of the investors and not go beyond this. Full provisions relating to matters that will require investor consent or the consent of the investor-director are included in the model investment agreement. Consideration should also be given to what will constitute an investor majority and how, on a practical level, decisions will be made by the investors (particularly in syndicated deals).

Information Requirements

In order to protect the investment and to keep up to date with the business of the company, certain information (both commercial and financial) is required by the investor(s). The level of information required, the format in which this is to be presented (that is, hard copy/email), how and to whom (whether all investors/angel group) it is to be communicated should be discussed and agreed upon. Investors who are investing as part of a group should also agree how this information will be circulated to the group.

Warranties

A warranty is a contractual representation or assurance as to the condition of the company. It is usual practice for warranties to be provided by both the company and members of the management team. If the warranty turns out to be wrong, investors can claim damages from warrantors. Appropriate warranties for the size and type of deal should be sought from the management team and, usually, also the company. Common matters that need to be warrantied has to be considered in light of the diligence exercise and nature of the company.

Management may seek to impose limitations on their liability under the warranties being provided (such as certain time periods within which warranty claims must be made) but investors should ensure that they are able to recover their full investment (plus costs and expenses if possible). The management team (and usually the company) should be asked to give the warranties on a joint and several basis which is normal in investments of this nature (this can be regulated between the management team by way of a contribution agreement if required). Members of the management team may seek to limit the level of their liability (with regard to their salary) although whether or not this is agreed upon will depend on the terms of the deal. This will need to be determined on a case by case basis.

The importance of thorough diligence cannot be emphasized enough and, although negotiating appropriate warranties is important, in practice these are fairly seldom relied on and the most crucial exercise for investors is to ensure that a thorough and appropriate diligence exercise has been carried out. As noted above, the management team (and their advisers) should be encouraged to make disclosures as early as possible.

Voting Rights and Dividends

As noted above, accountancy and tax advice should be taken at an early stage. Consideration should be given to the voting rights attached to the shares (and these rights should tie in with the investor protections discussed above). Appropriate controls over the payment of dividends should be sought. Consideration should be given to whether or not a set percentage of profits available for distribution should be paid each year.

Drag Along/Tag Along

'Drag along' rights are commonly contained in investment documents and provide that a certain percentage of shareholders of a company, when accepting an offer to sell their shares, can force other shareholders to sell their shares on the same terms. Similarly, 'tag along' rights or 'piggyback' rights allow shareholders to force other shareholders who wish to sell their shares to ensure that their shares are also bought on the same terms.

Good Leaver/Bad Leaver

Good leaver and bad leaver provisions are used to tie the management team to the company by regulating how their shares are valued when they leave the company, depending on the reason for their departure. A person is usually deemed a bad leaver if she/he leaves within a certain period of time following completion or if he/she is dismissed. A person is usually a good leaver if she/he leaves as a result of incapacity or retirement.

Although these provisions can be useful in incentivizing key members of the management team to remain with the company, as with the price mechanism provisions discussed above, they should be kept as straightforward as possible in light of the nature and size of the deal.

General

Disclosure Letter

A disclosure letter should be exhibited at least ten days prior to completion. Investors should encourage the management team to ensure that the diligence process and disclosure letter are dealt with as early as possible to avoid problems later. Set out a specific date in the term sheet to encourage early disclosure. This should prevent any tension or issues arising as a result of material issues being disclosed at the last minute, and allows investors to consider any warranties that are required.

Other

Exclusivity/Confidentiality/Fees

Investors should ensure they have a period of exclusivity (during which the company cannot negotiate or discuss a deal with any other party) for an appropriate length of time.

Confidentiality provisions should be formally agreed upon to protect all parties negotiating the investment. These should be formalized at an early stage (using the term sheet).

Given that investors will invest time and incur costs during the diligence process, provisions for fees should be formally agreed upon at the term sheet stage. It is usual practice for the investors' fees to be met by the company. Consideration should be given to who will meet the fees if the investment does not proceed to completion. This is often the company unless the investors have withdrawn from the investment.

Accountants

Investors should take accountancy and tax advice early in the deal process to ensure that the deal is structured in the most efficient manner possible.

Bankers

The management team should be advised that the company's bankers should be contacted as early as possible in the deal to ensure that all necessary consents and other documents (such as letters of non-crystallization) are obtained when required and do not delay completion of the deal. These documents can take some time to obtain, so this should be anticipated.

APPENDIX 12: Mentorship for Equity Contract Template

The example Adviser agreement is not a substitute for full legal advice and appropriate legal and accountancy advice should be taken for each deal.

Example Adviser Agreement

This Founder Adviser Agreement (the "Agreement") is entered into the date set forth on the signature page by and between the undersigned company (the "Company") and the undersigned Adviser (the "Adviser").

The parties agree as follows:

1. Services. Adviser agrees to act as a mentor or Adviser to the Company and provide advice and assistance to the Company from time to time as further described in Schedule A attached hereto or as otherwise mutually agreed to by the parties (collectively, the "Services").

2. Compensation. Adviser shall not be entitled to receive cash compensation; however, Adviser shall be entitled to receive the equity compensation indicated on the signature page hereto at an exercise price equal to the fair market value of the Company's Ordinary Shares, which will be documented in the applicable Stock Option Agreement or Restricted Stock Purchase Agreement to be entered into by Adviser and the Company.

3. Expenses. The Company shall reimburse Adviser for reasonable and documented travel and related expenses incurred in the course of performing services hereunder, provided, however, that all such expenses shall be approved by Company. The Adviser shall email a request for approval including documentation detailing the nature of the expense and amount requested to the Company, when possible, in advance of incurring any such expense.

4. Term and Termination. The term of this Agreement shall continue until terminated by either party for any reason upon thirty (30) days prior written notice without further obligation or liability.

5. Independent Contractor. Adviser's relationship with the Company will be that of an independent contractor and not that of an employee. Except for the compensation set forth in paragraph 2 above, Adviser will not be eligible for any employee benefits, nor will the Company make deductions from payments made to Adviser for employment or income taxes, all of which will be Adviser's responsibility. Adviser will have no authority to enter into contracts that bind the Company or create obligations on the part of the Company without the prior written authorization of the Company.

6. Nondisclosure of Confidential Information.

    a. Agreement Not to Disclose. Adviser agrees not to use any Confidential Information (as defined below) disclosed to Adviser by the Company or its representatives for Adviser's own use or for any purpose other than to carry out discussions concerning, and the undertaking of, the Services. Adviser agrees to take all reasonable measures to protect the secrecy of and avoid disclosure or use of Confidential Information of the Company in order to prevent it from falling into the public domain or the possession

of persons other than agents of the Company or persons to whom the Company consents to such disclosure. Upon request by the Company, any materials or documents that have been furnished by the Company to Adviser in connection with the Services shall be promptly destroyed or returned by Adviser to the Company.

b. Definition of Confidential Information. "Confidential Information" means any information, technical data or know-how (whether disclosed before or after the date of this Agreement), including, but not limited to, information relating to business and product or service plans, financial projections, customer lists, business forecasts, sales and merchandising, human resources, patents, patent applications, computer object or source code, research, inventions, processes, designs, drawings, engineering, marketing or finance to be confidential or proprietary or which information would, under the circumstances, appear to a reasonable person to be confidential or proprietary. Confidential Information does not include information, technical data or know-how that: (i) is in the possession of Adviser at the time of disclosure, as shown by Adviser's files and records immediately prior to the time of disclosure; or (ii) becomes part of the public knowledge or literature, not as a direct or indirect result of any improper inaction or action of Adviser. Notwithstanding the foregoing, Adviser may disclose Confidential Information with the prior written approval of the Company or pursuant to the order or requirement of a court, administrative agency or other governmental body.

7. No Rights Granted. Nothing in this Agreement shall be construed as granting any rights under any patent, copyright or other intellectual property right of the Company, nor shall this Agreement grant Adviser any rights in or to the Company's Confidential Information, except the limited right to use the Confidential Information in connection with the Services.

8. Assignment of Intellectual Property. To the extent that Adviser jointly or solely conceives, develops or reduces to practice any new inventions, original works of authorship, developments, concepts, know-how, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws or other intellectual property which would be deemed to be Confidential Information of the Company (collectively, "Intellectual Property") which clearly relates to the Company's business or technology and has been created by the Adviser solely in the course of the performance of Services such as in correspondence, e-mails, or meetings relating to the Company, Adviser hereby acknowledges that it is "work made for hire" for the benefit of the Company and hereby assigns all rights, titles, and interest to such Intellectual Property to the Company.

9. Duty to Assist. As requested by the Company and only with respect to Intellectual Property created by Adviser for the Company as provided in paragraph 8 above, Adviser shall take all steps reasonably necessary to assist the Company in obtaining and enforcing in its own name any such Intellectual Property right. Adviser's obligation to assist the Company shall continue beyond the termination of Adviser's relationship with the Company, but the Company shall compensate Adviser at a reasonable rate after the termination of such relationship for time actually spent at the Company's request providing such assistance.

10. No Conflicts. Adviser represents that Adviser's compliance with the terms of this Agreement and provision of Services hereunder will not violate any duty which Adviser may have to any other person or entity (such as a present or former employer), and Adviser agrees that Adviser will not do anything in the performance of Services hereunder that would violate any such duty. In addition, Adviser agrees that, during the term of this Agreement, Adviser shall promptly notify the Company in writing of any direct competitor of the Company which Adviser is also performing services. It is understood that in such event, the Company will review whether Adviser's activities are consistent with Adviser remaining as an Adviser of the Company and shall have the right to terminate this Agreement in its sole discretion.

11. Miscellaneous. Any term of this Agreement may be amended or waived only with the written consent of the parties. So long as the Adviser continues to serve as an Adviser to the Company, the Adviser hereby consents to the Company including his or her name on its marketing materials, website or private placement memo, or offering materials as an Adviser of the Company. This Agreement, including any schedules hereto, constitute the sole agreement of the parties and supersedes all oral negotiations and prior writings with respect to the subject matter hereof. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of [YOUR COUNTRY], without giving effect to the principles of conflict of laws. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

Signature Page

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of ___/____/_____.

Company	Adviser
By: _____	By: _____
Name: _____	Name: _____
Address: _____	Address: _____
_____	_____

Adviser Compensation

Adviser Performance Level	Stage		
	Idea Stage	Startup Stage	Growth Stage
Standard	____ ____ (0.50%)	____ ____ (0.40%)	____ ____ (0.30%)
Strategic	____ ____ (1.00%)	____ ____ (0.80%)	____ ____ (0.60%)
Expert	____ ____ (2.00%)	____ ____ (1.60%)	____ ____ (1.20%)

Both parties must initial in one box to designate the Adviser Compensation.

Total Number of Shares of Common Stock:

_____ shares so long as Adviser satisfies the Performance Level of Service as checked above*

If the Company's capitalization structure is currently unknown, fill in 'TBD' above.

Vesting Period:

All shares shall vest on a pro rata basis monthly over a 2-year period, 100 percent of unvested shares shall vest on closing of sale of the Company

**Adviser's performance level of service shall be determined by the Company, and its determination shall be final and binding; provided that Adviser may request confirmation of the level of service at least each quarter.*

Schedule A: Services Based on Performance Level

The Adviser Compensation and Services are determined using the guidelines below.

Standard Performance Level

Commitment	Services	Compensation**	
Attend quarterly meetings to provide feedback on Company's strategy for at least one hour. Attend quarterly meetings of the Company's Advisory board. Provide reasonable response to email requests by Company.	**Promotion:** On top of the regular advice and insights, Adviser agrees to actively promote and make introductions on behalf of the Company through Adviser's overall network of business contacts, including forwarding the Company's business plan and other materials as requested by the Company.	Idea Stage is	**0.50 percent**
		Startup Stage is	**0.40 percent**
		Growth Stage is	**0.30 percent**

Strategic Performance Level

Commitment	Services	Compensation**	
Standard Performance plus: Attend monthly meetings to provide feedback on Company's strategy for at least one hour. Attend one additional monthly meeting for up to one hour with a potential customer, investor, strategic partner, vendor or employee.	*Standard Performance plus:* **Recruiting:** Adviser agrees to assist Company in finding additional, potential founding team members and employees through the Adviser's overall network of business contacts.	Idea Stage is	**1.00 percent**
		Startup Stage is	**0.80 percent**
		Growth Stage is	**0.60 percent**

Expert Performance Level

Commitment	Services	Compensation**	
Strategic Performance plus: Twice monthly meetings to provide feedback on Company's strategy for at least two hours each.	*Strategic Performance plus:* **Contacts:** Adviser agrees to make introductions to and assist in the acquisition of marquee customers, strategic partners, investors, and key industry contacts and attend meetings with such potential customers, partners, investors, and key contacts. **Projects:** Adviser agrees to assist the Company on at least one strategic project as requested by the Company for the term of this Agreement.	Idea Stage is	**2.00 percent**
		Startup Stage is	**1.60 percent**
		Growth Stage is	**1.20 percent**

*** General Percentages with final numbers indicated on the Signature Page to the Agreement and in the applicable Option or Stock Purchase Agreement.*

APPENDICES

Schedule A: Company Stage

The Company Stage is determined using the guidelines below.

Stage	Characteristics	
Idea	**Team:**	The team consists of full-time founder(s).
	Customers:	The company is in discussions with potential customers to determine demand in the market. The pricing/revenue structure has been developed, but needs market validation.
	Revenue:	The company has no revenue.
	Investors:	[Investors] may have provided seed funding.
	Product:	The specifications for a minimum viable product including wireframes and system designs are complete.
Startup	**Team:**	The team consists of full-time founder(s) and is in the process of hiring initial employees as needed.
	Customers:	The company has received letters of intent or customer commitments and the market need has been validated.
	Revenue:	The company may be collecting revenue.
	Investors:	Initial seed funding investment has been made by [investors].
	Product:	A minimum viable product has been launched.
Growth	**Team:**	The team consists of full time founder(s) and is in the process of hiring employees as needed.
	Customers:	The company has achieved significant traction and user-based growth.
	Revenue:	The company is collecting revenue.
	Investors:	[Investors] investment has been raised and additional follow on investment may have been raised via the [investors] or professional investors (angel, venture capital, etc.). The founders are prepared to pitch to professional investors if additional capital is needed.
	Product:	The product has been launched and is periodically refined based on customer feedback.

infoDev
Growing Innovation

©2013 infoDev / The World Bank | 1818 H Street, NW | Washington DC, 20433
Email: info@infoDev.org | Tel + 1 202 458 8831 | Twitter: @infoDev
www.infodev.org