Exploring the business angel market in Colombia: what are the main challenges?

Abstract

Colombia is one of the Latin American countries that has drawn more attention for the relevance that entrepreneurship and innovation have acquired in recent years. According to the Global Entrepreneurship Monitor Report, Colombia is one of the countries that in the last six years has maintained a rate of early stage entrepreneurial activity of equal to or greater than 20%, reaching 23.7% in 2013. Despite that, access to financing is one of the principal problems faced by entrepreneurs, since banks will hardly grant credit to entrepreneurs. In that context, the angel investment, as an alternative for early stage financing, becomes an imperative. There are angel investor networks in Colombia, but little is known about them. So the objective of this paper is to make visible the angel activity in Colombia, its evolution, and the principal challenges that this market faces in order to become consolidated. This is a case study based on an exhaustive bibliographical review and interviews with key informants, especially the managers of the networks. This is a pioneering study in its area that will evidence the status of the angel market in Colombia, completely unknown up to now. The main findings indicate that the angel market in Colombia is quite recent, but has much potential to become consolidated over time. The main challenges are linked to the lack of fiscal incentives and a venture capital culture, among others. Finally, this study will enable the academic community to understand the status of the angel market in an emerging country and to set the base for future research along this line. The study will also be another input for policy makers to prepare public policies to encourage early stage financing.

Key Words: Angel investment, business angel market, informal venture capital.

Introduction

Angel investors are high net worth individuals with experience and networks who provide smart capital to persons with whom they have no connection (Politis, 2008, Mason and Harrison, 1997). These investors act alone or in groups, forming syndicates, clubs or networks of angel investors (Mason and Harrison, 1997). Quantifying the number of angel investors in a region or country is nearly impossible because they generally prefer to remain anonymous (Mason and Harrison, 1996). One way of visualizing their activity by means of the formation of groups, whether clubs, syndicates or networks.

One of the most common ways they organize themselves in Latin America is through networks. Currently, there are approximately 22 active angel investor networks in the region (FOMIN/BID, 2013). However, little is known about the countries in which these networks exist. There are studies about Chile that show the existence of angel investor networks promoted by the government (Amorós et al., 2008, Romaní et al., 2009, 2013) and about Argentina that show the existence of a boom of angel investors at the end of the 90's, (Jacobsohn, 2012; Jacobsohn and Cochello, 2002). However, little is known about the rest of the Latin American countries, more specifically about Colombia. This country is an interesting case study due to its growth as well as its macroeconomic stability in recent years, the strong push the government is giving to entrepreneurship and innovation, and the creation of angel investor networks in different regions of the country. In that context, this article analyzes angel activity carried out in Colombia; to what extent this market is developed and what would be lacking for its consolidation.

This study is a descriptive case study, based on interviews to the managers of the four angel investors networks existing in the country and to other persons related to this activity in order to analyze its origins, the way angel networks operate and the principal challenges these networks are facing. The results show that the country has a strong potential to develop a robust informal venture capital market in the medium term. However, venture capital culture is still weak among entrepreneurs and investors, as well as their professionalization and the legal framework that regulates this activity.

The paper is divided into five parts: the first one studies the angel investment market and its importance in developing countries. The second addresses the case of Colombia in terms of access to financing, the entrepreneurship and innovation ecosystem and the development of the formal and informal venture capital market. The third part describes the methodology and the fourth part presents the main results. In the fifth part, these results are discussed, raising finally some conclusions and recommendations.

1. Theoretical Framework

1.1. Angel investment, an international approach

When investing in other people`s projects, angels not only provides capital but also experience and contact networks (Mason, 2006; Kelly, 2007). Consequently, this type of investment is called "smart capital" as far as it is expected to add value to the new startup. These investors act alone or in groups, forming networks, syndicates or clubs. These investors are difficult to find when they act alone. They generally try to be anonymous, so it is nearly impossible to quantify them in the market. However, the networks give more visibility to the activity without necessarily revealing their members and also are the principal channel of communication between entrepreneurs and investors. (EBAN, 2009).

Through the analysis of networks we can know the number of members, how much they invest on average and, most importantly, where to go with an innovative project, because these groups are generally found in the wings of universities, scientific parks, etc., and the majority of them have a website or are part of a national network of angel investors.

Being part of an angel investment group or network has many advantages compared to acting alone as an angel investor. Highlighted among these advantages are:

- The risk portfolio of the investors is diversified. When two or more angels invest in a project they are diversifying their risks.
- The bargaining power of the angels increases. They can obtain more benefits in terms of participation and access to information.
- The potential investment increases, which benefits the entrepreneur who is looking for financing.
- It brings together investors with different trajectories and specializations that have different experiences and contact networks, which also benefit the entrepreneurs.
- It attracts other sources of financing. Having a project financed by an angel or various angels is like a letter of introduction to apply for other financing alternatives, such as investment funds and others (EBAN, 2009).

The advantages of acting in groups have permitted the formation of various groups of angel investors, standing out among which are networks, syndicates and clubs, among others. Just to have an idea, in the United States, where this activity had its origin, there are around 340 networks of investors. In contrast, in Latin America and the Caribbean, there are approximately 28 networks of investors, of which only 20 are operating. These networks invested in 99 projects from 2005 to 2011, with a volume of investments amounting to 26 million dollars (FOMIN/BID, 2013). It is important to point out that the number of investors linked to the networks is only a small proportion of the total angel investors. According to the OECD (2011), the angel networks represent just 3% of angel investment in the United States, 7% in the European Union, and 12% in the United Kingdom. The Center for Venture Research at the University of New Hampshire estimates that the total active angel investors in the United States were 298,800 in 2013, 11.4% more than in 2012. They invested USD 24.8 billion in 70,730 entrepreneurial ventures, an average of USD 350,629 (Sohl, 2014). Unfortunately, no information is available about the total angel investment in Europe or in Latin America (OECD, 2011).

1.2 The importance of angel investment in developing countries

This type of investment is important not only in developed countries but also in developing, where access to financing is one of the main problems, as is the case in Latin American countries, particularly Colombia. Generally, in Latin American countries the principal source of financing is the bank system, which requires real guaranties and grants loans to companies that have payment capacity, such as medium and large companies. Small companies or entrepreneurs' projects generally do not have the real guaranties that banks require and many do not have financial statements because they are just starting, so they lack additional alternatives. In this context, angel investment has special importance because it involves intelligent capital (Aernoudt, 2005). An angel investor not only provides capital but also experience, and makes networks of contacts available, that entrepreneurs in their initial stages do not usually have (Ramadani, 2009). In this sense, angel investors play a preponderant role in the entrepreneur's endeavor by providing know-how and networks that the bank does not provide. This financing/investment alternative is also important because it is oriented toward the early stage; that is, the first stages of a company's lifecycle and it minimizes the first funding gap, also called the seed gap, which is between the financing from the 3Fs (friends, family and fools) and the venture capital funds, which do not tend to invest small amounts due to their high transaction costs (Mason and Harrison 1999). The seed gap is usually under US$1 million in the USA, the UK and other countries. Business angels generally invest between US$50,000 and US$1,000,000 in the USA (Wetzel 1994). In the UK, the range is between 50,000 and 500,000 pounds (Mason and Harrison 2011).

Generally in developing countries most start-ups are begun with the entrepreneur's own savings, support from family and friends. Subsequently, some can apply for subsidies from the government through the different support programs that exist in each country. However, these resources are limited and not all can access them. In parallel, as mentioned above, banks do not lend to entrepreneurs and the venture capital funds do not invest in the early stage. In this circumstance the angel investment become a key source of funding for the new start ups.

This financing alternative is also important in developing countries because there is empirical evidence that angel investment contributes to the creation of new jobs. Sohl (2014) has shown that in the United States an average of 4.1 jobs were created for each angel investment, totaling 290,020 new jobs in 2013.

Finally, it is important to point out that investors generally invest in areas close to home, and in many of those places there is no venture capital system, so these investors would be covering those geographic areas, providing greater regional development (Lipper and Sommer, 2002).

2. The Case of Colombia

Colombia is an interesting case study for different reasons, standing out among which are: it is the fourth most important economy in Latin America (Banco Mundial, 2014) and third in population after Brazil and Mexico, with 48,581 million inhabitants (DANE (National Statistical Administrative Department), 2010). In 2014 the Colombian economy grew 4.6% and has consolidated itself among the middle to upper income countries (Banco de la República de Colombia, 2015). Its perspectives for 2015 are quite favorable. Growth of 4.4% is projected, which is above the 1.7% for Latin America and 3% for the world (Banco Mundial, 2014). The per capita GDP has shown substantial growth in recent years, rising from levels of approximately USD 5,116 per person at the end of 2009 to USD 9,192 dollars per person at the end of 2012, having reached a maximum level of USD 9,345 dollars per person in 2011 (Banco Mundial, 2014). Inflation in Colombia has presented relatively constant levels for the last year reached its lowest growth in 2013 with a variation of 2%, an effect reversed in

2014, registering a variation of 3.06%, which points out that price stabilization in Colombia has been one of the main themes of the monetary policy managed by the Banco de la República de Colombia.

2.1. Access to financing: a challenge in Colombia

In Colombia, as in many other Latin American countries, the main source of financing for companies is the bank system. According to Doing Business (2013), Colombia moved from 84th place among 178 countries in 2008 to 70th place among 185 countries in 2012, in terms of the ease of obtaining credit for small and medium enterprises (SME). However, despite the progress in the last five years, access to credit is one of the most important challenges for the government.

In Colombia, micro, small and medium enterprises (MSME) represent 99% of enterprises, 80% of private sector employment and 35% of the country's GDP. Nevertheless, credit to MSME represents around 14% of the total credit. This percentage is slightly higher than the average for Latin America, but is below other regions of the world such as Europe and Asia (OECD, 2013), which demonstrates the difficulty for Colombian enterprises to access credit, especially for small enterprises.

A recent survey on entrepreneurship policies (Monitor Group, 2011) shows that a considerable percentage of Colombian entrepreneurs consider that there are insufficient sources of financing available for entrepreneurial activity. When asked about the availability of funds to create new enterprises, 60% of the sample were dissatisfied with the current supply. This percentage increased when the entrepreneurs were asked about the availability of venture capital and sources of seed capital for the creation of new high risk enterprises, reaching levels of 70% and 73%, respectively. The survey also reveals that 68% of the entrepreneurs do not know and/or do not have personal contact with angel investors. This study undoubtedly reflects that angel investors and their importance for early stage financing are little known in this country. Even though government sources state that access to credit has been provided to over 600,000 entrepreneurs in the last three years (Ministerio de Hacienda, 2014), this topic continues to be one of the principal challenges for Colombia.

2.2. The entrepreneurship and innovation ecosystem in Colombia

Colombia is one of the countries with the highest rates of early stage entrepreneurial activity in Latin America according to GEM (Varela, Moreno and Soler, 2013). Entrepreneurial rates have been equal to or greater than 20% in the last five years, motivated mainly by need more than by opportunity. Despite this rate reached 23.7% in 2013 (Amorós and Bosma, 2014), entrepreneurial activity shows certain weaknesses that make difficult the growth and sustainability of enterprises. An important weakness, as in other Latin American countries, is precisely the lack of innovation (Lederman et al., 2014). According to the Confecámaras (2011), the rate of high impact enterprises, that is, those that incorporate innovation in their processes, services or business models, is only 5%. Consequently, creating the conditions for financing new ventures is a challenge for a country seeking to promote the creation of innovative enterprises.

The situation changes when enterprises with a high social impact are involved. In that sense, Colombia has regions such as Bogota and Medellin that are committed to the development of socially inclusive projects based on innovation and has entered the world stage in recent years, obtaining various distinctions. The Wall Street Journal and Citi Group awarded the city of Medellin as the "Innovative City of the Year" in 2012, after having been compared with 200 competitor cities, for its solutions for mobility and environmental sustainability, as well as the proliferation of museums, cultural centers, libraries and schools (Ortmans, 2014). Many organizations, even at a regional level, stand out in this field such as B*ogotá Emprende* (Bogota, Capital District), *Cultura E* (Medellin, Antioquia), *Interactuar* (Department of Antioquia) and *"*Ruta N" (Medellin, Antioquia). All these cities have programs to promote entrepreneurial activity, especially innovative enterprises. One of the main objectives of these non-profit public organizations is to allocate resources to promote technology-based businesses that increase the competitiveness of their regions and consequently the country. Despite these advances, promoting innovative and technology-based enterprises continues to be a challenge in Colombia. In the last two years, specific lines of financing were activated and USD 80 million have been injected in credits allocated for innovation (Bancoldex, 2014). According to Wadsworth (2013), these resources are insufficient and the country needs to increase the financial resources allocated to investment in R&D, which currently does not reach 0.5% of its GDP and is well below the 1.34% invested by other countries in the region, such as Brazil.

2.3. The development of the formal and informal venture capital market in Colombia

The formal and informal venture capital market in Colombia is quite recent. The legal and regulatory framework for the activity of Private Equity Funds dates from the year 2005 with resolution 470 from the Financial Superintendence that allows the establishment of private equity and venture capital funds. Subsequently, in 2007, the administration and activities of collective portfolios of Private Equity Funds was regulated through Decree 2175. However, it is Decree 2555 of 2010, in Part 3 "Collective Investment Funds" that regulates the formation and activities of the Private Equity Funds as a portfolio with autonomy and equity separate from that of its manager, guaranteeing greater legal security for the investor. The evolution and adaptation of the regulatory framework in recent years indicate the concern of different governments and their commitment to promoting the private equity industry in Colombia and the generation of a stable climate for investment.

3. Methodology

This is a descriptive case study with a qualitative focus, where the unit of analysis is a country: Colombia, and in particular, the evolution of angel investor networks in this country. For this purpose, the managers/founders of the four angel networks existing in the country have been interviewed. The interviews were held through Skype and face to face, with a semi-structured questionnaire with open-ended questions about the origin of the networks, the activity, and the principal challenges these networks are facing regarding their sustainability. The interviews were analyzing using the content analysis in order to identify the characteristics of the networks and their evolution.

4. Presentation of the main results

This section presents the main results of the interviews held with the managers of the four active angel investor networks in Colombia.

4.1. Origin of the Networks

"Angeles Inversionistas de Capitalia Colombia" is the first network of investors created in Colombia, in late 2010, with the support of the MIF/IDB as part of its program to support the creation and sustainment of angel investor networks in Latin America and the Caribbean, and the incubator Créame and the City Hall of Medellin. It is managed by Capitalia Colombia[1] and is located in the second largest city of Colombia, Medellin. The MIF/IDB leveraged this network until the year 2013, and it currently has support from "RUTA N", a corporation created by the Medellin mayor's office, UNE and EPM, which facilitate the economic evolution of the city toward businesses that are intensive in science, technology and innovation, in an inclusive and sustainable way.

"Angeles Inversionistas Bavaria" is the second network of angel investors in Colombia, also created with support from the MIF/IDB in 2011 as part of the same program, and also has support from the Fundación Bavaria and recently from the government through its program "Innpulsa Colombia"[2]. The support from the MIF/IDB expires in August 2014, and "Innpulsa Colombia" will leverage the network up to January 2015.

"Angeles Inversionistas HUBBOG" was created in 2012 under the wing of HUBBOG, a co-working space with more than 600 m2, where a specialized academy for entrepreneurs in the Information Technologies field and a specialized network of mentoring operate; many members of HUBBOG form part of the network of investors.

"Red de ángeles inversionistas Rai-Cap", as a business angels network (BAN) is unique in its structure and in its investment philosophy. It was created in 2014 by a small group of investors, whom motivated by two highly experienced investors, decided to create a network under a model of co-investment. Currently, the network is sponsored by the MIF/IDB as part of its program to support the creation and sustainment of angel investor networks in Latin America and the Caribbean.

4.2. The activity of the networks

The network "Capitalia Colombia" has approximately 20 members and has invested USD 1,650,000 in 11 projects, an average of USD 150,000 for each investment. The investment amounts range from USD 50,000 to USD 400,000. To date, the investments have been made individually. No investment

[1] Capitalia Colombia is a financial solutions and services firm, specializing in new, small and medium-sized enterprises. In addition to the angel investors network, this firm manages a venture capital fund for early stages.

[2] An organization of the National Government created in February 2012 to support and promote business initiatives that can grow in a rapid, profitable and sustained manner. See more details at www.Innpulsacolombia.com

has yet been made with two or more investors. An important aspect to mention is that the investors in this network only invest in companies already formed; they do not invest in ideas or business plans. Its operating model is that of a second generation network; that is, in addition to matching entrepreneurs and investors, it also offers various services to entrepreneurs as well as to its investors, and to the entrepreneurial ecosystem itself (Mason and Harrison, 2002). In order to leverage its operating costs, it charges a quota of 3 minimum annual salaries equivalent to one thousand USD, in addition to a commission of 3% on the amount invested. These revenues barely cover a small part of its operating costs. In order to leverage its operating costs, the network is evaluating the possibility of creating a co-investment fund to jointly invest with the angel investors and thereby reduce its operating costs. The geographical scope of this network is only the department of Antioquia, whose capital is Medellin. It invests in health sciences, biotechnology, environment, applied engineering, information and communications technologies, and food technology. The network looks for projects through friends, entrepreneurship centers, "RUTA N"[3], and also through their own platform. That platform helps them do the initial filtering before the investors approach the enterprise.

The network "Angeles Inversionistas de Bavaria" has approximately 20 members and has invested a total of USD 450,000 dollars in three projects, averaging USD 150,000 per investment. The amounts invested by the network range from USD 25,000 to USD 2 million. Currently, its operating model is that of a first generation network, but they are evaluating new business models that include services for both the entrepreneurs and the investors. This network does not charge any fee to its members, so its investors enter and leave the network freely, but on average around 20 members are constant. The network invests in all sectors and its geographic area of operations is the entire country. The network has strategic alliances with universities in Barranquilla and Cali, where they have a representation.

"Angeles Inversionistas HUBBOG" has not yet invested in any project. The members pay a fee for belonging to the network and can invest amounts from USD 20,000 up to USD 2 million, depending on the case. They also intend to invest individually and not as a group. This network operates in Bogota and only finances projects or enterprises oriented toward the technological area. Its members include individual investors as well as family offices. This network also operates as a first generation network; that is, it does the matching between entrepreneurs and investors through business roundtables. Since it is inserted in HUBBOG, which is a co-working space, its sustainability depends on the services it offers in this space, the principal revenue of which is the resources captured from the Academy for entrepreneurs, from the specialized mentoring, and from the rent of its physical space. HUBBOG offers various specialized services to entrepreneurs, such as workshops for the

[3] RUTA N is a corporation created by the Medellin mayor's office, UNE and EPM that facilitates the economic evolution of the city toward businesses intensive in science, technology and innovation, in an inclusive and sustainable manner. Its principal objective is to position Medellin as the most innovative city in Latin America by the year 2021. See more details at www.rutanmedellin.org

preparation of business plans and effective presentations, among others. It charges a rate for each of these services, which enable its sustainability over time.

“Red de Ángeles Inversionistas RAI-CAP” currently has 15 members and has invested a total of USD 560,000 dollars in four projects, averaging USD 140,000 per investment. The amounts invested by the network range from USD 50,000 to USD 600,000. The network operates in a model that all members co-investment in equal proportion. According to the manager of the network, “for investors it represents a decrease in the risk of investment”. With a multidisciplinary group of investors, the network proposes one of its members as “coach”, who works in a coordinate way to add value to the company. This network does not charge any fee to its members, however the network pay a quota of 3 minimum annual salaries equivalent to one thousand USD as member of the network Capitalia Colombia. The investors have been invited directly by the mentors of the creation of the network, according to a relationship based on trust and prior knowledge. The network invests in all sectors and its geographic area of operations is not limited to the national territory. By the way, the network carried out de first investment agreement as part of the “Ángeles del Pacífico” Alliance.

4.3. Main challenges

For “Capitalia Colombia”, one of the principal challenges is the sustainability and profitability of the network. According to the persons interviewed, this network currently has a deficit, but it has support from “RUTA N”, a corporation that covers up to 80% of its operating costs. It is expected to have a surplus in the future. Currently, the managers are evaluating some options, such as creating a co-investment fund. This methodology would help in reducing its operating costs. Another of the network’s challenges, according to the persons interviewed, is the identification of the best projects in which to invest and the investors’ lack of know-how on the specificities of venture capital.

For “Angeles Inversionistas Bavaria”, one of the principal challenges is the creation of a venture capital culture, above all among the investors. According to the administrator of this network, its members are only interested in gains, but not in assuming risks; they are not willing to lose. Also, the payment of any membership is a cultural issue; its investors are not willing to pay any fee. They are not yet aware of the importance of this activity in financing the early stages; so it is important to do the prior work; that is, generate awareness in the investors and a venture capital culture, where risk is included. Another big challenge for this network is also its sustainability over time. While it currently still has support from the MIF/IDB and from the government, these have an expiration date, so the network is seeking new mechanisms that will enable its sustainability over time. An additional challenge for this network is the coverage at a national level. This network was awarded a government project to start up networks of investors throughout the country, so it formed alliances with the *Universidad del Norte de Barranquilla*, the *Universidad Javeriana de Cali* and with the *Fundación Bolívar Davivienda*, which is one of the largest financial groups in the country in Bogota. By means of these alliances, the network is organizing a national network with presence in Bogota, Cali and Barranquilla initially.

"Angeles Inversionistas HUBBOG" considers that one of its principal challenges is the professionalization of the entrepreneurs and investors. According to its manager, the logic of venture capital is not yet instilled in either the entrepreneurs or the investors, so they need to become professionalized in this topic. For this manager, one of the challenges for all the networks in Colombia is to construct an informal venture capital model according to the country's reality and culture, with its own rules and standards. Another challenge he points out is the current legal framework: company frameworks and corporate governance need to be developed. From his perspective, there is very little development on these topics.

According to the "Red de Ángeles Inversionistas RAI-CAP", the business angel market in Colombia is still very incipient and with few incentives. As mentioned by other networks, the main challenge are associated with the sustainability of the network, but for this manager also the existence of viable projects should be considered.

5. Discussion of the results

Table 1 summarizes the principal results for each of the networks regarding the origin of the network, activity and principal challenges.

The results show that angel activity is quite recent in the country and is driven in three of the four cases by multilateral organisms such as MIF/IDB. It is also important to point out that these networks not only have the support of multilateral organisms but also have significant financial backing, such as from foundations or financial institutions (the Capitalia bank in the case of the "Capitalia Colombia" network, and the Fundación Bavaria in the case of the "BAVARIA" network), and support from different government institutions, such as "Ruta N", in "Capitalia Colombia" and "Innpulsa Colombia", in the BAVARIA network. The other networks only have the support of its members, who are investors or family offices.

In relation to the way they operate, none of the networks has a defined business model. The oldest is operating as second generation network and is seeking business models that enable their sustainability over time. Both "Capitalia Colombia" and HUBBOG networks have their investment sectors well defined, while the BAVARIA and RAI-CAP networks have not defined a particular sector. They are interested in good projects that add value, regardless of the sector. The "Capitalia Colombia" network does not invest in business plans but rather in companies in their early stages that have a product or service that is already proven in the market. The other three networks do not have that restriction. In terms of the geographic scope, the "Capitalia Colombia" and "HUBBOG" networks invest in their respective regions, the first in the department of Antioquia and the second in Bogota, while the

BAVARIA network invests in projects in any place in the country. RAI-CAP, in turn, has invested in an international project which was the first agreement as part of a regional alliance between BANs. Their ranges of investment are from USD 20,000 up to USD 2 million, depending on the case. To date, their average investments have been less than USD 200,000.

An important aspect to mention is the fees their members pay. In two of the four networks the members have to pay an annual membership fee. The investors are not aware of the advantages of belonging to a network of investors instead of acting alone. This makes it difficult for the network to maintain projects because its members enter and leave the network and only a small group is constant.

In terms of the number of projects in which they invest, it is important to point out that the "Capitalia Colombia" network financed eleven projects because prior to its creation there was an investment fund in its early stages and that fund did invest in projects, so some of the enterprises financed by this network came with financing prior to the investment fund. The RAI-CAP and BAVARIA networks have financed four and three projects respectively and the HUBBOG is evaluating projects.

With regard to the principal challenges, one that is transversal to all the networks is the lack of a venture capital culture among the entrepreneurs as well as the investors. Since the topic is quite recent, and despite the efforts made by government institutions both at a national level, such as the case of "Innpulsa Colombia", and at a regional level, such as the case of "Ruta N", a venture capital culture has not yet been implanted in Colombia. This aspect is key for consolidating an informal venture capital market.

Another aspect mentioned by three of the four networks as one of their challenges is the sustainability and profitability of the network. Neither network is profitable yet. They have significant financial support from foundations, financial institutions, and the government, at both a national and regional level. Nevertheless, these networks want to be self-sustainable over time, when the institutions stop supporting them, and this is a big challenge being faced not only by the networks in Colombia but also in Chile and other countries in Europe (Romaní et al., 2013, San José, 2007).

The training of the entrepreneurs and investors is also mentioned as one of the challenges for the networks. This topic is characteristic not only of Colombia but also of other Latin American countries, such as Chile (Romaní et al., 2013). The activity is less than a decade old in these countries, and it is still at the initial stage of the learning curve, as opposed to Europe and the United States, where there has been learning on this subject and a risk culture has been developed, which is very weak in Latin America. In this sense there are programs in Europe and the United States that prepare both the entrepreneurs and the investors in the different aspects of venture capital, called Investment Readiness, Ready for Equity, or "Academia de Inversionistas Ángeles" in Spain (San José, Roure and Aernoudt, 2005, San José, 2007).

The regulatory framework was also mentioned as a challenge by one of the networks. The regulation of venture capital just started to be regulated in Colombia less than a decade ago in 2005, with the decree for the creation of private equity and venture capital funds. Despite more reforms have been incorporated in recent years, no regulation or decree oriented toward informal venture capital exists. It is known that some fiscal incentives for private investors are being studied, but there is nothing concrete yet.

The construction of an informal venture capital model was also mentioned by one of the networks, alluding that as opposed to the United States and Europe where this activity is more developed, in Latin America it is still an emerging topic, in countries with different realities, so a model in accordance with regional specificities, Colombia in particular, is another pending challenge.

Conclusions and implications and future lines of research

In Colombia, angel activity is still quite recent, so it is not possible to speak of an angel investors market in the country. Nevertheless, the country shows great potential for the development of the activity in the short term and to consolidate this market in the medium term.

Colombia has achieved a significant macroeconomic stability in recent years as can be observed in different indicators such as growth of product, inflation, unemployment, free trade agreements, among others. This makes Colombia an attractive country for investment, despite the violence, that still persists in some of its regions. At the same time, entrepreneurial activity indicators are also quite encouraging. Despite the predominance of necessity entrepreneurship, it is expected that in the short and medium term there will be more enterprises with high growth potential that require angel investment to achieve their development and sustainability.

Another that contributes to increase the potential of Colombia for developing angel activity is the government's awareness of the importance of developing a culture of entrepreneurship and innovation. One example of these efforts is the creation of "Innpulsa Colombia" in 2012, a public organization oriented toward the support and promotion of initiatives that can grow rapidly, profitably and in a sustained manner. "Innpulsa Colombia" has three lines of work: the promotion of a change in mentality to overcome the barriers in the way of thinking; the correction of market failures in order to match supply and demand; and the promotion of the actors in the regions of Colombia to increase the growth of enterprises in their territories. The latter can be corroborated with the creation of "Ruta N" by the Major's Office of Medellin in the region of Antioquia, a corporation that has among its guidelines the development of a culture of innovation, management of know-how, management of networks, access to markets, access to capital and entrepreneurial innovation. This corporation supports the private equity and informal venture capital market through diverse programs, such as structured co-investment through a call to select a private equity fund to manage resources with emphasis on the financing of projects with a high technological impact, and is also a sponsor of the

"Capitalia Colombia" network. It is expected that all these efforts made by the national and regional government will have repercussions in the formation of a culture of entrepreneurship and innovation among their inhabitants. Various reforms recently introduced by the government in the area of formal venture capital could contribute to the development of this activity and could be extended to the promotion of informal venture capital. Specifically, decree 1242 of 2013 that simplifies the process for incorporating and provides for greater transparency in the management of private equity funds. Also remarkable are the reforms introduced in the area of creation of companies. Even though opening a company still has a cost of 8.8% of per capita income, it is well below the average for Latin America (34.5% of per capita income), and it takes 11 days to open a business, which is considered a relatively short time compared to the average of 71 days in Latin America, placing it above Argentina and Peru but below Chile and Mexico where it takes just 8 days to open a company. In any case, the country has significantly scaled in the ranking, moving from 83rd place in 2007 to 43rd place in 2014 (Doing Business, 2014).

One of the main challenges that remain pending related to the formation and consolidation of the angel investment market is the creation of a venture capital culture in the country. As mentioned in the previous sections, the topic of angel investment is quite recent in the country, so the majority of sectors have not yet internalized it, and among these sectors is the large textile business of small and medium-sized companies that still think of banking as the only source of financing in the country, despite the high interest rates and the requirement for real guaranties, which the majority of entrepreneurs and small and medium-sized business owners do not have. So it is important to make the angel investor networks in the country visible and to create more networks in the principal regions of the country. Colombia, unlike other countries such as Chile, which centralizes and concentrates its activities in the region of Santiago, is a more decentralized country, where its regions have autonomous governments that handle their own resources. This will undoubtedly contribute to the emergence of more networks in the regions where they do not yet exist. The organization of seminars on angel investors, such as that organized in the city of Medellin in 2011, is important and necessary for positioning the topic and to raise awareness in the country. In the same vein, the creation of training and coaching programs for investors and entrepreneurs, such as those existing in Europe and the United States, is imperative in order to generate a risk culture and to get to know in depth the specificities of this type of informal venture capital activity.

This study has enabled knowing more about informal venture capital activity, which has been studied very little up to now in some Latin American countries such as Colombia. The academic community is called on to continue studying and going into more depth on these subjects through case studies, not only in Colombia but also the rest of the Latin American countries, since very little is known about what is occurring in those countries.

Table 1: Summary of the main results.

Results	CAPITALIA COLOMBIA	BAVARIA	HUBBOG	RAI-CAP
Emergence				
Year created	2010	2011	2012	2013
Initial financial support	MIF/IDB	MIF/IDB	Private	Private
Other sponsors	Capitalia Colombia, “Ruta N”, Créame Incubator	Bavaria Foundation and Innpulsa Colombia	-	Multilateral Investment Fund (FOMIN) through the IDB.
The activity of the networks				
Sectors	Health sciences, biotechnology, environment, applied engineering, information and communication technologies, and food technology	All sectors	Information and communication technologies (ICT)	Health sciences, pet care, information and communication technologies, Construction Automotive
Geographic range	Department of Antioquia	Entire country	Bogota	Countries of Latin America
Amount they invest	USD 50,000 to USD 400,000	USD 25,000 to USD 2 million	USD 20,000 to USD 2 million	USD 50,000 to USD 600,000
Payment of membership fee	3 minimum salaries + 3% of amount invested	No	Yes	No
Services offered	Matching between entrepreneurs and investors and services for entrepreneurs, investors and the entrepreneurial ecosystem	Matching between entrepreneurs and investors	Academy for entrepreneurs, co-working space and mentoring	Financial services, support in addressing and decision making in the organization funded.
Number of projects financed	11	3	In evaluation	4
Total amount invested	USD 1,650,000	USD 450,000	-	560,000 USD
Form of investment	Individual	Individual	Individual or legal entity	Group
Number of members	Approx. 20	Approx. 20	+ 10	Approx. 15
Principal Challenges	Sustainability and profitability of the network. Venture capital culture To find high growth potential start ups	Venture capital culture Sustainability of the network Coverage at a national level Training of investors	Professionalization of entrepreneurs and investors Venture capital culture Legal framework Creation of an informal venture capital model according to the country’s reality and culture	The sustainability of the network Finding viable projects with potential Product outputs

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