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# Investment Guide: Angel & Impact Investors

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## Investment guide: Angel and impact investors

Investors deploy financial capital to businesses through investment instruments including grants, equity, quasi-equity, and debt, as well as non-financial support through technical assistance packages. Access to different forms of financing is driven by investor type, as well as company need. In this guide, we provide an overview of the investor landscape, with a focus on angel and impact investors who may offer capital to an earlier stage of business and on more concessionary terms than later-stage commercial investors.

### Investors and investment

**Investors** include individuals, businesses or legal entities that allocate capital with the expectation of future financial or non-financial gain. Different types of **investment instruments**, such as debt and equity capital, provide investors with different risks and rewards.

### Investment landscape

The investment landscape is made up of a spectrum of different investors, from those who may be primarily motivated by non-financial 'impact' returns, to those who seek financial 'commercial' returns. An overview of this spectrum is shown in Figure 1. In addition, investors may provide both financial and non-financial investments to businesses.

### Commercial and impact investors

Investment Landscape Overview						
Investor Focus	Impact First			Finance First		
Investor Type	Charitable Donor	Venture Philanthropy	Direct Impact Investor	Indirect Impact Investor	Traditional Venture Capital or Private Equity	
Investor Criteria	Compliance; Mission	Impact; Scalability	Social Impact First; Then Positive Financial Return	Financial Return First, Then Seek Positive Social Impact	Finance First and ESG	Finance Only
Capital Recipient	Nonprofit	Social Enterprise			Socially Responsible Company (ESG)	Commercial Enterprise
Capital	Grants and Donations		Equity and Quasi-Equity		Equity, Quasi-Equity, and Debt	
Returns	None	Negative	Flat to Market Rate	Close to Market Rate	Maximal Returns	
Impact Intent	Only	Full	Significant	Modest	Neutral	None

Figure 1 Investment landscape overview

**Commercial investors** are typically motivated to maximise financial returns for a given level of investment risk. Government bonds are typically considered a benchmark for ‘risk free’ investment, with low interest earned for no (low) perceived risk of default. Corporate debt or equity investments carry higher risk of default or loss of capital, and as such are compensated through higher returns. Investors consider both systematic and specific risk, with systematic risk referring to risks that cut across industry and cannot be mitigated through diversification and specific risk being those that are unique to a given company.

Investors are increasingly interested in realising **non-financial returns** from their capital.

**Impact focused investors** provide capital into businesses or projects that generate positive, measurable social and environmental impact.

Impact is typically measured against a set evaluation criteria or framework (e.g. the Sustainable Development Goals (SDGs)) to assess an investor’s progress towards their investment goals. Impact investors typically trade off commercial financial returns for impact gains.

### Financial & non-financial investment

Commercial and impact focused investors may provide either financial or non-financial support.

**Financial support**, in the form of financial investment, includes grants, equity, quasi-equity and debt investment instruments. Donations are provided to a business in cash or in kind and are not repayable. Grants in cash or kind on the other hand may or may not be repayable but typically require some level of compliance and reporting from the grant maker. Equity financing is provided in return for partial ownership of the business. By contrast, debt financing is typically repayable with interest on a pre-agreed schedule. The “Debt financing” and “Special instruments” commercialisation guides provide further details on the different investment instruments available.

Financial investment is typically used to strengthen the financial position of the company, pay for capital expenditure or finance working capital.

**Non-financial support** may take the form of direct business support and technical assistance provided by consultancies and industry specialists. For instance, this may include market research, business intelligence analytics, management coaching and team trainings.

The goal of non-financial support is to build company capacity. It is typically invested alongside financial capital to support the business in achieving its growth plans.

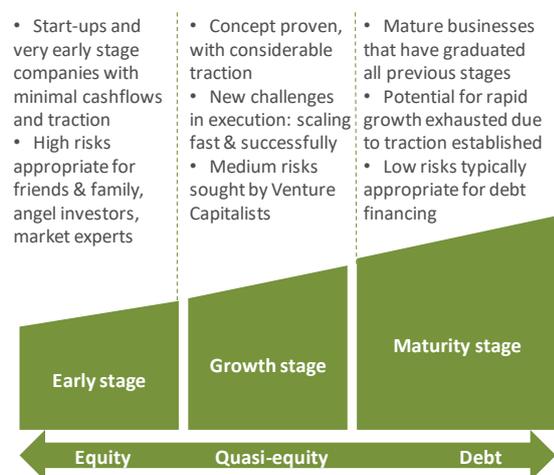


Figure 2: Impact of business life cycle on investment instruments

### Business life cycle

The financial investment instruments available to a business are typically determined by business stage and available cashflows, as set out in Figure 2.

Each investment instrument carries a different risk and reward profile, which in turn impacts which investor type will be most appropriate at each business stage.

Early-stage businesses with minimal cashflows are perceived as higher-risk and are unlikely to be able to support debt repayments. Equity investment that compensates for higher risk through higher returns to investors does not require immediate cash outflows from the business, and may be more appropriate at an

earlier stage. Alternatively, grant financing that may or may not be repayable may also be accessed to finance projects and operations.

At growth stage, businesses that have proven business models are significantly de-risked but still require reinvestment of cashflows for growth. Quasi-equity, whose terms can be tailored to business need, may be most appropriate and are detailed further in the “Special instruments” commercialisation guide.

Lastly, at the maturity stage, companies have lower risks and generate sufficient cashflows to service debt. The “Debt financing” commercialisation guide provides further details on debt investment.

## Angel investors

Angel investors are typically high net worth individuals who invest in earlier stage businesses through equity or quasi equity instruments. They may be mission driven industry experts, looking to share knowledge, expertise, and networks through closer mentorship of entrepreneurs. In addition, Angels may also be motivated by the opportunity of outsized returns associated with investment in higher-risk earlier stage businesses, believing the financial and non-financial support they offer can improve the chances of business success.

Industry events and specialist Angel network programmes, some examples of which are set out in Table 1, can provide a starting point for identifying angel investors.

Table 1: Examples of Angel Investor networks	
Angel Investor Network	Network focus
<b>UK Angel Investment Network</b>	Works with entrepreneurs across 80 countries, including those in Europe, Asia, and Africa, and focuses on businesses in sectors like technology and financial services
<b>Cross Boarder Angels &amp; Investors</b>	Focuses on commercial start-ups across Europe, North America and Asia in diverse sectors including health and e-commerce
<b>Cambridge Angels</b>	Typically invest in early-stage Europe-based businesses across multiple sectors

The benefits associated with Angel investments include access to early-stage financing from investors with a higher-risk tolerance than institutional investors. In addition, Angel investors are not governed by investment committees, and as sole decision makers, are typically able to deploy capital faster than institutional investors. A key benefit attributed to Angel investors is the non-financial investment associated with expertise and networks that they can bring to the business.

Angel investment typically does require some loss of control on key business decisions. To monitor their investment, Angels will typically require board participation, and may require restrictive and affirmative covenants on operational, corporate structure and equity decisions for the life of their investment, or until other institutional investors are obtained.

## Other early stage investment pools

Companies seeking early stage capital may also find financial and non-financial resources available at business incubators, accelerators and venture capital funds, as set out in Table 2 below.

## Impact investors

The SDGs are a call to action consisting of 17 Goals and 169 targets adopted by all UN Member States in 2015. The SDGs address fundamental challenges facing global economies including hunger, climate change and poverty. Achieving the SDGs requires trillions of dollars to be mobilised through public and private, domestic, and international capital. A recent estimate suggests an annual spend of USD \$0.5 trillion may be needed by 2030 in low-income developing countries just to cover key funding gaps in

education, health, roads, electricity, and water and sanitation. This call to action has resulted in more investors channelling their capital into investments that earn financial returns while creating impact. The Global Impact Investing Network (GIIN) categorises impact investment as investment with the intention to generate positive, measurable social and environmental change alongside a financial return. Typical impact investors include foundations, Development Finance Institutions (DFIs) and impact investment fund managers, a brief overview of each is provided in Table 3.

**Table 2: Early stage businesses investment pools**

Type of support	Support offered
<b>Business incubators</b>	Development of pre-revenue businesses or concepts through provision of wide-ranging support such as business coaching, access to business networks, and shared office space, typically provided in return for equity
<b>Business accelerators</b>	Development of early-stage businesses through wide-ranging support, including investment readiness to speed up the path to profitability and external fundraising rounds, typically provided in return for equity
<b>Venture Capital (VC) funds</b>	Funds specifically targeted at higher-risk, earlier stage businesses providing financial and non-financial support in exchange for a share of equity

However, impact investment is increasingly attracting a wide variety of other financing sources including traditional financial institutions, such as banks, and even corporate entities.

Impact investors employ the full range of different financial investment instruments, including grants, debt, equity, and quasi-equity capital, as well as non-financial technical assistance at different stages of the business life cycle. Impact investors expect impact to be built into investment terms through agreements that articulate specific use of funds to create targeted impact results.

In addition, a business can benefit from capital structures and terms that might not be available with commercially focused investors. For example, some impact investors may offer longer-term, 'patient capital', or interest rates on debt that are below-market rate.

At early-stage, impact investors such as foundations and grant-making institutions have higher risk appetites to support businesses and projects that may realise significant impact at scale. Businesses with high impact returns but lower commercial returns may find this a more attractive pool of capital.

Companies receiving impact investment should consider how the expectations of the impact investor align with their own vision. Impact investors may set targets to achieve milestones on key impact targets and require regular monitoring and evaluation (M&E) reporting that may draw management attention and resources onto impact outcomes that had not had as much focus pre-investment.

**Table 3: Other sources of capital for early-stage businesses**

Investor	Description
<b>Foundations</b>	Non-profits or charitable trusts that provide financing to communities, businesses or individuals to create impact, e.g. the Shell Foundation
<b>Development Finance Institutions (DFIs)</b>	Organisations set up to support private sector development in emerging and developing countries e.g. the CDC Group
<b>Multilateral Development Banks (MDBs)</b>	Financial institutions that focus on development investments to create sustainable economic growth e.g. European Bank for Reconstruction and Development
<b>Impact Investment Fund managers</b>	Typically manage private sources of capital designated to investments that generate impact e.g. Global Partnerships, Leapfrog Investments

## Measuring impact

Impact investors rely on impact assessment frameworks that typically leverage both qualitative and quantitative information to measure impact. These indicators are used to gauge the performance of their investment portfolio against set targets. As a result, businesses are typically expected to use monitoring and evaluation to track and report performance. The “Measuring Impact” commercialisation guide can be referred to for further information.

## Commercial investors

Commercial investors target market-rate financial returns on their investments. Financial returns are measured through the difference in financial value of an investment between the beginning and the end of the investment life. As such, investment instruments include equity, quasi-equity and debt, and are typically offered at market-rate terms that reflect the perceived underlying risk of investment.

Businesses attract commercial investors through strong historic financial performance and projected future financial returns that demonstrate competitive commercial performance. Investors gauge investment performance by evaluating different metrics such as Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) and return on investment, among others.

Whilst the impact investing landscape is rapidly growing and maturing, commercial investors remain the largest pool of capital providers to the private sector. They include banks, private equity funds and pension funds, and for many businesses remain the main source of external financing.

Raising capital from commercial investors can support management to focus on projects or growth strategies that will maximise shareholder value. However, since commercial investors focus on maximising financial returns, the cost of capital may be more expensive to the business than that offered by impact investors. As such, this capital may be more difficult to access for early-stage businesses without clear routes to profitability.

## Overview of blended finance

Blended finance is the combination of non-market rate (“concessional”) financing from development partners e.g. donors, alongside market rate (“non-concessional”) finance from commercial investors.

### Why blended finance?

Achieving the SDGs in developing countries will require the mobilisation of trillions of dollars in public and private finance, both domestically and internationally. Investing concessionary finance alongside commercial capital mitigates the perceived market or early-entrant risks that commercial investors may perceive. As such, blended finance helps re-balance the risk-return profiles of investment opportunities and crowd-in private sector financing into underserved markets.

In the absence of blended finance, these projects or businesses would not attract funding because the risks are considered too high and the returns are either unproven or not commensurate with the level of risk.

### Examples of blended finance

**Rwanda:** Metito provided equity that was blended with concessional debt from AfDB to address water shortage in Kigali

**Thailand:** IFC provided a commercial loan that was blended with concessional financing from Clean Technology Fund to support market creation in the nascent solar photovoltaic (PV) power market

*Figure 3 Examples of blended finance*

The effective use of blended finance requires a principle-based approach with a strong governance framework to minimise the risk of market distortion, and to ensure that concessional money is used only when there is a relevant case where a project cannot be structured commercially. Figure 3 above highlights examples of blended finance investments in select projects in Africa and Asia.

## References and further reading

### **What you need to know about impact investing**

<https://thegiin.org/impact-investing/need-to-know/>

### **Creating Impact: The Promise of Impact Investing**

<https://www.ifc.org/wps/wcm/connect/66e30dce-0cdd-4490-93e4-d5f895c5e3fc/The-Promise-of-Impact-Investing.pdf?MOD=AJPERES>

### **Core Characteristics of Impact Investing**

[https://thegiin.org/assets/Core%20Characteristics\\_webfile.pdf](https://thegiin.org/assets/Core%20Characteristics_webfile.pdf)

### **Business Angel funding - Understanding the Nature and Impact of the business angels in Funding Research and Innovation**

[http://www.eban.org/wp-content/uploads/2017/11/Final-Report\\_Understanding-the-Nature-and-Impact-of-the-business-angels-in-Funding-Research-and-Innovation\\_FV.pdf](http://www.eban.org/wp-content/uploads/2017/11/Final-Report_Understanding-the-Nature-and-Impact-of-the-business-angels-in-Funding-Research-and-Innovation_FV.pdf)

### **Venture Support Systems Project: Angel Investors by MIT Entrepreneurship Centre**

<http://nutsandbolts.mit.edu/2014/resources/angelreport.pdf>

### **Development finance institutions and private sector development**

<https://www.oecd.org/development/development-finance-institutions-private-sector-development.htm>

### **Blended Finance**

[https://www.ifc.org/wps/wcm/connect/8e7889db-2860-4ed3-a465-54d1070ff2fb/EMCompass\\_Note\\_51-BlendedFinance\\_FIN+April+13.pdf?MOD=AJPERES&CVID=mbkK6I](https://www.ifc.org/wps/wcm/connect/8e7889db-2860-4ed3-a465-54d1070ff2fb/EMCompass_Note_51-BlendedFinance_FIN+April+13.pdf?MOD=AJPERES&CVID=mbkK6I)

## Useful contacts

### UK Business Angel Association

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London  
UK  
+44 20 7492 0490  
<https://www.ukbaa.org.uk/>

### Shell Foundation

40 Bank Street  
London E14 5NR  
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+44 20 7934 2727  
<https://shellfoundation.org/>

### Cambridge Angels

The Bradfield Centre, 184 Cambridge Science  
Park  
Milton Rd  
Cambridge  
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+44 1 223 5 8365  
<https://cambridgeangels.com/>

### Doen Foundation

Beethovenstraat 200  
1077 JZ Amsterdam  
the Netherlands  
<https://www.doen.nl/>

### Impact Ventures UK

1 St. James's Market  
London SW1Y 4AH  
UK  
+44 207 224 9832  
<https://www.impactventuresuk.com>

### European Bank for Reconstruction and Development

One Exchange Square  
London EC2A 2JN  
UK  
+44 20 7338 6000  
<https://smallbusiness-ebrd.com/>

### SeedCamp Accelerator

4-5 Bonhill Street  
London EC2A 4BX  
UK  
<https://seedcamp.com>

### The World Bank Group

12th, Millbank Tower, 21-24 Millbank  
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+44 20 7592 8400  
<https://www.worldbank.org/en/>

### Sustainable Accelerator

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### Leapfrog Investments

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