

**T.C.  
ISTANBUL AYDIN UNIVERSITY  
INSTITUTE OF SOCIAL SCIENCES**



**A DETAILED STUDY ABOUT THE ANGEL INVESTORS IN TERMS OF  
ECONOMIC FREEDOM**

**THESIS**

**Maria Fernanda CRUZ ARROYO**

**Department of Business  
Business Management Program**

**Thesis Advisor: Assist. Prof. Dr. ıgdem ZARI**

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T.C.  
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SOSYAL BİLİMLER ENSTİTÜSÜ MÜDÜRLÜĞÜ



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## **DECLARATION**

I hereby declare that all information in this thesis document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results, which are not original to this thesis.

**Maria Fernanda CRUZ ARROYO**





*With all my love:  
To my dear parents Jorge and Lucy  
Closing our Turkish journey together  
And to my husband, Oreste  
Inspiring me every day*

## FOREWORD

It is important to note the relevance and transcendence of the relationship between a country's economy in the society and the quality of life of the individuals that make part of it; where the constant generation of ideas that can become business projects, ultimately turn into a major factor for the economic development of a country and a lifestyle for its citizens. It is imperative that all the economic sectors and governments in the globe, search always the common good and growth, where the people can reach always better opportunities in education, job and businesses; all of these efforts, trying as an ultimate goal: to improve the life quality of the human beings all over the world.

Regardless of the size or economic stage of a country, millions of students a year finish their programs with a mind full of ideas. Ideas that: if properly guided, cannot only generate economic growth by millions of dollars, but also thousands of jobs opportunities, an improvement of the accessible paths for the future generations by creating a healthy market environment.

Most companies today, that generate thousands or millions of dollars, have emerged from the conviction of people, their strong character, marked individualism, and the willingness to try again regardless of their previous failures; giving us the example of how people with ideas that are willing to work in them, might promote growth and development to their society's economy. This paper has the finality to increase the awareness of the importance of guiding and supporting talent, by making their path during the business world easier and reducing the impact of their possible constraints as much as possible.

A key element of the process of giving these young people opportunities, is to have an environment with a sensitive financial culture and oriented towards putting "investment at risk" granting them with the trust to participate in the effective development of companies, or to create their own businesses and promote the innovation, without the financial constraints that back away their possibilities of achieving these goals. Around the world, the "new" venture capital market is underdeveloped and has dragged small and medium-sized enterprises to a position of total dependence on financing via financial debt; which is less flexible, more expensive and does not guarantee continuity over time when launching new investment plans. Nowadays, global financial and social crisis around the world, evidence and give even more value to the financing methods with different resources other than financial debts. I try, with this thesis, to give a clearer sight of the economic panorama in the world so entrepreneurs find ideas of how to use it in their benefit.

As a result of all this, and with the aim of continuing to spread the importance of smoothening the path for our entrepreneurs, I explain here the business angels as key elements in the creation and expansion of the business world, the relationship between economic freedom and the possibilities brought for the economy as a whole with freedom.

This thesis is presented with the intention of bringing together, in a simple and practical way, the development of an innovative way of financing entrepreneurs, innovators and SME's administrations.

**July, 2019**

**Maria Fernanda CRUZ ARROYO**

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## **ABBREVIATIONS**

|                   |   |
|-------------------|---|
| <b>CVC:</b>       | : Corporate Risk Capital                                |
| <b>CEO</b>        | : Chief Executive Officer                               |
| <b>EBAN</b>       | : European trade association for business angels        |
| <b>ExIm Banks</b> | : Export-Import Bank                                    |
| <b>FDI</b>        | : Foreign Direct Investment                             |
| <b>FED</b>        | : Federal Reserve Bank USA                              |
| <b>GDP</b>        | : Gross domestic product                                |
| <b>LIDCs</b>      | : Low-income developing countries                       |
| <b>OECD</b>       | : Organization for economic cooperation and development |
| <b>SBCS</b>       | : The Small Business Credit Survey                      |
| <b>SMEs</b>       | : Small and medium-sized enterprises                    |
| <b>VC</b>         | : Venture Capital                                       |

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# EKONOMİK ÖZGÜRLÜKLER ÇERÇEVESİNDE MELEK YATIRIMLAR ÜZERİNE DETAYLI BİR İNCELEME

## ÖZET

Giderek yaygın olan ortak girişimcilik faaliyetine rağmen, gerçekte belirgin olan, küçük ve orta ölçekli işletmelerin yüksek oranının kısa vadede ortadan kalkmasıdır. Şirketlerin zaman içindeki sürdürülebilirliğini garanti altına almak, dünya ekonomisine ve dolayısıyla makro ve mikro ekonomik ölçeklerde değer yaratmaya önemli bir etki yapacaktır.

Bu çalışmanın ana amaçlarından biri ekonomik özgürlük kriteri ile ekonomik büyüme arasındaki ilişkiyi korelasyon analizi ile inceleyerek, aynı zamanda KOBİ'ler ve girişimciler için en iyi yatırım biçimlerinden biri olan Melek Yatırım Yöntemini detaylı bir şekilde incelemektir. Melek yatırımın avantajlarından biri küçük işletmelere sahip kişilerin, dezavantajlı gruplardan veya yeni şirketler yaratmaya istekli olmalarının, girişimciliğin bir işgücü piyasası faaliyeti olarak kendileri için sahip olabileceği potansiyelinin farkında olmalarını ve onları takip etmek için motivasyon oluşturmalarıdır. İkincisi, az temsil edilen ve dezavantajlı gruplardaki iş adamlarını ve girişimcileri etkileyen pazar, kurumsal ve davranış başarısızlıklarını azaltmak. Buna finansal piyasalardaki engellerin azaltılması, girişimcilik becerilerinin kazanılmasının önündeki engeller, girişimcilik ağlarının kurulmasının önündeki engeller ve bir girişimcilik kültürü oluşturulması dâhildir. Üçüncüsü, ekonomik özgürlüğün girişimciyi, şirketin kuruluşu ve işleyişi boyunca hem olumlu hem de olumsuz yönde etkilediğine, şirketlerinin kurulduğu ülkenin sosyal ve politik ortamının etkisinin girişimcilerine daha net bir bakış açısı sağladığına dikkat edin. Etkilerin önemini gösterin ve aynı zamanda dünyada ekonomik özgürlüğün gelişmesini teşvik edin. Bu engelleri azaltma olasılığının, konunun açığa çıkması ve kurumların bu sorunlar hakkındaki farkındalığından kaynaklanması beklenebilir.

**Anahtar Kelimeler:** *Girişimcilik, KOBİ'ler, Ekonomik Özgürlük, Melek Yatırım, Finansal Yöntemler.*

# A DETAILED STUDY ABOUT THE ANGEL INVESTORS IN TERMS OF ECONOMIC FREEDOM

## ABSTRACT

Despite the importance and increasingly common entrepreneurial activity in the world, what is evident in reality is that a high percentage of small and medium enterprises disappear in the short term. Guaranteeing the sustainability over time of the companies, would imply a significant impact on the world's economy and therefore the generation of value, at macro and micro economic scales.

By explaining the effects of the economic freedom and the correlation between the economic growth and facility to obtain financial leverage and defending the Angel Investment Method as one of the best forms of investment for the SMEs and entrepreneurs, the objective of this thesis is:

First, to ensure that people with small businesses, from disadvantaged groups, or willing to create new companies, are aware of the potential that entrepreneurship may have for them as a labor market activity and to build motivations for pursuing them.

Second, to diminish market, institutional and behavior failures which affect businessmen and entrepreneurs, in under-represented and disadvantaged groups. This includes decreasing barriers in financial markets, barriers to acquiring entrepreneurship skills, barriers to building entrepreneurial networks and building an entrepreneurial culture.

Third, point out how economic freedom affects the entrepreneur both positively and negatively throughout the creation and operation of the company, giving a clearer view to the entrepreneurs of the effect of the social and political environment of the country where their company is founded. Show the importance of the effects and also promote the development of economic freedom in the world.

The possibility to diminish these barriers would be expected to come from the exposure of the topic and the awareness of the institutions about these problems.

**Keywords:** *Entrepreneurship, SME's, Economic Freedom, Angel Investment, Financial methods.*

## 1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are high valued promoters of job creation, innovation, growth, and diversification, representing more than 96% of the world's economy. Nevertheless, SMEs and entrepreneurs can only reach their full potential if they obtain the proper financing and guidance necessary to commence, maintain and grow their business. A big variety of financing constraints such as, a lack of appropriate forms of leverage, the difficulty that represents to get a credit, and the need for a network or contacts, create a long-standing struggle for SMEs and entrepreneurs. Considering financing as the major constraint for SMEs and entrepreneurs; this paper analyzes the pros and cons of different financing methods and defends angel investments as the best option for a company or startup, given to the extra support this investors entail (OECD, 2015).

This paper will define in detail the main disadvantages that SMEs and entrepreneur's face, even before setting up their companies. The lack of clarity of the entrepreneur of the economic environment and its functioning, and the lack of a historical record of economic statements that give support to the study of the different financial methods available for entrepreneurs. Also, we will analyze how the peculiar and unique characteristics of each company, such as the size, sector, development phase, vision, and values have an important relationship with the type of financing they will need, and also affect the access to diverse sources of funding investment that will not only offer financing, but also guidance and mentoring. The finality of describing these constraints: is to also explain and suggest ways for entrepreneurs and SMEs to evade all the limitations that might appear and make take the best option the market can offer.

This paper will also explain thoroughly:

- The functioning of Angel Investors as a financing method, their history, their structure and will defend this method versus other types of financing to

explain how Angel Investors are the best option for entrepreneurs and SMEs looking for monetary resources.

- The definition and the results of economic freedom in different countries. Followed by the study of the correlation between the viability of the angel investments and the economic freedom for a list of selected countries.

### **1.1 Purpose of Thesis and Aim of Study**

The main purpose of this research is to create awareness to the whole business environment such as investors, financial institutions, governments and entrepreneurs all around the world of new and different models that might promote the economic growth and freedom of a country, the innovation and creating thousands of new jobs.

This paper, “Angel Investments Corporate Ventures over other Types of Financing Sources” focuses on how creating the opportunities of different financial partnerships can promote innovation and give more business value to the current economies throughout partnerships with angel investors, start-ups, and SMEs, more than other types of investments where there is no work and experiential collaboration between the investor and the company. It also aims to explain the relationship of the of economic freedom rates vs the possibilities of the entrepreneurs around the world to find different sources of funding that might bring them to success: in specific Angel Investments.

### **1.2 Literature Review**

Entrepreneurship plays an important role in the economy as it is a driver of innovation and job creation. It also holds potential for strengthening social inclusion by giving another option for earning income and contributing to society. However, this potential will not be realized until everyone has an equal opportunity to start business and be success in self-employment (OECD, 2017).

SMEs are one of the most important factors for the economies of countries around the world. Their ability to generate jobs and social cohesion, make these economic entities considered, by many authors, as the engines of global economic growth.

The lack of adequate funding sources is one of the main long-standing obstacles SMEs face, with varying degrees of difficulty depending on the countries where they are established.

For example, in developing countries, credit to the private sector as a proportion of GDP is significantly below average than in high-income countries. Loans to SMEs registered in countries with these types of economies, represent a smaller proportion of business credit; without leaving behind the fact that the lack of a well-developed financial infrastructure generates important challenges for the new entrepreneurs that are difficult or almost impossible to overcome.

Nevertheless, in advanced economies countries, we can observe large financial deficit regarding the opportunities; where the credits and support that governments offered to their own entrepreneurs have slowed down. These cases are highly notable especially after 2008-2009 economic crisis and the regulatory forms taken by the governments (Firoozmand *et al.*, 2015a).

It is also important to mention that, not only there are differences in each country in the facilities or difficulties that entrepreneurs find in their environment, but we must also consider that the needs vary widely depending on the business population of the economic ecosystem. So, we can say, that the variations are both: inside and outside the companies.

The capital gaps and lack of financing to which the SMEs are exposed, usually have to do with the fact that banks apply higher interest rates, imposing also tougher borrowing terms with stricter clauses than any other firm or institution with a temporary endorsement of financial results. This kind of barriers normally affect all the sectors in the market environment, although there has been a measurable important growth in the last 10 years that give innovative and technological growth-oriented companies more opportunities to establish and succeed.

One of the largest opportunities where the developing countries are losing a lot of potential is in the informal SMEs. Millions of companies in the world do not have a legal basis or a correct financial structure, which, of course, do not have access to any type of financial leverage. Especially in developing countries, these informal companies could generate an accelerated growth in GDP if they

were part of the legal framework and pay the corresponding taxes; apart from that, they would generate a huge amount of jobs and turn their countries into very attractive targets for foreign investment. All addressed to, the global economic growth and a better quality of life for the people.

Considering the previously mentioned, we can then say that the lack of opportunities that SMEs have, bring with them large-scale economic impacts. It is an untapped opportunity that affects not only the economic growth of the countries, but also the financial institutions, society, and the large companies that already exist, since they lose great human potential.

While it is clear that financial leverage provided by the banking sector will never stop been of great importance for the sector of SMEs and entrepreneurs, this thesis has as one of its objectives, to demonstrate that there is a tangible need to develop more diverse opportunities for the supply of financing directed to this sector of developing companies with the final goal to reduce their vulnerabilities and reinforce their capital structure (G. / OECD, 2015).

In today's market, entrepreneurs seeking to create high growth potential companies are forced to obtain financial capital to help boost their efforts. Although companies are often based on a combination of debt and equity financing, the aim of support on new companies with high growth potential focuses to a large extent on bank loans or on external capital financing, such as venture capital (VC), corporate risk capital, angel investment, crowdfunding, and / or financial accelerators.

In several disciplines, risk financing translates into a field for proposing and testing theories within a series of important areas at the levels of individual, organizational and market analysis.

Taking in consideration the important research done in this topic in recent business literature and the trends that are taking place in the field, entrepreneurs can get a lot from an examination of the financing of business capital, which is something that matches with the objective of this paper.

As such, the purpose of this document is to provide a platform from which a new panorama can be visualized that simplifies the decision of the entrepreneurs on the best place to start their companies and the best way to obtain financial power without depending on the banks; in such a way as to facilitate the work on researching business financing options (Drover *et al.*, 2017).



## **2. SMES AND ENTREPRENEURS IN THE ECONOMY**

In this chapter the terms SMEs and entrepreneurship will be defined with precision as a basis for a deep understanding of the specific characteristics that differentiate them from other types of organizations. These characteristics also include their internal and external environment and the main difficulties they might face.

In numerous nations, governments are confronting the difficulties of low development, weak trade and investment, and rising, or relentlessly high inequality in their society. They also confront a developing disappointment among natives with the present situation, which is showing itself as a reaction against globalization and innovative change. Against this scenario, there is a need to promote conditions that empower the advantages of open markets and technological advance to be able to improve and create more unity over the economy and the society.

SMEs are main participants in the economy and the most extensive eco-system of firms around the globe. Empowering them to adjust to a more open environment and to participate continuously in the market, is vital for enhancing financial development and conduct a progressively comprehensive globalization.

In all the nations of the world, regardless of the stage in which they occur, SMEs have a critical role in achieving the Sustainable Development Goals (SDGs). SMEs generate labor and opportunities for citizens, promote sustainable monetary development, foment positive industrialization, encourage business advancement and reduce the deficit in wage disparities (Drover *et al.*, 2017).

Be that as it may, boosting SME potential for partaking in and receiving the rewards of a globalized and advanced economy depends on favorable system conditions and solid structure that protects SMEs.

## **2.1 Importance of the SMEs and Startups in the Economy**

SMEs represent an enormous range of initiatives all over the world. From the established, traditional family businesses, to the mere survivalist, self-employed individual who originates from the poorest of the population (this usually refers to an informal micro enterprise). Despite the fact that these enterprises have different planning and structure, normally they are all in the need for assessment, investment and connections.

In the US economy:

- Small companies provide 75% of all new jobs.
- Over 90% of all employers are new/small businesses.
- Over 95% of the wealth in America has been created by entrepreneurial firms founded since 1980 (Spinelli and Timmons, 2004).

To promote and contribute to the world's economy growth, SMEs need access to free cash flow and credit; nevertheless, academic studies show that financing is the single most robust determinant of firm growth.

In spite of the aforementioned, SMEs and startups generally stay behind the larger companies in many performance dimensions. Mainly, it is believed that this results from the constraints faced by SMEs, including access to finance, weak managerial and labor capacity, lack of capacity to take advantage of economies of scale in production and misinformation about market opportunities, new technologies and methods of work organization.

In many cases they are also affected by real uncompetitive exchange rates, very complicated bureaucratic procedures to establish, operate and grow a business, and by restrictions in the investment climate that are heavier for them than for their larger counterparts. Consequently, many SMEs remain small, startups and entrepreneurs with innovative ideas cannot find a way through in the market, and raw talent is wasted. Therefore, economies on the raise loose the opportunity to grow and to create thousands of new jobs (Wiese, 2014).

## **2.2 Main barriers and Constraints for SMEs and Startups**

The society, the governments and the financial institutions are aware of the need to develop mechanisms that support the creation of new business activities, especially regarding SMEs and enterprises that might favor technological growth and process innovation.

Currently, we can find in the world several support mechanisms for entrepreneurs, starting from advice and training for the development of business plans (either in universities or business incubators), to subsidized loans for small and medium enterprises.

Nevertheless, we are not in a position to assure that neither the majority of the governments, nor the educational institutions focused on supporting the entrepreneur, have a network that works 100% efficiently with resources for the creation of companies.

However, we can observe that there are cases in countries in the European Union such as the United Kingdom, France, Germany, Holland or Italy where we can see very positive results, which makes it serve as an example for other countries since with a well-planned strategy, the support for SMEs and Entrepreneurs might become a reality.

By making a general analysis of the process of creation and consolidation of a new company, we can detect the main obstacles which could be classified as "general" that entrepreneurs must face in order to successfully complete this difficult task.

These obstacles that we can see in the vast majority of entrepreneurs trying to open a new business anywhere in the world, can be grouped into five major categories: (Morrissette, 2007).

- Fear of failure and personal adaptation to the change represented by the creation of a company.
- The difficulty of converting an idea into a true business project.
- The administrative complexity of the legalization process.
- Lack of training and experience in business management.
- Access to the necessary resources to start the activity.

All of them fall both in the external environment and inside the company, increasing the difficulties to all aspects surrounding the entrepreneur.

It is evident that, around the world, the governmental administration and civil society have promoted and developed various actions aimed at finding solutions for all those problems, with the double objective of supporting a cultural and social change, and spreading the entrepreneurial spirit.

However, obtaining financial support to move a company forward is currently a difficult task for the entrepreneur.

When it comes to banks, although in recent years the banking market has developed a wide variety of financial products, it is still difficult to access the resources it offers.

On the other hand, not all the attention they deserve has been devoted to the needs of entrepreneurs who want to start their own business or invest in a growth stage. Thus, for the majority of entrepreneurs and SMEs, access to financing their investment plan is a real problem and, in many cases, the factor that prevents the creation and growth of viable companies.

Below is a more detailed study of the main constraints faced by the entrepreneurs and later in the thesis, will explain the improvements proposed in this paper for the solutions that an angel investor can offer on any other type of financing possible (Gindling and Newhouse, 2016).

### **2.2.1 Market environment for the companies**

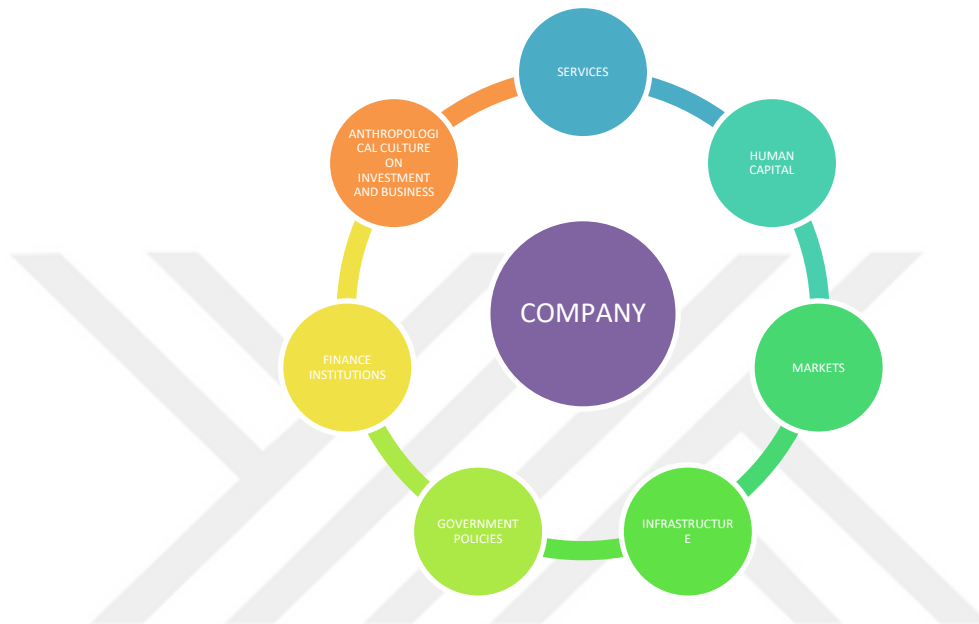
The market or environment refers to the set of organisms, institutions and factors that interact formally or informally to connect, mediate and govern the performance in a local economic atmosphere, facilitating the creation, operation and the sustainable development of companies.

The existence of a strengthened and free environment is a factor that exalts the competitiveness of a country, in this sense; the generation of entrepreneurial culture requires the presence of a public policy that constitutes the basis for the formation of a healthy environment for entrepreneurship and commerce.

For this study, we define the market entrepreneurship environment as the atmosphere of opportunities and threats, created by the agents that interact in the complete

environment, of companies that are in the process of creation, search for financing or first steps.

In this sense, this paper classifies the factors that influence the market environment as the following list: Government Policies, Finance Institutions, Anthropological Culture on investment and Business, Infrastructure, Services, Human Capital and Markets.



**Figure 2.1:** Market Environment

**Source:** Krugman, Wells and Olney, 2007.

**Government Policies:** National, regional and local governments or kingdoms that rule in the country where the company is funded. Considering also the norms, rules or laws that they implement as regulatory systems for the opening of new businesses, their operation, and the payment of taxes for the entrepreneur or SMEs.

Tax benefits and facilitating the access to financing institutions might be an positive example of this norms.

**Financial Institutions:** In the case of entrepreneurs, and SMEs, we can define financial institutions as any entity, "official" or "unofficial", from which the company can take the economic resources to finance the project. This is where one of the main points of the thesis is disputed, since the financial environment corresponds to the category of angel investors, credit institutions, seed capital among others.

We define, in this study, an "official" financial institution as institutions firmly based as associations of public character, or legally established. A "non-official" is all the other actors in the market that might grant the money to the company (for example family).

In the same way, we define "unofficial" financial institutions as other ways to get money, such as a family loan.

**Anthropological Culture on Investment and Business Creation:** This sector refers to the social culture that surrounds the entrepreneur as a person and the ideas that exist in the country of origin about opening a new company, managerial business. In this field we find certain aspects such as the geographical area, region or sector of the industry, the type of market and culture. For example: the empathy or lack of, of the people in an Arab country about the fact that a woman decides to open a company. Another example may be the motivation that universities give their students to open a company in the future instead of working in a company, nurturing innovation and developing their creativity.

**Services:** This set includes the infrastructure of telecommunications, transport and energy, as well as the existence of technology parks, industrial districts or free zones. They also imply the availability of professional services to support new initiatives in the legal, labor, tax or technological fields and the existence of Entities dedicated to the promotion of entrepreneurship. It also includes for example the internet access for the people in the country of origin, and the availability of workspaces in it.

**Human Resources:** Human Resources imply the existence of people that are competent, qualified and with enough talent and education for the entrepreneur or SMEs to relate to or even associate. The level of this aspect in a country depends on the amount of qualified people that can work in the company in certain areas that might be needed in the startup or to continue with the growth of the already established company.

It is not new that to start a business it is not enough to have a good business idea, but you need people with enough knowledge (economic, legal, engineering, sales, etc.) to carry out that project.

This classification also refers also to the capacity of the country to have qualified human talent to deploy the strategy of strengthening entrepreneurship in the region;

in this case it might also count as the capacity of the environment to have willing investors to become angels.

Markets: It refers to the economic environment of demand in the country. What is most requested: the demand for product, competition and positioning in the market of other companies within the same sector.

### **2.2.2 Financing constraints**

One of the main causes of entrepreneurs not completing their projects is the lack of financing. In most cases the entrepreneur does not have the economic resources and the necessary infrastructure to develop his project.

Normally one of the first options is to seek financing from banks or government institutions, but sometimes this can be difficult or expensive and not always have a positive response.

In addition to banks and government, agencies there are several other different investment models that small companies look for when it comes to raising money. The following data shows how it is that the majority of the empresses in the USA are financed and the normal difficulties they face.

It is normal for companies to start their operations without sufficient capital to ensure their future success, in addition to the difficulty in obtaining financing to start, develop and maintain your company. Even when there are numerous institutions that financially support this sector, sometimes the small entrepreneur is not subject to credit. Neither your credit history nor your financial solvency or not having enough guarantees allow you to make more capital.

Many analysts agree that more than 50 percent of small businesses die at two years of age or earlier, during this cycle in which a business demonstrates its ability to remain in the market is the lack of financing (OECD, 2017).

There are problems that must be overcome, such as: the small entrepreneur's culture, which has to do with the lack of professional training, the absence of a business vision and empiricism in its management.

The diversity of the SMEs and entrepreneurs gives more complexity to this factor because the problems that emerge in financing differ considerably between new firms and the ones already existing. Also, some of these companies tend to grow

slowly and others grow rapidly. The enlargement of private equity markets, even including informal markets, has enhanced considerably the access to venture capital for SMEs and start-ups but still remains a considerable difference among countries (OECD, 2017).

#### **2.2.2.1 The use of financial information and how it becomes a Human Capital problem**

Literary studies throughout the last decade; summarize that the administrative and accounting planning is a tool to make an organization efficient and is the basis for successful decision making; it also reflects the importance of analyzing the generation of financial information, identifying its fiscal and administrative legal problems.

In a 2016 research carried out by the OECD, about entrepreneurship it is concluded that close to 60% of the companies formulate "advanced" financial and economic information about their activities; but they do not employ financial analysis; Therefore, financial and administrative decisions are not being fed by this significant tool.

About 40% analyze their financial and economic information; but it is not taken advantage of integrally, due among others to the following reasons: The information is not generated in time since at the end of the accounting period, registrations are still made three months later, due to compliance with the laws. The analysis is not carried out in an integral way; in some cases, this is done based on financial and economic information for tax purposes and not based on the accounting or financial information that represents the actual events. The information has not been compared with previous exercises. This worsens, because the indicators of other similar companies or the average information of the business sector are not taken comparatively.

Another aspect that is mentioned is the use of a series of methods and obtaining a large number of percentages or financial ratios; which make those responsible for decisions before having an adequate tool for their management, see their work affected because they do not know the meaning of these results (OECD, 2017).

### **2.2.3 Unexperienced human capital**

One of the most common constraints for SMEs and entrepreneurs is the lack of knowledge about their sector or the environment in which the company is established, it is necessary that the person making administrative decisions, has some degree of knowledge in the workplace and of business. One of the biggest limitations that SMEs have to overcome, are due to the lack of a support that allows them to make new connections with suppliers and clients. Normally these characteristics are easy to find in large companies that have been in the market for several years, and with which it is almost impossible for small businesses to compete.

Most countries in the developing economies have a large number of semi-skilled workers or without any knowledge in the administrative or entrepreneurship area. The problem lies not only in the lack of trained personnel, but there is also a tendency of these developing markets to try to increase the average working day of the people currently employed, which can produce a high rate of unemployment, generate inefficiency and increase the inequality in the distribution of income among employees.

As JS Wiese declares in his analysis about South African economy, when this type of phenomena affect an economy, SMEs would be normally the ones to absorb a small number of the unemployed workers, and therefore slightly increase the general productivity of the economy, but, Wiese declares that it would be more desirable and positive towards the future of the country's economies to have SMEs produce the majority of employment, which would be more productive, and give them the possibility to pay increased wages (Wiese, 2014).

Taking the previous in consideration, one of the main restrictions for entrepreneurs rely on the lack of knowledge of "how to create" and "how to lead" a company. All this leads us to be able to verify one of the main objectives of this thesis, due to the fact that since the angel investors decide to support a company, they not only offer them a financial leverage but also support them with the "know how" in both financial operations, sales, contacts and production that small entrepreneurs do not have.

Later, the Chapter 3.3 "Characteristics of the Angel Investors" defines the main characteristics of the functioning of angel investors as mentors and their form of support to eliminate this barrier for SMEs and entrepreneurs.



### **3. ANGEL INVESTMENTS AS A FINANCING METHOD**

Investors are primarily classified as active or passive. Passive investors buy shares in the Stock Exchange and do not actively participate with the decisions of the company, on the other hand, angel investors are active people that give support and guidance to the company, and they are the generators for changes and improvements in the corporation.

In the business world, one of the main concerns for the entrepreneurs is not only the recruitment of capital, but also the search of network and “know how” for their operations and growth. One of the main reasons that entrepreneurs fail to materialize their projects is the lack of funding. Many times they go, without luck, to look for financing to banks or institutions of government. For this reason, this thesis proposes another option to obtain that financing that could lead them to success.

In addition to the banks and government agencies supporting SMEs, there are private seed capital funds available. In the world of business and entrepreneurship are also known as "angel investors". These are associations or investor clubs that are looking for business or potential ideas to invest their capital. There are also organizations that only dedicate themselves to facilitating the access of the entrepreneurs to the capital of the angel investors.

There are several researches on the subject of financing entrepreneurial projects, trying to find the explanation for the bottleneck effect that obstructs the growth of upcoming companies. This kind of investigations help, both investors and entrepreneurs, to understand in a more accurate way the kind of partnership that is better for both parties; here is where the angel investors rise up as one of the best options for economic growth.

“Early stage investment has a direct impact in the economy as it drives equity to the most innovative businesses and thus creating jobs and growth in the long term. Recent research shows that angel investment creates on average 16.7 new jobs in the 4 years following an investment.”

([www.EBAN.org](http://www.EBAN.org), The European Trade Association for Business Angels)

Organization for Economic Co-operation and Development (OECD) reports show that: “Many governments have understood the importance of the early-stage investment market in the creation of new jobs and social justice for their countries and have therefore implemented new regulations that provide tax incentives for angel investors, corporate ventures and start-ups.”

In the processes of creation and strengthening of companies, it is necessary to have a tool that facilitates the achievement of the financial resources required, either for the start-up or for the growth and consolidation of the projects that the entrepreneur has for his/her company.

Many university students around the world generate viable ideas and turn them into viable business opportunities, due to the entrepreneurial skills and knowledge they possess. Likewise, there are small entrepreneurs who need to enlarge their reach because the market does not offer them the necessary opportunities, or they encounter a competitive barrier that greatly harms the possibility of development and expansion. On the other hand; in the market, we can find individuals or companies that, because of their economic or labor position, want to make investments in a different way to the traditional ones; such as investing in the stock market or buying real estate; and have the opportunity to support other companies not only economically but also as "guides" or "teachers".

Angel investors are individuals, companies or institutions who possess capital to invest in smaller companies that normally are in their early stages, such as the formation and strengthening. The main characteristic for this type of angels is that they not only contribute capital, but also act as managers, advisors, and

consultants from their business experience; seeking to form business networks so that all these ventures are real business projects, competitive, productive and profitable over time.(OECD, 2015)

“Corporate venture capital is booming globally. In the first quarter of this year, venture capital funds accounted for nearly 17% of the total venture capital dollars invested, more than double its share five years ago. In aggregate, corporate venture groups invested \$5.4 billion across 775 deals last year. Angel investment too is booming worldwide. More than 90% of the early-stage investments in Europe come from angel investor capital. The angel investment market size is more than 5.7 billion Euro in Europe and more than 20 billion USD in the US and Canada. The total size of the world’s early-stage investment market is expected to exceed 50 billion dollars in 2020” (World Business Angels Investment Forum (WBAF), 2016).

In global capital markets there are new trends such as corporate ventures, angel investments, crowdfunding, investment capital, and sovereign investment funds as new types of Foreign Direct Investment (FDI). However, despite the positive economic impact and need for such financial instruments, several countries are struggling to use some of them.

### **3.1 Function of the Angel Investment**

Angel investors contribute capital, experience, network of contacts, strategic direction, financial and operative guidance to help the management of the new company to optimize the operation and ensure profitability. This minimizes the risk of investment to both parts of the equation.

The objective of angel capital is to achieve high returns on investment that the common market does not provide. Most angels are active investors that means, they contribute with their time and experience, they also offer their network of essential contacts for the success of the company. (EBAN, 2017)

### 3.2 Types of Angels

There is no fixed rating list for the type of angel investors that exist. Most of the lists that are made in the studies on the subject, classify the angels by their behavior during the investor-entrepreneur relationship.

They are also classified by their preferences in the investments they make, depending on the type of companies, the stages in which they decide to invest, or the sectors of their preference.

For purposes of this thesis, the types of angel investors will be classified according to their degree of involvement in the business to be financed. The classification is divided into the following four groups:

- **The Business Angels:** Those who invest capital and participate very actively in the project. They make sure to divide the investment as a “partnership” with the entrepreneur.
- **Worker Angels:** Those who want to bring a constant operational value to the new company, usually invest in the activity they know and have worked. We can find this kind of angels mainly in companies that involve production.
- **Financial Angels:** Those who seek more profitability, they are the kind of angels that invest the most amount of money in the project compared to the rest of the category. In this kind of investments, the angel realizes that it’s better to leave the entrepreneur’s imagination and innovations drive its own path. This type of investment is mainly found in companies of technology and innovation.
- **Consultant Angels:** These angels are the ones who bring more knowledge and network of contacts. Normally, their monetary investment is the lowest in the classification of angels, due to the fact that they will practically “work” in the company hand by hand with the entrepreneur. (Morrissette, 2007)

### **3.3 Characteristics of the Angel Investors**

Normally, Angel Investors are characterized by being managers, professors and executives of large companies with experience in different areas and sectors of the economy and industry. They have excess equity and capital available to invest in the creation of new companies or the strengthening and consolidation of existing ones.

The angels offer entrepreneurs accompaniment and advice, increasing their chances of success. They are usually people who are not afraid to take risks and who are not in a hurry to return the investment profits to their portfolios.

The angel investor normally appears at the moment in which the entrepreneur decides to start up his Business Plan and looks for the necessary resources, from then on, the angels will accompany him contributing money, contacts, work, experience and all the necessary resources to that the business stages are fulfilled according to the schedule and thus receive new and greater resources.

Below a list of the main characteristics of an angel investor according to several common criteria found in different literary material: (Morrissette, 2007).

- **Money:** The angel investor must be willing to invest between 5 and 10% of their total portfolio of assets to help the creation of new companies, in some cases the investor will liquidate some of their assets or investments to invest in young companies.
- **Skills and Experience:** The contribution of the most valuable angel is the experience in business, must have sufficient knowledge in areas such as finance, negotiation, administration, sales, legal, etc. Also have important contacts in the sector that they intend to invest.
- **Time:** The angel investor must have time to devote to the company, especially in the early stages of creation.
- **Patience:** A new company will not have its short-term performance, it will take an average of 3 to 5 years, it must first grow, generate profits and generate

positive cash flows, after this time the angel investor can look for the exit through the sale of shares.

An angel investor must have the ability to withstand the bad times that the young company can go through as it is very volatile, must have the patience, experience and resources to solve problems that arise.

- **Leadership Skills and Motivation:** Since the angels become as a “mentor” for the entrepreneurs, the investor must always be interested and motivated to work jointly with the company.

### **3.4 Objectives of Angel Investors**

The objective of the Angels is to contribute the success, growth and blossom of a company, and also getting monetary return as an investor. This is made through: (Morrisette, 2007).

- **Financial capital:** to support high potential ventures.
- **Human capital:** the members of this network are people with experience and talent to guide and advise entrepreneurs so that the project is successful.
- **“Social capital” – Network:** share their relationship networks (suppliers, customers, new investors, etc.).
- **Physical Capital:** sometimes the angel investor contributes with own assets (For example equipment, machinery, physical space).

### **3.5 Angel Investors Network**

At the very beginning of this investment model, angel investors operated individually; currently they are grouped into “clubs” or “networks” to share information, knowledge, dilute the costs of project analysis and achieve greater diversification for their investments.

The networks of angel investors are a form of group that generates adequate professional environments to connect angel investors with entrepreneurs, providing support, training and support to both parties before, during and after a negotiation. The role of networks is to facilitate the relationship between the entrepreneur and the investor and accompany them to achieve a better understanding of the processes and procedures necessary to formalize the investment and sales culture or exit strategy.

At periodic meetings, startups are presented to a group of angel investors in search of funds. There is a process of filtering ventures, projects are analyzed and if they consider them as viable, then joint investments are made.

Angel investors networks are constantly in touch with companies or entrepreneurs seeking funding for their new projects, making a selection of projects to finance for each investor, offering and guaranteeing the confidentiality of information, until the moment of first contact and making possible a formal framework for negotiation (EBAN, 2017).

Entrepreneurs looking to enter this type of networks, must go through different evaluations as a filter to select the most competent projects, generally they are innovative projects with high growth potential and a human team that gathers the necessary skills according to the type of business. A lot of coherence and previous planning is required in the business plans so they can enter to consideration in this kind of networks, but it is also important to mention that there is a big weight on the confidence that the team inspires to the investors and their ability to convince them about their business.

The networks of angels interact with each other and they are able to find the following benefits (World Business Angels Investment Forum, 2017):

- Carry out effective and efficient meetings during which information exchanges begin to take place.
- Generate skills and knowledge cultures to evaluate investment opportunities effectively.
- Create synergies among investors to make group investments, which allow to evaluate levels of investment, and to face different opinions and assumptions.

The main objectives of these networks are:

- Encourage the creation and development of networks of angel investors at the global level, stimulating the exchange of experiences among the networks of angel investors and promoting the adoption of best practices, developing training and training activities for angel investors and creating a knowledge base common between angel investors and entrepreneurs.
- Support the sustainability of enterprises beyond the first two years, seeking the creation of investment tools and funding sources.

- Make efforts so that governments in the world, develop an enabling environment that stimulates angel investment and that includes the necessary fiscal incentives that encourage risk taking for both entrepreneurs and angel investors (Benjamin and Margulis, 2001).

### **3.6 Classification for the Added Value of Angel Investors in a Company**

Normally, since the majority of the relations in the angel investments are personal. And these transactions are so private, not publicized, statistical information is quite limited and estimates must be derived from small and specific samples or extrapolated from related data in a very small area (Morrissette, 2007).

As a financing method, private investors are characterized because in addition to providing capital and assuming an important risk, they also add value to the company in which they invest. This intrinsic value, in the case of angel investors, implies a greater labor merger between both parties.

This contribution of value of the business angel implies an increase in the value of the company that, at the end of the investment, will have to be reflected with important capital gains and with economic returns that cover the initial expectations of the business angel. This contribution of value is divided and classified according as the following list:

#### a) Level of involvement within the company.

- Passive (silent partner): monitoring according to agreements or financial monitoring.
- Reactive (adviser): contribution of limited value. It is followed up
- Active (work within the management team): a contribution of full value will be reached with a joint business management.

#### b) Type of contribution:

- Strategic: can assume either a consultant role or a financial adviser role.
- Contacts: can help to select future managers, at the same time you can provide an important network of contacts.
- Personal work within the company.

c) Functions to be developed within the company: Administration Counsel President, Member of the management board, CEO, Project Consultant, Mediator in alliances, Funds collector, Key customer collector, Business advisor, Coach, etcetera (Benjamin and Margulis, 2001).

### **3.7 History**

In certainty there is no specific record of the beginning of Angel Investors. Throughout the history of trade, surely there have been many cases where some investor would give his support to small entrepreneurs with the belief that it was a project with a future.

Nevertheless, there are several literary materials that indicate that the term "Angel Investors" is recognized until 1900s in United States of America were the owners of the Broadway theater did not have the financial resources to release their works, at that moment a person appeared who had sufficient financial funds who lent his money in exchange for participating in the box office receipts, since that date he began to know with the name of "Angels".

After this, the angel investors began to finance projects that had a high risk such as the Gutenberg printing press, the Bell Telephone, the Ford car among others.

Today, companies worldwide such as Fedex, StarkBucks, Amazon.com and Skype started with resources from the Angels networks (John and Mannie, 2015).

## **4. THE RELATIONSHIP BETWEEN ANGEL INVESTMENTS AND ECONOMIC FREEDOM**

In this chapter an analysis is made about the correlation between the viability of the angel investments and the economic environment, specifically the economic freedom; given by the government in a country.

A description of economic freedom as a terminology and the known effects on the market will be given; as well as the environment of Angel Investments in different economies.

### **4.1 Angel Investments Measures Around the World**

The country with the largest number of Angel Investors is the United States, which invest individually or through an angel network. The countries where these investments are common are: England, the United States, Scotland, New Zealand and Australia.

A few years ago in Latin America, the Arab world and Asia, the culture of people was not designed to take risks and opted for very safe businesses, but at present, some countries in these regions are already starting their operations and the government has given support for their development.

Given the significance of an uprising informal funding market for the creation and upkeep of an enterprising economy it is crucial that administrations can control and measure the quantity of business angels and the dimension of their investment reach, also by tracking varieties along the years.

Estimation, control and measurement of the data and results is essential to screen any decrease in the quantity of business angels, recognizing any drop in their movement or change in the idea of their ventures, any or all of which could compromise the innovative condition of the environment.

This collection, measurement and analysis, is additionally required to decide the need for mediation to help the improvement of the market environment, to evaluate the

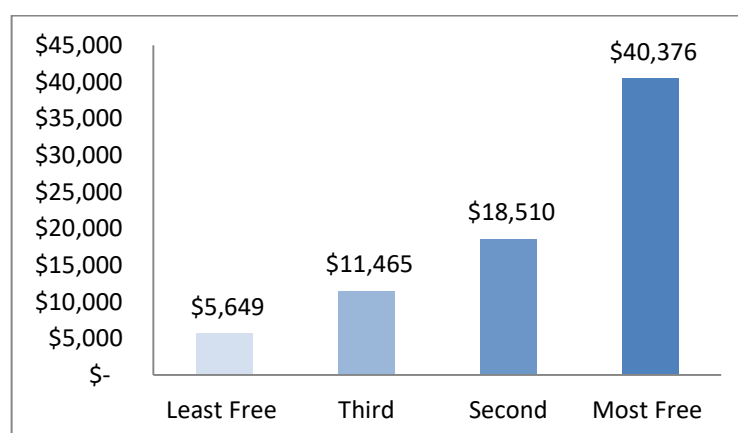
effect of government mediations and different changes in the external environment on informal funding. On the other hand, any proof for a reduction in the number and investment opportunities of business angels gives governments a “red light” implying that additional interventions should be made in order to increase and support the investment activities for the entrepreneurs.

Nevertheless, estimating the quantity of business angels and their investment opportunities and activities, on either a static or time series basis is very difficult and unprecise (Mason and Harrison, 2008).

## 4.2 Economic Freedom

As defined by The Heritage Foundation in the USA, economic freedom is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please. In economically free societies, governments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself (Miller, Kim and James M., 2018).

As we can see in Figure 4.1 higher levels of economic freedom correlate with greater economic growth and higher levels of life satisfaction derived by the income per capita. Where economic freedom is high, the number of jobs grows, and the economy is normally successful. Where economic freedom is low the economy stagnates and opportunities are limited.

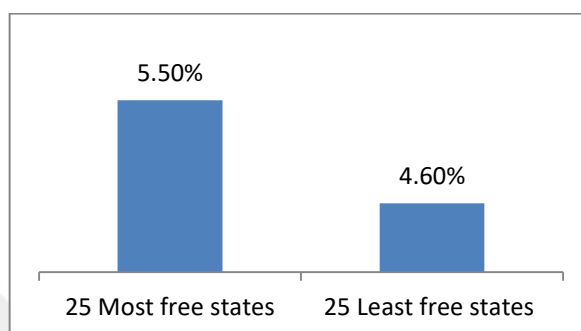


**Figure 4.1:** Economic Freedom and Income per Capita

**Source:** Average Economic Freedom Panel Score, 1995–2016; World Bank, 2017.

Note: Income = GDP per capita, (PPP constant US\$), 2016.

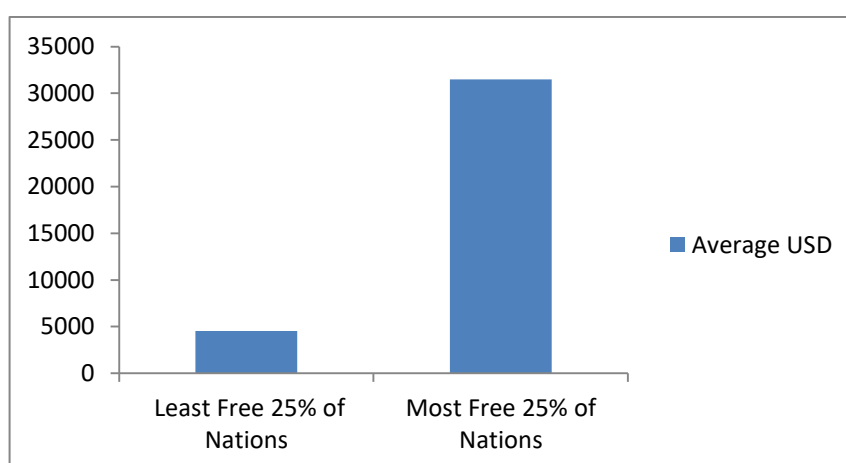
There is a big material of evidence that suggests the economic freedom is associated with many of the things we can relate to a healthy society. As we can see in Figure 4.2, if we look at the economic freedom of North America index, we can observe that states with more economic freedom have higher growth rates of the economy, lower unemployment rates, and lessened debt per GDP than states that are less free.



**Figure 4.2:** U.S. State GDP Growth

**Source:** Economic Freedom of North America 2017 Report The Fraser Institute

All of these things we associate with economic health or also associated with economic freedom. We can observe the same phenomenon if we make the same comparisons in the countries of the world, Figure 4.3; the most economically free countries have GDP per capita there about ten times the size of less economically free countries.



**Figure 4.3:** GDP Per Capita Worldwide

**Source:** Economic Freedom of North America 2017 Report The Fraser Institute

It is not only about the size of the nations or the “large country effect” where we can assume that big country's will tend to be economically free and I'll also tend to have high GDP per capita.

But if we restrict our vision to the poorest 20% of countries: The poor countries that have the most economic freedom, have GDP per capita is that are 50% greater than the poor countries that have less economic freedom.

Even though GDP per capita only measures average income, and that is possible that exist a country with a small number of elite rich people; there are reasons to prove the importance of economic freedom, for example: If we examine in equality measures, what we find is that the countries that are more economically free also have more equitable income distributions. That means economic freedom associated with higher income levels on average, but it's also associated with a more balanced society (TheFraserInstitute, 2018).

The essential point is that freedom allows people to conduct their own experiments to find out what will be valuable or worthwhile for them and try new ideas. Governments are not concise enough in knowledge to know in advance what new ideas or plans will work in the future. Therefore, economic freedom, by promoting independent and competitive efforts of many people also induces new developments. Everyone should be allowed to do their own experiments and take their own risks, so ideas that prove useful will be adopted. The foundations of economic freedom say that progress should not be directed; only growth should be encouraged.

For purposes of this thesis, it can be concluded that the economic freedom of the country in which the SME is constituted, generates a very important impact on the possibility of scope for the entrepreneurs. A country with less economic freedom, it restricts to the employer, the possible decisions to take with respect to their sources of financing.

#### **4.2.1 Economic freedom around the world**

Below is a summary of the 2018 edition of the study that the Heritage Foundation on economic freedom in the world. In Figure 4.1 we find countries considered freer while in Figure 4.2 we can find the countries with the least

flexible restrictions that put them in the ranking as economically less free countries.

**Table 4.1:** Top 5 Economies with more Freedom

| Ranking | Country     | Score |
|---------|-------------|-------|
| 1       | Hong Kong   | 8.97  |
| 2       | Singapore   | 8.84  |
| 3       | New Zeland  | 8.49  |
| 4       | Switzerland | 8,39  |
| 5       | Ireland     | 8.07  |

**Source:** The Fraser Institute, 2018.

**Table 4.2:** Top 5 Economies with less Freedom

| Ranking | Country   | Score |
|---------|-----------|-------|
| 158     | Siria     | 5.02  |
| 159     | Argelia   | 4.99  |
| 160     | Argentina | 4.84  |
| 161     | Libia     | 4.74  |
| 162     | Venezuela | 2.88  |

**Source:** The Fraser Institute, 2018.

### 4.3 Statistic Analysis: Angel Investments vs Economic Freedom

In this research, a quantitative methodology is used based firstly on three variables for 9 countries. The variables in consideration are:

- The Economic Freedom Score 2016 for each country
- Total amount of Business Angels Investments in 2016 (in Millions of Euros) for each country
- Total amount of business angels existing in that country for 2017.

The countries selected for the analysis where chosen by the criteria of their score in the economic freedom database, searching to have diversity on their level. The

availability of reliable data for the rest of the variables needed in the literary material was also a main criteria for the selection of the countries to study.

The conclusions drawn from this thesis are based on statistical analysis below considering that quantitative methods provide a better understanding of the economic studies.

**Table 4.3:** Economic Freedom VS Angel Investments Capability And Growth

|   |                | <b>A1</b>      |                                    |                           |
|---|----------------|----------------|------------------------------------|---------------------------|
| <b>EF Ranking</b>                           | <b>Country</b> | <b>EF 2016</b> | <b>Score Total BA Inv. 2016 €M</b> | <b>Number of Bas 2017</b> |
| 4   | Switzerland    | 8.39           | 15.9                               | 677                       |
| 5   | Ireland        | 8.07           | 16.7                               | 770                       |
| 9   | United Kingdom | 8              | 98                                 | 8000                      |
| 18  | Netherlands    | 7.71           | 12.5                               | 1200                      |
| 20  | Germany        | 7.69           | 5                                  | 1963                      |
| 27  | Austria        | 7.58           | 22                                 | 362                       |
| 75  | Croatia        | 6.96           | 1                                  | 24                        |
| 107   | Greece         | 6.46           | 3.2                                | 52                        |
| 134   | Ukraine        | 5.98           | 5.1                                | 59                        |
| Correlation between A1 and Other Variables: |                |                | 0.41                               | 0.40                      |

**Sources:** The Fraser Institute, 2018 & EBAN, 2017.

#### 4.4 Analysis

The Pearson Product-Moment Correlation coefficient is a measure that allows knowing the degree of linear association between the quantitative variables (X, Y). The Correlation coefficient method, says that when the value is closer to 1 the relation is stronger, the closer the value goes to 0 is weaker until it becomes zero, if the values of the coefficient of relationship is -1 is a perfect negative linear association, if it is 0 there is no relationship and if it is 1 is a perfect positive linear association.

For purposes of this thesis two analysis where made:

- Correlation coefficient between “Economic Freedom Score in 2016” as a variable X and “T Total amount of Business Angels Investments in 2016 (in Millions of Euros) for each country” as a variable Y.
  - ANALYSIS 1 shows a positive correlation but not highly correlated between the two variables with a value of 0.41.
- Correlation coefficient between “Economic Freedom Score in 2016” as a variable X and “Total amount of business angels existing in that country for 2017”. (In this particular study, the difference of the years are not important due to the period where the measurements are done, since 2017 has no rating in the Fraser Institute data).
  - ANALYSIS 2 shows a positive correlation between the two variables with a value of 0.40.

**Table 4.4:** Pearson’s correlation coefficient guidelenes for strenght of Association

| <b>Strength of Association</b> | <b>Positive</b> | <b>Negative</b> |
|--------------------------------|-----------------|-----------------|
| Small                          | 0.1 to 0.3      | -0.1 to -0.3    |
| Medium                         | 0.3 to 0.5      | -0.3 to -0.5    |
| Large                          | 0.5 to 1        | -0.5 to -1      |

**Source:** (Jackson, 2011)

We can conclude then, based on the numerical results of the study that: There is a positive linear association between the Economic Freedom Score for the countries and the total amount of Business Angels Investments.

Considering the difficulty to determine the accuracy of the data respecting the angel investors performance measurements, (since previously explained, they have an "informal" nature in the financing market) we can also conclude that there is a possibility that the strength of association can actually be even greater than the one shown in this thesis.

Each and every one of the analysis that are made in the thesis are based on the explanation given previously that the economic environment, mainly the economic freedom in the countries; are the main factor determining the feasibility of financing options for entrepreneurs. This means that the freer the economy of certain country, the more opportunities and feasibility of alternative financing methods will appear; leaving bank loans with high ratios as a second option.

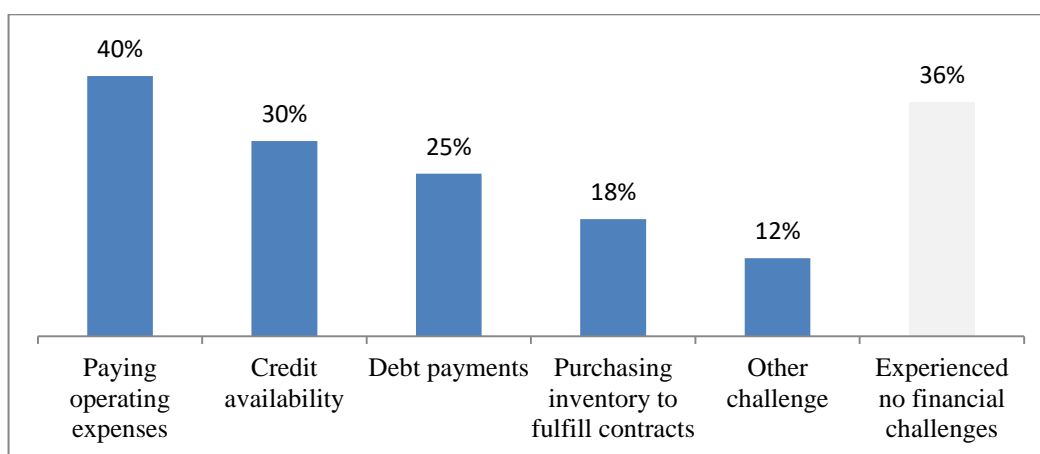
Without a free financial structure, it is impossible to assume that there will be a range of options or possibilities so that the entrepreneur can choose the financing method that best suits them according to their business and stage.

## 5. FINANCIAL CONSTRAINTS FOR SMALL BUSINESSES

The challenges that entrepreneurs and SMEs find to obtain capital funding is given by different reasons, the needs for this funding, comes from different reasons as well.

This chapter will provide information based a national collaboration of the 12 Federal Reserve Banks in the USA, on small business financing needs, decisions, and outcomes to policy makers, researchers, lenders, and service providers. All of this, with the objective to explain the diversity of the financial constraints that SMEs and entrepreneurs face during all the life of their companies.

According to “The Small Business Credit Survey” from the FED, 64% of business firms experienced financial challenges in the prior 12 months from the survey; Each one of them, for different reasons. We can see in the graph that the reasons could imply future forecasting like growth-directed investments, or implicate previous expenses such as the payment of debts acquired in the past.



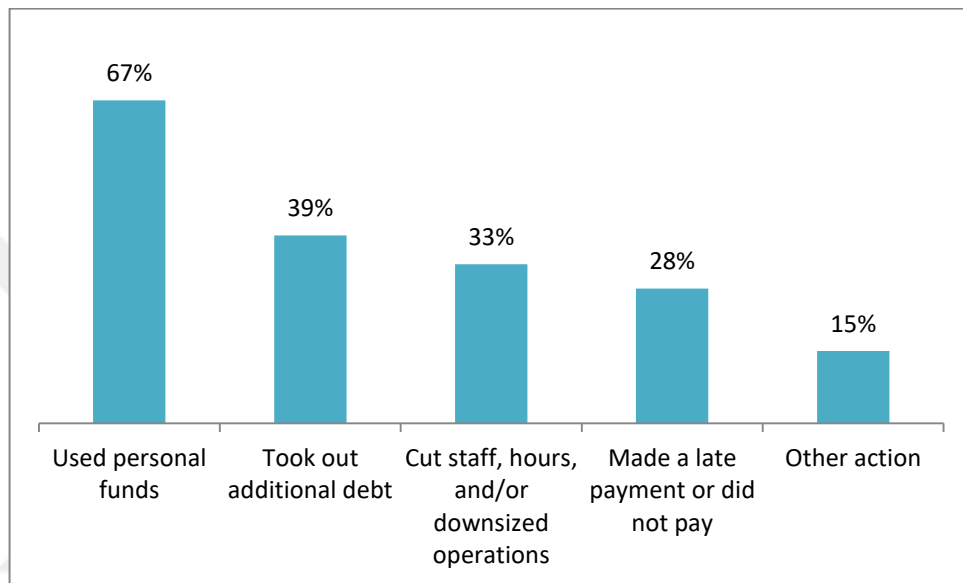
**Figure 5.1:** Types of Financial Challenges

**Source:** USA Federal Reserve Banks, 2017.

Starting with the fact that their volatility is considerably higher and the lack of an extensive financial track record, SMEs are broadly more credit and opportunity constrained than well-known big companies.

We can then observe in Figure 5.1, that companies, when faced with situations of financial disadvantage, usually end up making decisions that may be negative in the long run, such as accepting additional debts with higher interest rates, or taking decisions that go against continuous and sustainable growth, such as Cutting staff, hours, and/or downswing operations.

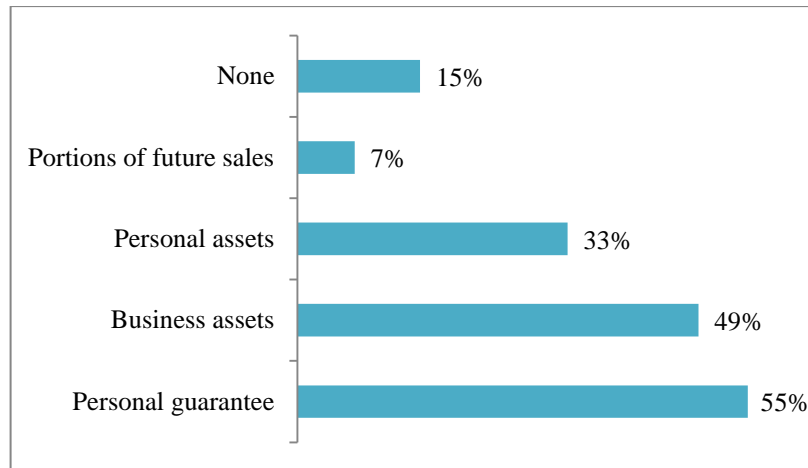
This also means that the companies are not ready to give the “growth step”, they are affected in their operations, and there is no one who guides them in the growth.



**Figure 5.2:** Actions Taken as a Result of Financial Challenges: Prior 12 Months

**Source:** USA Federal Reserve Banks, 2017.

We can see that SMEs and startups have a tighter and more complex access to external financing sources and tend to become much more dependent on banks or financial institutions, attaching them to higher interest rates and tough restrictions. The SBCS also showed that that 87% of employer firms rely on the owners’ personal credit scores to obtain financing (USA Federal Reserve Banks, 2017). We can observe in Figure 4.3 the percentage of employer firms with debt and the uncomfortable and disadvantageous collateral restrictions that they have to accept in order to get a credit from banking financial institutions to get a loan.

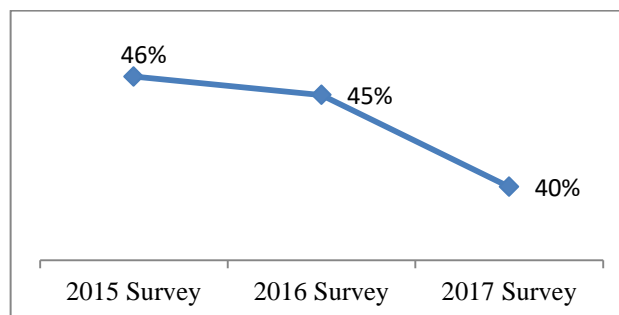


**Figure 5.3:** Collateral Used To Secure Outstanding Debt (% of employer firms with debt)

**Source:** USA Federal Reserve Banks, 2017.

The obstacle in the possibility for funding for the SMEs and startups is not only on the organizations but also it affects directly the lenders. Since smaller firms tend to have less financial history and fewer formal financial tracking processes, it implicates a higher risk for the Banks and Financial Institutions to grant a credit line (Firoozmand *et al.*, 2015b).

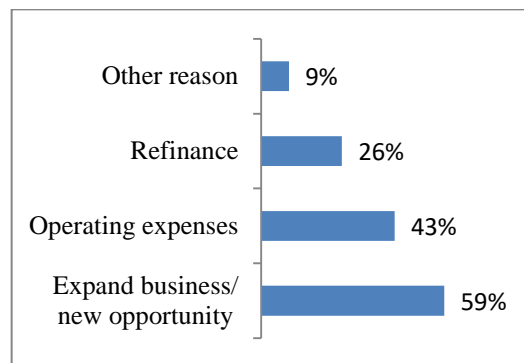
According to the SBCS, in the USA, year by year, measures have been taken to improve the numbers of SMEs and entrepreneurs receiving credits, although it is clear that there is still much to be done; in Figure 5.4 we can see that even though the percentage of companies that are rejected decreases with time, in 2017, approximately 4 out of 10 companies applying to a credit are rejected (USA Federal Reserve Banks, 2017).



**Figure 5.4:** Share That Applied For Financing Prior 12 Months<sup>2</sup> (% of employer firms)

**Source:** USA Federal Reserve Banks, 2017.

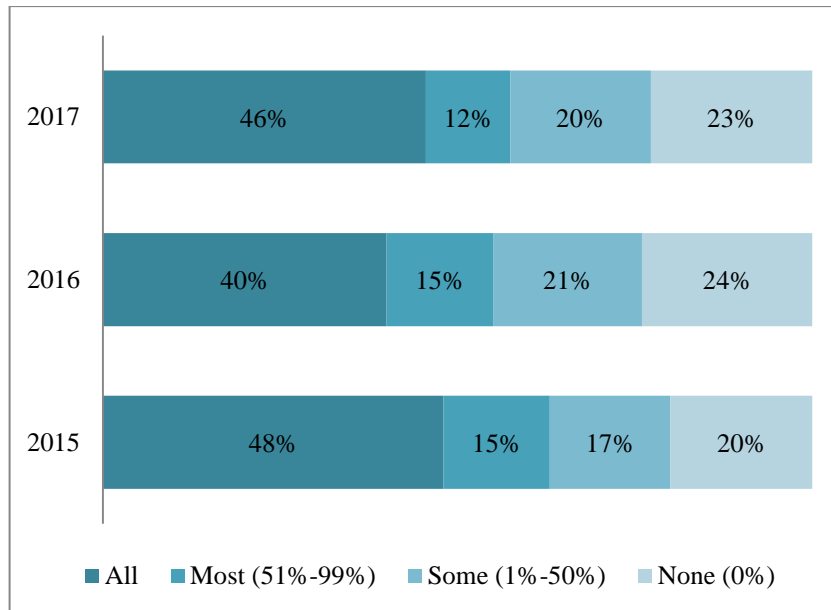
At the same time, the interviewers from the same survey showed in the previous Figure 5.4 who were rejected, were asked about the reasons why they had requested the loan from the beginning. The list of reasons is short, but we can see that more than half (59%) are companies in search of growth: which means that they see, in the market opportunities to succeed, but they do not have sufficient financing to do so, Figure 4.5 (columns below).



**Figure 5.5:** Reasons for Applying % of applicants

**Source:** USA Federal Reserve Banks, 2017.

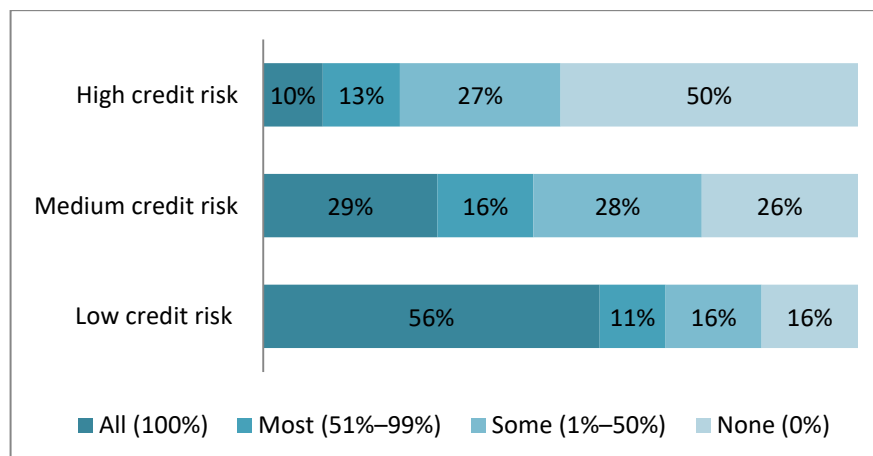
There are other important factors that have to be taken in consideration when measuring the access from the SMEs and entrepreneurs to financing. One of the important groups also within the results are the applicants with “Financial Shortfalls”, this term is used to define all those companies that did manage to get a credit but not for the initial amount of their request. These are the companies that, despite obtaining financial leverage, did not receive the amount that, according to their forecasting methods in their internal accounting, was needed to carry out the planned objectives for the growth or management of the company. Figure 5.6 shows that more than half of the applicants since 2015 who obtained the financing have received less than the necessary amount or nothing. The data in 2017’s survey have not improved their numbers: 54% of applicants had a financing shortfall, meaning they obtained less than the amount for which they applied and 23% out of that number did not obtain any financing at all.



**Figure 5.6:** Total Financing Received (% Of Applicants)

**Source:** USA Federal Reserve Banks, 2017.

As previously mentioned, in the characteristics of the SMEs and entrepreneurs, these type of companies are generally more credit-constrained than large firms; given their typically higher volatility and less extensive financial track record (Firoozmand *et al.*, 2015b). Normally, banks classify them as “high credit risk applicants”. In the following figure 5.7 we can see how half of the "high credit risk" companies do not obtain the financing needed, compared to the "low credit risk"; which are usually large scale companies and with more than 10 years in the market.



**Figure 5.7:** Financing Received By Credit Risk Of Firm (% Of Applicants)

**Source:** USA Federal Reserve Banks, 2017.

From Table 5.1, an analysis of the reasons why financial institutions refuse to give a loan to the applicant companies is made.

Interestingly, the importance of the figure does not lie entirely in its numbers, but in its categories: We can observe that 4 of the 5 main reasons that the banks expressed in the survey, match with the main features of the SMEs and entrepreneurs. The fact that these core characteristics are reasons why a credit is rejected puts SMEs and entrepreneurs automatically at a disadvantageous position simply because they are what they are.

**Table 5.1:** Reasons for Credit Denial1 (% Of Applicants with Financing Shortfall)

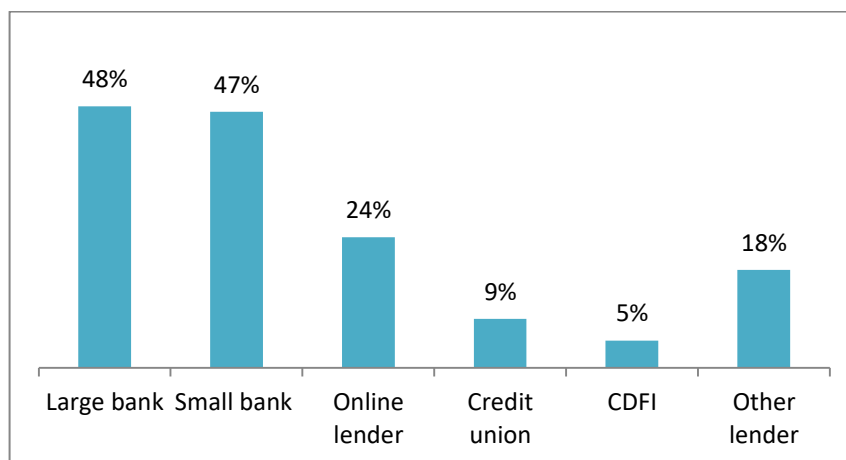
| <b>Reasons</b>              | <b>Percentage</b> |
|-----------------------------|-------------------|
| Insufficient credit history | 36%               |
| Too much debt already       | 35%               |
| Insufficient collateral     | 30%               |
| Low credit score            | 27%               |
| Weak business performance   | 22%               |
| Other                       | 7%                |

**Source:** USA Federal Reserve Banks, 2017.

From the list of reasons, “Insufficient credit history”, “Too much debt already”, “Insufficient collateral”, “Low credit score” and “Weak business performance” match accurately to the main characteristics of an small company that just started their operations and need financing to continue in the market; such as the SMEs and entrepreneurial companies that we have been referring to in this thesis.

Continuously to the previous statement of the reasons of denial vs. the characteristics of the SMEs, in the SBCS we can also find that another factor that makes the situation of SMEs and entrepreneurs in the market even more

disadvantageous is that these companies normally take banks as the most common source to get financial credit; Figure 5.8.



**Figure 5.8:** Credit Sources Applied To (% Of Loan/Line Of Credit And Cash Advance Applicants)

**Source:** USA Federal Reserve Banks, 2017.

As shown in Table 5.2, the phenomenon indicated in the previous figure, has a specific reason: “Applicants tend to choose a lender based on their perceived chance of being funded, rather than on product cost.” (USA Federal Reserve Banks, 2017). This means that the SMEs and the entrepreneurs, when faced with difficult situations to obtain financing, have to opt for situations in which the result puts them at a greater financial risk than before of the leverage.

**Table 5.2:** Factors Influencing Where Firms Apply

---

Chance of being funded

Cost or interest rate

Recommendation or referral

Speed of decision

Flexibility of product

No collateral required

---

**Source:** USA Federal Reserve Banks, 2017.

Today, we can observe that SMEs and startups still rely on savings and credit cards, and, when available, loans to capitalize themselves. Issuances of bonds, commercial paper, or publicly traded equity are measures that can be classified as “unreachable” for entrepreneurs and SMEs.

### **5.1 Diminishing the constraints**

According to what was stated above, we must consider that all the environments to which an entrepreneur or businessman faces are completely different in every city or country of origin. A lot of entrepreneurs move abroad to look for a better and friendlier environment to start their business.

This is where the importance of the government's actions regarding the facilities given to people in their country to start their own business, tax rules, payment plans and acquisition of a bank loan, and other factors within of the categories mentioned previously, affect in a positive or negative way the entrepreneur or contractor.

SMEs are typically at a disadvantage in every aspect of the ecosystem with respect to large firms. The far most important disadvantage in for the SMEs and entrepreneurs are Financing. SMEs generally face higher interest rates, tighter borrowing terms and are more likely to be credit-restrained than large firms.

Historically, European SMEs have been primarily dependent on bank finance. In the wake of the financial crisis, this source of funding has been restricted by refinancing capacity, risk appetite and capital adequacy of the banking sector. This has forced young, growing and innovative businesses to seek finance from different sources, such as venture capital and business angels.

While bank financing will continue to be crucial for the SME sector across all economies, there is a pressing need to develop a more diversified set of options for SME financing, in order to reduce their vulnerability to changes in credit market conditions, strengthen their capital structure, seize growth opportunities and boost long-term investment. This will also contribute to the resilience of the financial sector and the real economy and to fostering new sources of growth.

## **6. ANGEL INVESTORS VS OTHER FINANCING METHODS**

The entrepreneur has the great challenge when starting a business, needing financial capital, which is difficult to achieve and nobody will be willing to agree to deliver it without a good compensation. Therefore, transferring the passion of the business to a potential investor is important, but not enough.

The entrepreneur's capital is often outside the scope of bank financing due to the risks and lack of guarantees that characterize young companies.

A project faces many risks, especially if it is an inexperienced entrepreneur, to convince investors who bet on their business proposal is a challenge that investors analyze since their job is not to bet but to take calculated risks

Around the world, and throughout time, different economic crises have modified the policy of granting loans by banks, although the requirements might remain unchanged for years, the final resolution is now very different. Obtaining borrowed capital in which the amount of investment is high has become a real challenge since it is almost impossible to find financing for any economic activity that you want to start.

The literature in which it is possible to find solid and tangible results on angel investors is scarce and very recent, which does not allow studies to make comparisons at global scales or long term past contrast. Nevertheless, recent studies in large economies have positioned angel investors as one of the best financial methods in the market, where results can be seen; mostly (80%) successful entrepreneurs were provided with valuable capital and invaluable assistance (70%- 80% are hands-on) and succeeded in their financial objective and achieved the ROI that was expected (Morrissette, 2007).

Even though Angel investments are considered in the group of 'informal investment'; which is a term used to describe all non-institutional risk capital investments in businesses; they should be separated conceptually from these types of "love money" or so-called affinity investment (Family, Friends and

Fools). Furthermore, an angel funding can doubtlessly be made in any enterprise whereas “love money” is obviously constrained to situations wherein there's personal unstable factors involved (Mason and Harrison, 2008).

In this chapter, a comparison is made between the methods that are also considered "informal" (since they do not imply the use of institutional or bank loans) but that we cannot consider completely external either, since they do have a well-established structure and a pretty delineated operating system; unlike an informal loan from a friend without legal or financial vending.

It is important to reaffirm that this thesis is intended to open the landscape for entrepreneurs regarding the financing options, as well as advocate angel investors as the best way to get financing.

The comparisons that will be shown next will be based on the explanation of the qualitative method of each of them, comparing them in their operation, and constraints versus the angel investors. The financial methods to be compared are the following:

- Venture Capital
- Online Financing Alternatives
- Bank Loans In their version for: Export-Import Bank Guarantees and Instruments

## **6.1 Venture Capital and an Angel Investor**

One of the most similar methods to the Angel Investment is that of Venture Capital. They are usually confused with each other.

The Venture Capital & Private Equity is an investing activity developed by specialized entities that consists of the contribution of financial resources temporarily (3-10 years) in exchange for a participation (may be both majority or minority) to unlisted companies with high potential of growth. This injection of capital is complemented by added value: advice on specific problems, credibility with third parties, professionalization of management teams, openness to new business approaches, experience in other sectors or markets, etc. The purpose of private capital is to contribute to the birth and expansion and development of the company, so that its value increases. A venture capital

company provides the SME or the entrepreneur with financial resources, professionalism, credibility and experience in the design of new strategies for creating value.

Although in definition it may seem very similar to Angels' investors, one of the great differences between these two methods lies in the source of the money used to invest. It means VCs are able to align the interests of shareholders and managers, developing attractive remuneration and motivation; the resources used to provide financing to SMEs or entrepreneurs, come from investor organizations already together, which mean that it is not directly the primary investors who are fixed in the target company.

VC investors are firms that manage foreign money, mainly institutional funds corresponding to pension funds or trusts, so they are more careful when choosing the destination of the investment.

Their interest is focused on more developed companies that have already demonstrated their potential for success, so they assume less risk.

Another main difference relies on the way the investors participate in the company:

Normally, venture capital's involvement is total: occupying positions on the board of directors and exercising a right of veto on decisions that they do not consider adequate for a good performance. Angel Investors not only take a small part of the board of directors but they also participate in a "mentoring" kind of partnership (Cremades, 2018).

Typically, when a few years pass and if the company has generated the expected value; and the VC considers that it is ready to be divested, a sales process is organized that maximizes the value of its investment and also that of the other shareholders and accompanying managers in these projects.

The investment of private capital can be made at any stage of the life of a company. Starting from this particularity, the two fundamental terms that refer to the sector are established: Venture Capital and Private Equity, both have elements common to each other, such as the participation of a professional investor and the contribution of capital and management in companies that are not listed in bag but also have their own characteristics.

Venture Capital: the contribution of capital in a company that is in the initial phase or early development

Private Equity: the capital contribution is aimed at companies that are growing or already consolidated (Cremades, 2018).

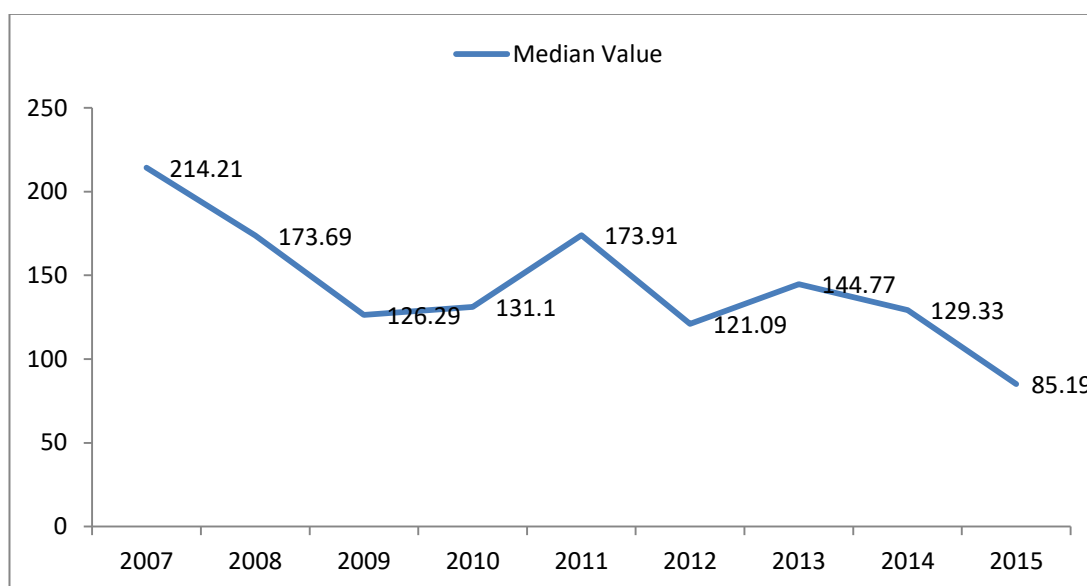
### 6.1.1 Main complications of venture capitals

Another reason why we can deduce that the Angeles investments are a better financial method than the Venture capital (VC) is based on data from the OECD 2017 where we can observe that the VC investments were down in a majority of countries and remained well below pre -crisis levels in 2015.

As we can see in Table 6.1 In most countries (for which there is data available) we can say that the VC, decreased greatly between 2008 and 2009. Later, we can see that this method stops having a specific pattern, and seems to be in a negative trend, except from a small increase in 2011.

However, in 2015, venture capital activities decreased significantly in the majority of the countries, reducing the average value to its lowest level since 2007.

There might be a possibility that, with time, VCs might be considered as a very good deal for SMEs and entrepreneurs, but not completely for the investors.



**Figure 6.1:** Venture capital investments, 2007-15 In USD million

Source: OECD, 2017.

“Graph made from the data of the Venture Capital amounts in USD million per year of the analysis of the median value of the following countries: Australia Austria Belgium Canada Czech Republic Denmark Estonia Finland France Greece Hungary Ireland Israel Italy Japan Korea Netherlands New Zealand Norway Portugal Russian Federation Slovak Republic Slovenia Spain Sweden Switzerland United Kingdom United States” (OECD, 2017).

## **6.2 Bank Loans**

After the financial crisis of 2008, banks in the US became even more strict with their way of lending money to companies. This is due, in part, to bank consolidation, which has resulted in a decrease in the number of banks focused on the SME segment or support to the entrepreneurs; also one of the factors that affected the situation was the implementation of greater regulatory control that has led banks to adjust credit standards and ensure more internal approvals. This, at the end, has lower the amount of creditworthy borrowers and increased banks' fixed costs per loan, making SME loans less attractive

According to the FED, the increase in supervision during and after the recession in 2009 concludes that greater rigor had a statistically significant impact on total loans and loan capacity for about 20 quarters after the start of the stricter supervision rules (Firoozmand *et al.*, 2015).

## **6.3 Export-Import Bank Guarantees and Instruments**

An Export-Import Bank supports the export transactions of small companies offering them the opportunity, in particular to foreign clients, to obtain financial products and facilitate both the export and the importation into their country of origin.

For example, the Exim Bank in the US was born in 1934, and since then it has supported US exports worth more than 170 billion dollars.

This organism supports those credit transactions for export that otherwise would be very difficult to realize; in addition, it shares the risks of recovery of credits that the private lenders could not face by themselves.

Another function of Exim Bank is to establish negotiations with foreign export credit institutions and reduce official subsidies to improve the basic rules of international sales on credit.

According to the “State of SME Finance” made in the United States for 2015, by the Trade Up Capital Fund and Nextrade Group, the Ex-Im Banks of the US authorized a record of 3746 small business transactions in 2014, of which 89.4%, were export credit insurance instead of working capital loan guarantees. The Ex-Im authorizations supported \$ 5.1 billion in loans for small businesses, of which 57% went to credit insurance for exports and 35% to loan guarantees for working capital (Firoozmand *et al.*, 2015b).

With these results we can realize that ExIm Banks and Export Credit Insurance Corporations are financing methods with very good results and that they can be an excellent financing option for SMEs and entrepreneurs in the world.

Perhaps we can refer to this method of financing as the best in its sector, (exports and imports). The important factor that marks the difference between this method and the method of angel investors is that it has certain constraints that reduce the number of possible applicants to this type of financing to a minimum. Below is a list of the constraints that reiterate that the angel investors are a better financing option despite their good results in their specific sector.

### **6.3.1 Main Constraints Of Export-Import Bank Guarantees And Instruments**

Being a government agency, the transactions they support have the following guidelines:

- The goods must be produced exclusively in their country of origin and exported from their territory.
- Services must be provided exclusively in their country of origin, when they are carried out in the importing country, by personnel who habitually reside there.
- US shipping costs, as well as insurance purchased exclusively in your country of origin, may be included only if the foreign buyer pays in the currency of this country.

- Payment periods are the usual ones in International trade; generally, 180 days for consumer goods, raw materials, spare parts and some services; up to 360 days for bulk agricultural products and consumer durables; up to five years for capital and study assets and up to ten years for projects and contracts of great importance.
- The Bank that supports the transaction must have a reasonable guarantee for payment.
- They only provide support for companies that export or import goods. This implies that there is a large range of SMEs and entrepreneurs that are left out of the opportunity to get this financing method.
- There are no such banks in all countries of the world.

ExIm Banks and Export Credit Insurance Corporations Around the World: Australia, Austria, Belgium, Bermuda, Brazil, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Hungary, India, Indonesia, Israel, Italy, Jamaica, Japan, Korea, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Island, Portugal, Romania, Singapore, Slavic Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, and United States.

#### **6.4 Online Financing Alternatives**

Like most factors in the economy, the options for financing sources are adaptable to the technological era and its advances. Due to the fact that traditional sources of credit for small businesses have failed to meet demand till this time, a new dynamic market for online lending platforms has emerged.

Online lenders are one of the best known means to request funds from the public for SMEs or entrepreneurs nowadays.

This method, as its name says, works through an online platform that acts as an intermediary, and includes one-on-one loan activities, collective funding of funds and financing of online invoices.

One of the most important pros of this method is that it has a lot of potential to grow, given the technological advances of these times. It is definitely one of the best ways to close the financial gap, and give the vast majority of SMEs and

entrepreneurs the opportunity to reach a form of financing, regardless of the country where they are located; especially for young companies with medium or high credit risk. Nevertheless, the markets in the United Kingdom, the United States and especially China far outperform those in continental Europe.

The opportunity for growth exists; In many countries, these networks of financing activities are still in their initial face; although the activities are growing rapidly, doubling in volumes every year between 2013 and 2016 in several countries (OECD, 2018).

Also another pro that can be listed for online lenders is the higher velocity and greater probabilities of success than traditional lenders, as they use proprietary analytics for approval; some companies have a rate of approximately 60% of success of the loan applications they receive, usually in a matter of minutes or few days. In 2014, over \$8.6 billion in loans was financed through online lending platforms, a larger number than all previous years combined (Firoozmand *et al.*, 2015b).

#### **6.4.1 Main Constraints for Online Financing Alternatives**

Online lenders generally use a different set of criteria than traditional lenders to assess the credit worthiness of the borrower, such as credit card payment records of business owners or the monetary registration of affiliation of the client in a bank.

They come in various forms, some, use balance sheets to issue loans; others, connect borrowers with lenders; others, connect first-class and excellent quality borrowers with capital from several sources.

With this type of investments the entrepreneur does not remain in a position of security with respect to its financing since the lenders are characters in the company that will not have close connection with the operation of the company. Also it is considerable to mention that on-line lenders won't help in any of the operational effort related to the company; it's just about funding.

## **6.5 Angel Investor Method Distinctive Functioning**

One of the most important characteristics and distinctive of the Angel Investment method is that once the capital contribution of the Angel Investors is made, they become partners of the company, which is usually of a minority nature, for which the team of entrepreneurs maintains the power of decision.

Angels' investments are not always granted to new projects that need seed capital but can also be reached as a second-generation capital to the company, that is, when there is already a solid commercial and financial strategy that allows the entrepreneur capture the investment of that angel.

Once the project is valuated, the Angel will oblige and guide the entrepreneur to formalize the Business Plan that is presentable to third parties. Normally, operational calendars are established that will have to be met by the businessmen. The same will happen with the structure of the company because it should include controls and periodic reports on its activity.

This Business Plan will help identify fragile parties in order to create preventive measures that do not affect the business. Also it will help define the new positions to recruit the most competent people to fill these vacancies.

There are many benefits that this type of investors can contribute to the projects or companies in which they decide to bet:

**High recognized business profiles:** They provide experience and business knowledge, guide and grants advice. Angels are not only limited to financing the entrepreneurs project, they are part of the company as a “coach” as well.

**Human Capital:** The Business Angel invests its own capital, which makes it involve and involve more in your business. It is possible to affirm that the Angel “lives” the project closely, and they takes it as their own, as a personal motivation.

**Network:** Normally Angels tend to invest in their sector of specialty; entrepreneurs achieve the availability to meet agents in the market that, without help, could even be considered as “unreachable”. These agents might be: other private investors, big businessmen, diplomats, directors, etc.

Considering all the analysis made in this chapter; we can assure that Angel Investment Method presents lower costs, more facilities and greater flexibility compared to any other formal or informal method in the market.



## **7. CONCLUSIONS AND RECOMMENDATIONS**

There is a moral responsibility of the people that have certain position of power or certain level of education such as lecturers, politicians, directors of financial institutions, CEO's, etcetera:

The responsibility consists on the just management of the economic environment in order to make a better world for everyone; by increasing the life quality of the citizens and providing them with jobs and opportunities that can bring economic growth from micro to macro economic levels.

From economic policies on the part of the government, to new forms of education on the part of the universities; it is fundamental for the future of economic growth and social development of a country that economic freedom is promoted and also, to encourage the easiness of decision and opening of minds for the young entrepreneurs regarding the management of their own business or the commencement of them. It is necessary from now on, to stop restricting the ideas of young people, and to form a future that facilitates the improvement of the quality of life of the people through economic growth and creation of jobs.

Due to the lack of the previously mentioned union of efforts, many companies remain small, startups and entrepreneurs with innovative ideas cannot find a way through in the market, and raw talent is wasted. Therefore, economies on the raise loose the opportunity to grow and to create thousands of new jobs.

Below is a list of conclusions and recommendations (mainly inspired towards future changes) on the ways in which a much friendlier environment can be created for entrepreneurs and also a way in which entrepreneurs can face possible constraints in the life of their company.

## **7.1 Conclusions Related to the Angel Investors as the Best Investment Method**

The fact of promoting angel investments as investment method is a way of looking to the future and maximizing the chances of small companies to survive and achieve success.

An orientation specifically formulated for SMEs is needed for the creation of applicable and desired jobs in sustainable enterprises. The focus should be on generating the right conditions for SMEs to create jobs; encourage entrepreneurs to fulfill their motivation to start and build businesses; and encourage sustainable workplaces with higher productivity and better working conditions; all these are what Angel Investors do.

Regardless of the clear economic difference previously demonstrated in this thesis, which shows how opting for an Angel Investor for entrepreneurs is the safest way of financing; what makes this method better above all the rest is: the added value.

As the entrepreneur: getting an angel investor does not only mean an economic entry and liquidity (as do the vast majority of other forms of investment); the entrepreneur receives with the Angel, a partner, a mentor, a business and commerce network, a teacher, and also a status in the market.

Therefore; we can say that Angel Investors are not only a “financing method” because they turn up giving more than just monetary resources to the company. Angels respond to their given name: they take care of the company and the entrepreneur.

## **7.2 Conclusions Related To The Relationship Between Angel Investments And Economic Freedom**

The economic freedom in the countries; are one of the main factors determining the feasibility of financing options for entrepreneurs. This means that the freer the economy of certain country, the more opportunities and feasibility of alternative financing methods will appear; leaving bank loans with high ratios as a second option.

Without a free financial structure, it is impossible to assume that there will be a range of options or possibilities so that the entrepreneur can choose the financing method that best suits them according to their business and stage.

By observing the results of the literate material about Economic Freedom around the world; we can conclude that when countries promote greater economic freedom, the income of the population increases, poverty is reduced, there is greater democracy and education and human development are promoted, improving the cleanliness of the environment that promotes a healthy life.

Only when countries have strong institutions that guarantee the rule of law, democracy, sustainability, human rights and regulatory efficiency, along with the opening of markets, will individuals be more economically free and aspire to a better future.

Freedom allows people to conduct their own experiments to find out what will be valuable or worthwhile for them and try new ideas. Governments are not concise enough in knowledge to know in advance what new ideas or plans will work in the future. Therefore, economic freedom, by promoting independent and competitive efforts of many people also induces new developments. Everyone should be allowed to do their own experiments and take their own risks, so ideas that prove useful will be adopted. The foundations of economic freedom say that progress should not be directed; only growth should be encouraged.

### **7.3 Recommendations Related To The SME's and Entrepreneurs in the world**

The determining factors in the sustainability of the ventures vary depending on the context, the type of companies, the geographical region under study, the entrepreneurship ecosystem and the economic conjuncture.

Despite these aspects, entrepreneurship must be based on clearly identified opportunities that account for the real need and potential of the market. Likewise, entrepreneurs must identify economic sectors whose life cycle is in full growth and geographical locations that present attractive growth expectations to guarantee demand.

Given that the enterprises in their creation phase have structural limitations, they must minimize exposure to risk situations such as high levels of indebtedness that result in excessive financial costs, as well as strategically plan their growth, both in the diversification of supply and in the implementation of new strategic business units

The results obtained in this research aim to contribute to the scarce development of the literature in explaining the factors that affect the sustainability of the enterprises and the different options in the market for financing, additionally, they become a tool for decision making by the actors that are part of the ecosystem.

As mentioned at the beginning of the thesis; this paper tries to open a new panorama for entrepreneurs to make them realize that there are different options for the resolution of the business idea they have.

For current and potential entrepreneurs, the results of this research represent relevant information for the start-up and consolidation of their companies, the results obtained allow investment decisions, financing, identification of business opportunities, establishment of the company, conformation of the entrepreneur team, definition of the portfolio of products and services.

#### **7.4 Recommendations For Government Institutions Related To The SME'S And Entrepreneurs In The World**

The sustainability of the SMEs and the support for the creation of entrepreneurs companies is an important economic engine in any country; this is due to the fact that both contribute to the increase in the employment rate at a much more valuable rate than the biggest.

Organizations of international agreements and governments (through the use of national policies), have shown great interest in the importance of the contribution of the SMEs to countries' economy , and have applied regulations and projects with the aim of generating growth in the sector of SMEs and give opportunities to entrepreneurs; however, it is not enough.

Despite the considerable attention given to the growth of SMEs, there is still a large number of entrepreneurs who remain in "failure gap" to create their companies.

No theory along the economics studies has been able to explain in an efficient way why certain SMEs reach the success and others simply fail; what is possible to guarantee, is that an environment that promotes support for these companies will generate and multiply the probability that this economic sector will grow. It is important to look at the example of countries such as the United States, Holland and Germany: where the Business Angels support from the government has given positive outcomes through many years.

It is necessary to realize that at a time of both political and economic crisis for the world, the measures that governments have to take to guarantee economic growth is through policies based on long-term results. It is not only about giving the money to the SMEs or the entrepreneurs, but it is necessary, supporting them from their core, and guaranteeing that with the bases that are being granted, the companies can follow their long-term path.

While bank financing will keep on being vital for the SME part over all economies, there is a latent necessity to build up a progressively differentiated arrangement of alternatives for SME financing, so as to decrease their high volatility and vulnerability to changes in credit economic situations, fortify their capital structure, promote progress opportunities and support long term platforms.

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## RESUME

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### Education

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**2012-2016** Universidad Panamericana Mexico - Bachelor's Degree in Administrative Finance

Qualification for academic performance (9.0/10.0)

**2017-2019** İstanbul Aydın University - Masters In Business Administration in English

GPA 3.55

### Work Experience

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**2016-2019** EURAS - EURASIAN UNIVERSITIES UNION

Title: Ambassador for Latin America and Spain.

Public and Customer Relations.

Negotiation of International Agreements regarding the institution's participation in the summit and making them part of the EURAS association.

Creation of new relations, new consensus, & recruitment for collaborative partners.

**Main Goal: Promotion of the internationalization of the higher education in Turkey through the creation of new transnational relations.**

**2018** CULTURA Y TURISMO

Title: PR Representative

MBA ERASMUS+ Internship.

Sales and Public Relations with customers in Spain and France.

Creation of new relationships, new consensus and recruitment of collaborative partners.

**2014** PEPSICO

Title: Intern

Planning, control and forecasting of sales and returns in food.

### **Languages**

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-Spanish: Native Language

-English: Advanced

-Turkish: Intermediate

-Portuguese: Intermediate

### **Certifications & Additional**

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**2016** INSTITUTO CERVANTES

Certificate for Spanish Teacher as a Foreign Language A1

**2016** ISTANBUL AYDIN UNIVERSITY

English tutor in English Speaking Class

Students between 18 and 19 years old

### **Skills**

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Relations management with international entities, transnational connections.

Negotiation to create international agreements with Latin America and Spain.

Monitoring of customer relations.

Experience in the internationalization of the client portfolio of a company, both in the public and private sectors.

Experience in the analysis and identification of the specific needs of the client or target partner.