

Chapter 9

Informal Investment for Entrepreneurs in Latin America and the Caribbean: Availability and Contribution

Alicia Coduras

Global Entrepreneurship Association (GERA), Spain

Ignacio De la Vega

Mohammad Bin Salman College of Business and Entrepreneurship, Saudi Arabia & GERA, Spain

ABSTRACT

The authors provide a broad view of the field of informal investment in the region, emphasizing the importance of separating the contribution of this sector from that provided by other channels of financing of entrepreneurship such as angel investment and venture capital. After framing the issue and reviewing the most relevant academic literature, the authors discuss the existing relationship between the current state of informal investment in the area and the size of the informal sector in economies that constitute the sector. They also show the magnitude of informal investment and its impact on the creation of new business activities, identifying the most salient features of the process, as well as their strong and weak points, and a deep reflection on the elements that would have to work to make progress in the modernization of this sector.

INTRODUCTION

In 2013, Professor Izaías Martins (EAFIT University, School of Management, Bogotá, Colombia) published a paper entitled “Informal Venture Capital Funding New Entrepreneurial Activities: A Call to the Academic Forum in Latin America” (Martins, 2013). The author examined several studies on informal investors around the world and revealed an absence of academic evidence in Latin American

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countries fact that led him to challenge scholars to discuss this phenomenon and to invite the academic community to suggest important issues, useful theoretical approaches, and effective methodologies in this research topic.

Martins (2013) opined that in Latin America, there is little academic production around this topic, because, with the exception of Argentina, Brazil, Chile, and Mexico, most business angels and venture-capital networks are less than 10 years old. Also, following other recent findings, Martins stresses that the angel and informal investment market is incipient in the region (Kantis & Federico, 2012), as are the public policies focused on it, and the topic has just begun to capture attention in various countries' development plans (Romani, Atienza, & Amorós, 2009, 2013).

The present work has been written with different purposes: to help fill the gap in the literature on informal investment in Latin America; to stress (with respect to the field of entrepreneurship financing) the need to include informal investment in research as a specific topic as distinct from the angel and venture capital topics; and to provide specific information, evidence for the relevance of this topic, and conclusions about its current status and future evolution in the region.

The overall purpose of this chapter is to provide an insight into the current status and estimated contribution of informal investment in Latin America and the Caribbean, to provide evidence for its large impact on entrepreneurial activity in the region and the need to consider its modernization, which is linked to that of the figure of the entrepreneur.

To achieve this purpose, the chapter is structured in different sections covering the following objectives:

- To explain the role of financing in the entrepreneurial process.
- To summarize and describe the main findings on informal investment from a relevant selection of specific literature to establish a background.
- To provide a modern definition of informal investment.
- To reflect on the role of informal investment in Latin America and the Caribbean as a major source of financing for nascent entrepreneurs.
- To present the contribution of the Global Entrepreneurship Monitor (GEM onwards) project dedicated to measuring the informal investment and its methodological aspects.
- To provide the latest results obtained on informal investment from the GEM project for Latin America and the Caribbean.
- To discuss the features, contribution, and impact of the informal investment on entrepreneurship in Latin America and the Caribbean.
- To provide conclusions and recommendations on the future development of the informal investment in Latin America and the Caribbean as fundamental support for entrepreneurial activity in the region.

To address some of the previous objectives, for the main source of data the authors used the results of the GEM project for the year 2015 in Latin America and the Caribbean. GEM is the most ambitious international annual monitor specifically focused on collecting data and analyzing the main aspects of the entrepreneurial phenomenon, including the participation of adult populations of various economies as informal investors.

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