

# ICSB Gazette

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## Informal Investment

Written By: The Global Entrepreneurship Monitor (GEM)



### INTRODUCTION

The act of starting a new business requires resources, including access to finance. Many news sources, particularly in developed economies, characterize those starting new businesses as building smartphone applications using high technology in open-plan offices, presenting pitches to venture capitalists, in a world of high finance and initial public offerings. In practice, new businesses are more likely to be started with the entrepreneur's savings, credit cards or overdrafts, or with loans from family and

friends. Informal investment is when an individual provides funds for a new business started by someone else, and is typically from family, or friends and other acquaintances.

### LEVELS OF INFORMAL INVESTMENT

In its 2019 Adult Population Survey (APS), GEM asks individuals if they have invested in a new business started by someone else, and if so how much they invested, and what is the relationship to that person. Figure 6.1 shows the proportion of adults in each economy that, in 2019, have both invested in someone else's new business at any time in the past three years and stated how much they provided.

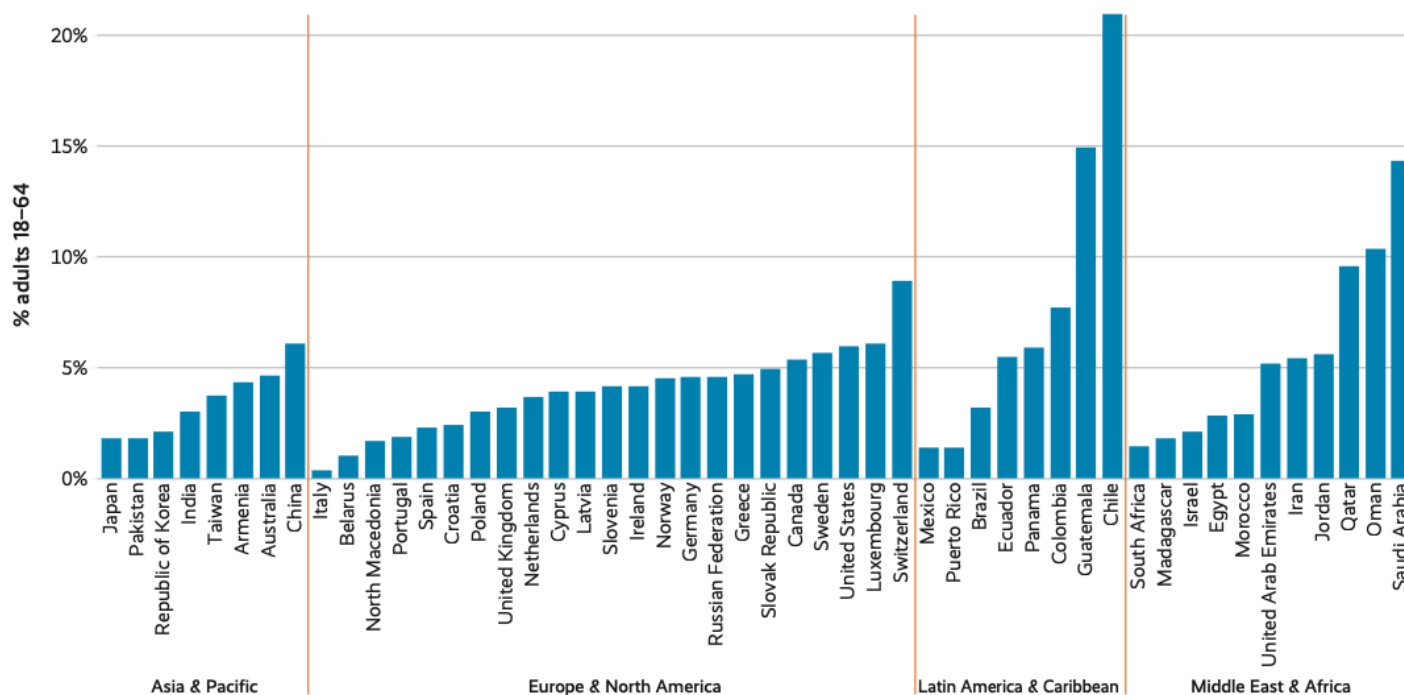
The proportion of adults investing in someone else's new business is less than 2% in 10 of the 50 economies, but more than 5% in 17 of those 50. Rates of informal investment are highest in Latin America & Caribbean (more than two in 10 in Chile; more than one in 10 adults in Guatemala), in the Middle East & Africa (around one in 10 or more in Qatar, Oman and Saudi Arabia), and in Europe (just under one in 10 in Switzerland). These figures show Chile as a dynamic entrepreneurial economy, both in the process of starting businesses (almost four in 10 adults), and in investing in other people's enterprises (two in 10 adults).

In the GEM APS, those who say they have invested in a new business started by someone else are asked how much they have invested, with the responses shown in Figure 6.2 in terms of the median<sup>1</sup> amount invested (in US\$). The median was less than \$1,000 in nine economies, including less than \$500 in four (Madagascar, South Africa, Pakistan and Croatia). At the other end of the scale, the median was greater than \$10,000 in eight economies, including more than \$20,000 in two (Switzerland and Republic of Korea). Obviously, the median level of informal investment is partly dependent on the overall income level of the national economy.

Finally, the GEM APS asks those investing

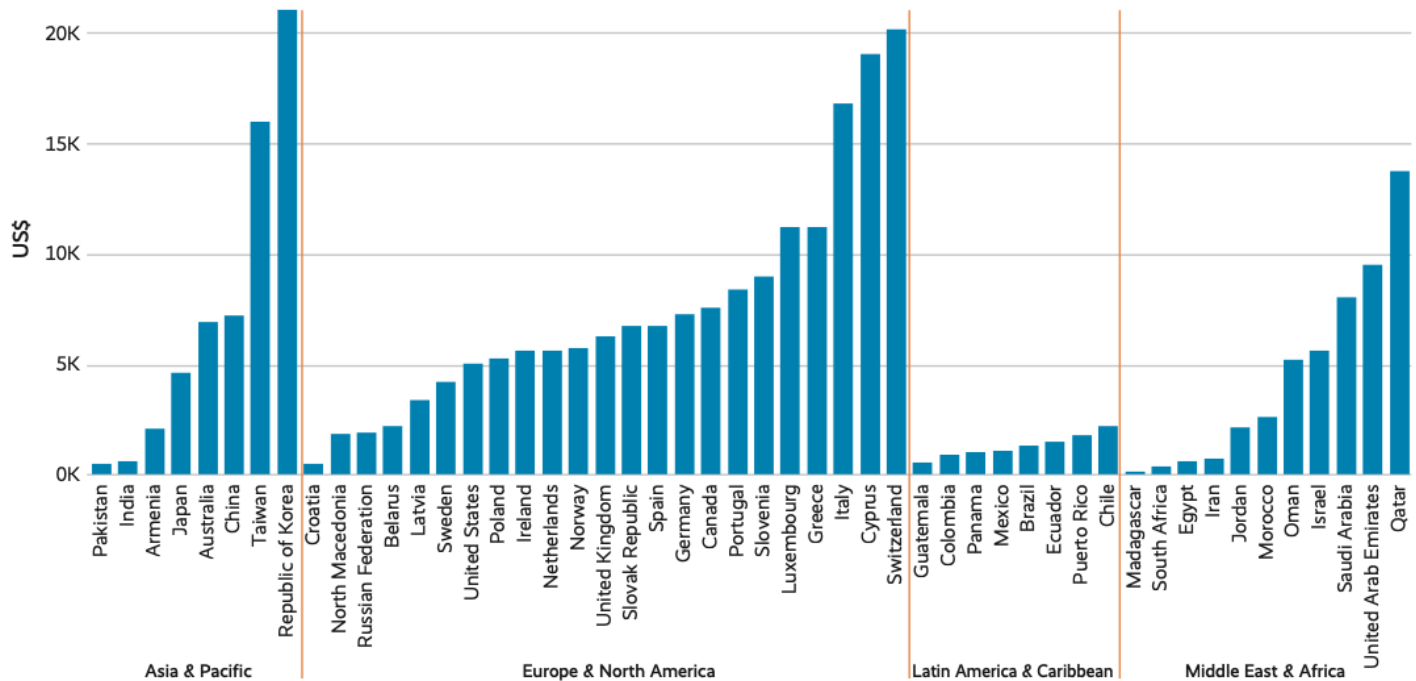
in someone else’s new business what their relationship with that person is, for the last investment they made. The most common relationships are either to invest in a close relative, or a friend or neighbour. Together these account for more than six out of 10 investor relationships in 46 out of 50 economies, and more than eight out of 10 in 17 of those economies.

This chapter has looked at a different form of entrepreneurial activity – informal investment, or the act of investing in someone else’s new business. The proportion of adults investing in someone else’s new business is less than 5% in two-thirds of the 50 economies, but more than 10% in four economies: Guatemala, Chile, Oman and Saudi Arabia. Not surprisingly, the typical amount invested also varied considerably, with a median less than \$1,000 in nine economies but more than \$10,000 in eight other economies. Informal investment is certainly a minority activity, but can be very important in particular economies.



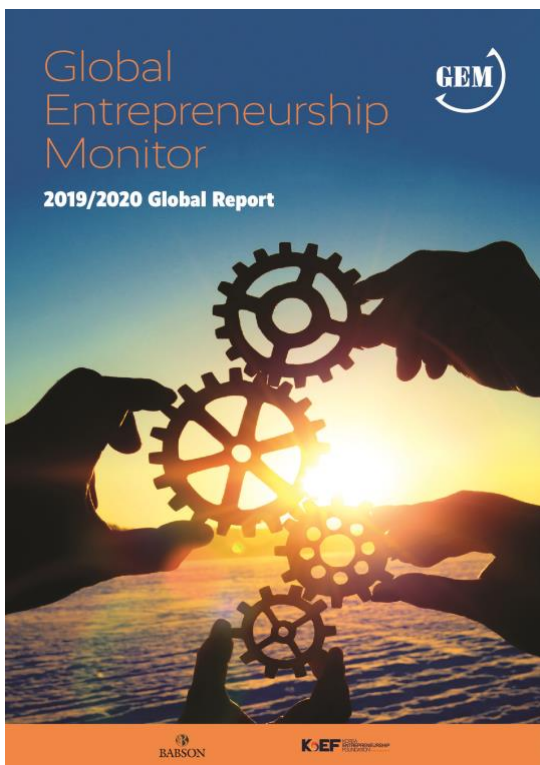
**FIGURE 6.1** Informal investment (% adults)

Source: GEM Adult Population Survey, 2019



**FIGURE 6.2** Median amount invested (US\$) by those investing in a business started by someone else  
 Source: GEM Adult Population Survey, 2019

## About the Author:



The Global Entrepreneurship Monitor (GEM) has been keeping its finger on the pulse of the state of entrepreneurship since 1999, both in terms of the state of the entrepreneurial mind-set, motivations, activities and ambition, and the national framework conditions required to allow entrepreneurship to flourish in an economy. In this, GEM’s “coming of age” 21st year, entrepreneurship is in the spotlight as never before, with multiple governments increasingly focused on putting into place policy frameworks and mechanisms to drive and promote entrepreneurship. Fifty economies participated in the GEM 2019 Adult Population Survey (APS), including 11 from the Middle East & Africa, eight from Asia & Pacific, eight from Latin America & Caribbean, and 23 from Europe & North America. Five of these economies are classified as low-income level, 12 as middle-income and the rest as high-income. Over 150,000 individuals participated in extended interviews as part of the GEM research in 2019. This is the solid evidence base for the GEM findings that are presented in this report...[Read the full report here](#)



## About the International Council for Small Business (ICSB)

The ICSB Gazette is a weekly edition of a key topic that ICSB will showcase. The content is varied from research, practice, policy, and education. The editors of the ICSB Gazette is Mr. Kyle Lyon, ICSB Junior Project Manager and Mr. Skye Blanks, ICSB Junior Project Manager He will be soliciting ideas and articles from ICSB members world-wide.



### **Skye Blanks**

Editor, ICSB Gazette

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### **ICSB Executive Director**

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This ICSB Gazette issue is featuring an article from The Global Entrepreneurship Monitor (GEM) 2019-2020 Report

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