Jwala Rambarran: Venture capital financing in the Caribbean – its relevance to the economic transformation agenda

Opening remarks by Mr Jwala Rambarran, Governor of the Central Bank of Trinidad and Tobago, at the 3rd Caribbean Business Executive Seminar "Venture capital financing in the Caribbean – its relevance to the economic transformation agenda", Port of Spain, 4 April 2014.

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Good morning Ladies and Gentlemen,

Let me first thank the Caribbean Centre for Money and Finance (CCMF) for inviting me to deliver Opening Remarks at its 3rd Caribbean Business Executive Seminar on Venture Capital Financing. I commend CCMF for bringing together a wide cross section of C level executives from finance and government as well as academic experts to share experiences and best practices on the policies to promote venture capital finance in the Caribbean.

This Seminar is particularly timely, since it is taking place against the backdrop of a global environment that is likely to be less favorable than in the recent past because of tighter financing conditions as well as slower growth in some advanced economies and major emerging markets. Caribbean policymakers, in their search for new sources of development finance, are rekindling their interest in venture capital to help spur innovation, create jobs and support economic growth.

I say rekindling interest because the regional venture capital landscape is, at best, in an embryonic stage. In Caribbean economies, venture capital fundraising (as a percent of GDP) is negligible, or at zero. Several venture capital funds have closed since 2008. In fact, in Trinidad and Tobago, the venture capital industry has collapsed. And most venture capital investment, even when finally deployed, has financed start-ups of small to medium enterprises without any discernable positive economic impact.

Ladies and Gentlemen, for a region discovered some 525 years ago thanks to venture capital financing, the Caribbean has failed to develop a vibrant and indigenous venture capital industry.

Think about it. Christopher Columbus created a model for the modern Caribbean entrepreneur to follow.

Columbus spent seven years pitching his business plan to Genoese bankers (the world's first angel networks) before convincing King Ferdinand and Queen Isabella of Spain (institutional investors at heart, if not in name) to fund his risky start-up venture in 1492.

His business plan called for using three ships to discover a faster sea route to India and China by sailing west into the Atlantic. Columbus persuaded Ferdinand and Isabella that a new route to Asia would disrupt Portugal's monopoly on Asian exploration and give Spain vast riches such as silk, spices, gold and precious stones. He also convinced the royals that a new sea route would give Spain the glory of a new discovery, expand the Spanish Empire and propagate the spread of Christianity.

Columbus, the explorer and adventurer, had no spectacular track record nor demonstrated any remarkable abilities as a mariner but he did have some "skin in the game", investing some of his own resources into the venture. According to the term sheet Columbus successfully negotiated, he would be entitled to 10 percent of all revenues from the new lands he discovered; and he would have the option of buying one-eighth interest in any commercial venture with the new lands and receive one-eighth of the profits for all trips made by Spain to the New World.

Like all entrepreneurs, Columbus miscalculated the risks of his westward voyage. Many things could have gone wrong that would prevent Columbus from returning to Spain: getting lost, starving, shipwreck and mutiny. In fact, Columbus had the confidence, tact and charisma to fend off a near-mutiny by convincing his crew that newly sighted birds and floating vegetation meant Asia was (literally) over the horizon.

At the same time, all Ferdinand and Isabella risked was investment capital but could benefit tremendously from the upside potential. Even after granting all of Columbus' demands, Spain still retained seven-eighths of any returns from the first voyage, and seven-eighths of any returns from subsequent voyages. Ferdinand and Isabella's risky venture paid off handsomely. The mineral wealth extracted from the New World laid the foundation for Spain's domination of Europe for the next century.

The world is not so different today than 525 years ago. Financing entrepreneurial ventures has changed little over the centuries. Today, we know that venture capital involves long term investments in risky, young companies, often with unproven management teams addressing new technologies in uncertain markets. Yet the innovation that occurs in these small companies is an important force in moving a country into the knowledge economy.

In this regard, Caribbean governments have an important but carefully balanced role to play in creating a healthy ecosystem in which venture capital can truly thrive. Many governments including ours in Trinidad and Tobago have attempted to implement policies to encourage venture capital investment, but unfortunately these efforts have either been misguided or failed to deliver the anticipated results.

Daniel Isenberg, Professor of Management Practice at Babson College, in his path-breaking June 2010 article in the Harvard Business Review offers several contrarian prescriptions for starting an entrepreneurial revolution, all of which, I believe, are relevant to the Caribbean economic transformation agenda. I would like to highlight three key lessons for Caribbean policymakers.

The first lesson is to stop attempting to duplicate Silicon Valley. Many governments have the near universal ambition to develop the next Silicon Valley, which is home to a veritable "who's who" of hi-tech giants such as Apple, eBay, Google, Intel, LinkedIn, and Oracle. Yet, ironically, Silicon Valley could not even replicate itself today if it tried. Its ecosystem evolved from the convergence of a unique set of circumstances: a large pool of skilled engineers and scientists from major universities in the area; the laid-back but driven for speed California culture; generous funding from a strong aerospace market with the Defense Department; development of an efficient network of venture capital firms; the institutional leadership of world-class Stanford University; and pure luck, among other things.

In 2008, the Government of Trinidad and Tobago decided to create its own version of Silicon Valley by investing an estimated US$150 million in the Caribbean's first Science and Technology Park, known as the Tamana InTech Park. The principal purpose of the Tamana InTech Park was to drive economic diversification in Trinidad and Tobago through the establishment of technology intensive, knowledge-driven industries in the non-energy sectors.

The Park would be home to major technology players and the place where groundbreaking and innovative ideas would emerge. One of the Park's largest tenants, The University of Trinidad and Tobago (UTT), would provide the necessary synergy between industry and academia in bringing emerging technologies to market. Unfortunately, despite several expressions of interest, Tamana InTech Park is yet to sign one tenant.

Ladies and Gentlemen, this brings me to my second lesson. Trinidad and Tobago's experience with Tamana InTech Park shows that governments cannot build ecosystems alone. Governments should engage the private sector, ideally from the start, and let it keep or acquire a significant stake in the ecosystem's success. One way the Government of Trinidad and Tobago could avoid problems such as the empty buildings in Tamana InTech Park would be to seek matching funds from private investors, either locally or overseas.

The government can directly approach technology investment firms and technology researchers to determine what they need to develop a world-class industry. If the private investor then offers to match say half of the funds, ambitions would be tempered and targeted to meet the specific needs of the market. Furthermore, requiring matching funds not only ensures the private sector is willing to risk its own money but also tests the potential of the technology or investment firm. Several venture capital programs such as Israel's Yozma, the New Zealand Venture Investment Fund, and Brazil's INOVAR Seed Fund have all developed successful matching mechanisms for private investors.

In this regard, I throw out a challenge to the Caribbean private sector. Tamana InTech Park is an opportunity to get off the sidelines and into the game. Bring your money, bring your technology and, like all risky ventures, you may or may not have the opportunity to reap substantial rewards.

My third and final lesson is that small, open Caribbean economies need to favor scale-up rather than start-up ventures. Here is a thought-provoking question: Would you allocate more of society's resources to giving birth to more babies or to raising children well? Many parents in the audience might agree that the long, complicated and often thankless job of growing a healthy, educated and moral child seems more challenging than giving birth.

In the context of enterprise creation, there has been a dramatic proliferation of start-up programs around the world: Start-up America, Start-up Chile, Start-up Russia and dozens of others. I believe this sends two flawed messages. The first is that the most difficult task of the entrepreneur is to launch the venture. The second is that the more start-ups, the more successful the program.

Since small size is the major constraint to economic growth in the Caribbean, there is a compelling argument for policymakers to stop treating the quantity of start-ups as an indicator of success and to start looking at the quality of those start-ups that grow and eventually scale-up. One high-potential venture which grows to 100 people in five years does create the same number of jobs as 50 bottom-of-the-pyramid ventures which stagnate at 2 people. But many experts argue that the high-potential venture has a much greater economic impact than the small-scale venture.

Contrary to popular opinion, high-potential is not always synonymous with high-tech. And it is not the surest path to competitiveness and prosperity. In fact, Caribbean economies may get more development "bang for the buck" by supporting "low tech" sectors such as food processing and forestry than by trying to develop a few high-tech niche products and industries. In Trinidad and Tobago, for example, the agricultural sector offers many high-potential, low-tech, foreign exchange generating business opportunities such as cocoa, pineapple, tilapia and coconut, waiting to be fully exploited by private investors.

In closing, Ladies and Gentlemen, I return to where I started – Christopher Columbus. Columbus might not have been the great hero that history books make him out to be. Even so, by charting a route to the New World, he showed that confident entrepreneurs with the backing of venture capitalists willing to take great risks can achieve world-changing disruptions.

Five centuries and nearly twenty five years later, it is time for the Caribbean to continue the venture capital voyage started by the master entrepreneur, Columbus.

I thank you.