

Venture Capital in the Caribbean – Investor/Investee Experience

- *Venture Capital investing is the process of joining in the entrepreneurial risk and rewards of a business venture; it as an “investor/investor partnership”*
- *VC works through a relationship between the Fund Manager and the Investee company*

Transformation is a difficult mission because we in the Caribbean avoid our own “development risk”

- ❑ Our idea of risk investing is invest little, extract profit in the shortest time; what strategy do we need? What is important ?**
- ❑ The total activity level of the SME sector is important in any economy. But SME impact is self-limiting; very few successful SME companies evolve into regional and global corporates**
- ❑ VC is necessary for the big leagues – that is the key transformation ; in that transformation the Investor/Investee relationship is the single most critical success factor**

Summary of the Caribbean Experience

- **Very little local capital was raised; No sustained development effort; no transformation**
- **Overall IRR (a ROI measure) closer to 0% than 12%**
- **Fund Managers learned that VC is a very difficult challenge; it requires relevant experience and skill**

Three huge surprises

- **The Organisational challenge**
- **The Management Challenge**
- **The Governance Challenge**

Organisational challenge

1. It was difficult to invest out all the funds raised
 2. OH cost created un-forgiving economies of scale
- ❑ A portfolio of small funds could be viable if the managers have the required skills and experience to cover the portfolio mix; otherwise the minimum economic size is probably higher than US\$ 50 Million IF fully invested out within 3 years

Management challenge

- **Very astute and flexible management is needed to earn the promised IRR ; even the minimum 12% IRR was a difficult target (even though some individual investments produced yields over 25%)**
- **Innovative structuring and flexible strategic management are on-going Fund Management skills alongside Investee “Support” experience & skills**

Governance challenges

- **Board Governance is a critical oversight function; it should enhance value by allowing Fund Managers to operate freely; but Boards can cause paralysis, de-motivation, missed opportunities, disconnects, failure to adapt and adjust - all leading to loss of value**
- **Fund Governance involves Compliance with Investor & funding agreements, local law and regulations; ethics; integrity; it also involves Conformance to policy & strategy which evolve – a major challenge**

The single most critical success factor - the Investor/Investee relationship

- ❖ **The Investor/Investee relationship is a partnership which both parties want to end as soon as there is enough surplus value to share;**
- **Until then the relationship must keep the investor “*interested*” and must “*support*” the investee – that is the job of the Fund Manager**

What does “*support*” mean?

- **Whatever “support” meant 10 years ago that has changed; the needs are more complex today; and services and solutions are more readily available – but are they accessible?**
- **Fortunately, we have Nicholas Galt and Jeffrey Hall to share their first-hand practical experience with us; they nurtured SMEs that graduated; they both have experience of some form of Venture Capital**