

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC34108

Project Name	Caribbean Investment Facilitation Project
Region	LATIN AMERICA AND CARIBBEAN
Country	Caribbean
Sector(s)	SME Finance (100%)
Theme(s)	Micro, Small and Medium Enterprise support (100%)
Lending Instrument	Lending Instrument
Project ID	P157484
Borrower Name	Caribbean Export Development Agency
Implementing Agency	Caribbean Export Development Agency
Environment Category	B - Partial Assessment
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Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. The Caribbean region has been trapped for years in a spiral of slow growth, high unemployment, limited fiscal space, and growing social problems, exacerbated by a number of external shocks since 2008. Underlying the growth gaps are low levels of productivity and competitiveness in the region. According to the World Economic Forum’s Global Competitiveness Report, Caribbean regional productivity continues to be low and trails other emerging economies, which is mainly attributable to weak public institutions and a weaker private sector. The World Bank Country Partnership Strategy for Jamaica—the Caribbean’s largest island economy—notes that Jamaica’s weak investment climate and lack of innovation are hindering private sector development and obstructing growth. Key weaknesses include access to affordable energy, access to finance, a distortionary tax regime, and ingrained perceptions of corruption (in 2013, Jamaica was ranked 83 out of 177 countries in the Transparency International Corruption Perception Index). The World Bank’s Enterprise Surveys conclude that the region’s private sector is dominated by smaller, older, and less open firms that are predominately locally-owned and that operate in small and medium-size localities. Building the growth engines of the region will depend on its capacity to boost a dynamic and innovative private sector.

2. These economies have concentrated, undiversified industrial sectors and lack economies of scale. As a result, public sector consumption and investment play an important role in driving economic growth, but they also tend to lead to public sector debt. The debt to GDP ratio averages 85% , and increases risk and macroeconomic instability. Tourism, which on average accounts for 20% of GDP in some countries and 34% of regional employment, is being eroded by rising social

problems such as crime, as well as the frequency of natural disasters that plague the region. The global recession brought rising unemployment and a marked decrease in remittances and tourism, on which the region is heavily dependent. Private sector investments and external capital flows have also decreased against these macroeconomic headwinds. Expected effects of the confluence of these forces are a rise in unemployment, a greater degree of inequality, and an increase in crime.

3. Innovative entrepreneurs are drivers that spur growth and competitiveness by creating jobs and delivering new products, services, and business models to underserved markets. In the Caribbean context, enterprises have shown a significant innovation disadvantage and growth plight. In Jamaica, for instance, the lack of competitiveness is linked to weaknesses in the investment climate that enhance the cost of doing business, the limited adoption of new technologies, low levels of workforce training, and the limited availability of specialized professional manpower. The same is true for most of the region as well. Compounding the limited startup numbers is the small pool of growth oriented enterprises in the region. According to the Global Entrepreneurship Monitor, less than 1.6 percent of Caribbean enterprises have created more than 20 jobs in the last three years, and less than 20 percent will grow to have more than 20 employees in five years.

4. To address growth enterprise challenges, the Global Entrepreneurship Monitor recommends that special programs “be designed for the growth of the new and the established enterprises”. Mentoring, coaching, entrepreneurial networks, training, technology transfer, having an international orientation are basic elements in addition to developing financing mechanisms that support growth oriented entrepreneurs in the region.

Sectoral and Institutional Context

EPIC Program Context

5. The Entrepreneurship Program for Innovation in the Caribbean (EPIC) aims to support the development of an enabling ecosystem to foster innovative, and growth-oriented enterprises in the Caribbean region. EPIC is a 7-year, CAD 20 million program funded by the Government of Canada through the World Bank Group, operating in CARICOM countries with the exception of Haiti. EPIC centers its efforts at delivering thematic business incubation programs in the mobile technology, climate technology and women entrepreneurship sectors, strengthening regional business enabler capacity and networks, and driving access to finance for early stage enterprises.

6. The EPIC program centers its efforts on three components:

- Component I focuses on delivering three new thematic incubation services on a region-wide basis to Caribbean start-ups and early-stage enterprises, with a focus on mobile technology, climate technology and women’s entrepreneurship. These programs include the Caribbean Climate Innovation Center (CCIC), the Caribbean Mobile Innovation Project (CMIP), and Women Innovators Network Caribbean (WINC).
- Component II focuses on strengthening the capacity of existing business enablers – through an initiative called AccelerateCaribbean - to become more effective in developing business support services. These capacity building efforts include in-depth training and mentoring to enabler managers and teams to improve their performance/effectiveness as organizations.

- Component III focuses on access to finance for promising Caribbean start-ups and growth entrepreneurs, with a focus on unlocking private capital, particularly from business angels and other early-stage financiers. This is addressed through two sub-components: a) a recipient-executed investment-facilitation project (which is the subject of this concept note) which facilitates investments into promising entrepreneurs from business angels and other early-stage investors through investment facilitation grants and related activities; and b) a bank-executed access to finance skills building project which focuses on training and technical assistance to new angel groups in the Caribbean, and on training investable entrepreneurs on effectively raising capital from investors.

Sector and Institutional Context - The Access to Finance Challenge for Caribbean Start-ups and Growth Entrepreneurs

7. Among the multitude of barriers to growth for Caribbean start-ups and early stage enterprises is access to entrepreneurial finance. New firms mostly rely on families, friends and founders (FFF) for financing off their ground, but their options for raising the next rounds of capital - which typically would range from \$50,000 to \$500,000 - to develop and grow their businesses are very limited.

8. Bank financing – although available on paper – is very hard to access for early-stage enterprises as well as SMEs in general, as these firms do not possess the collateral or financial history to tap these funds.

9. Venture capital and private equity activity, particularly with respect to early-stage companies, is also very limited. There are a few private equity funds in the region, but tend to focus mainly on larger sized investments in select sectors such as energy and financial services, with main target countries being Jamaica and Trinidad and Tobago. Venture capital is virtually non-existent across the region, primarily due to the lack of very-high growth-potential businesses that can offer venture investors an opportunity for risk-adjusted returns, and conducive business and regulatory environment for venture funds. A recent encouraging development however is the Jamaica Venture Capital Program by the Development Bank of Jamaica which aims to develop new venture funds targeting the country and the broader Caribbean region. However, the potential deal sizes envisioned by the potential fund managers are looking for larger sized later-stage financing than those needed by start-ups and early-stage firms.

10. Business angel investing has potential to emerge as an effective and relevant form of capital for start-up and early-stage Caribbean firms. Globally – both in developed countries as well as increasingly in developing countries – angel investing is often a favorable form of capital to seed and early stage enterprises, as angels generally understand the inherent risks associated with early-stage ventures and have a higher risk tolerance. In addition, angel investments add a suite of non-capital value to early stage enterprises. While conducting due diligence on investment opportunities, angels also tend to assess the value which their own skills, knowledge and networks can add to a company. As enterprises grow, angels guide and mentor the entrepreneurs, continue to assess and reassess their value proposition and financing needs, and often times invest in follow-on financing rounds. Because of the ongoing entrepreneur engagement and commitment to long-term gains, angel investing is commonly referred to as “mentor” capital. Angel investors thus act as unique contributors to the entrepreneur business support network.

11. Organized angel investing – where high-net-worth individuals (HNWIs) join angel groups or networks to invest together in early-stage firms – is a new phenomenon in the Caribbean. In the past year, with support from the EPIC Access to Finance Skills Building Project, three of the Caribbean’s first business angel groups have been formed - two in Jamaica (First Angels Jamaica and Alpha Angels) and one in Barbados (Trident Angels). These business angel groups to date have over 40 angel members collectively, many of whom are either seasoned entrepreneurs or leading business and corporate executives in the region. Since the formation of these angel groups, over 150 start-ups and early-stage enterprises have applied to them for funding; 20 enterprises have been invited to pitch to the angel investors; 2 investments have closed and 5 others are in advanced negotiations/structuring. There has also been interest in other Caribbean countries on the formation of local angel groups. The attached annex provides further insight into recent business angel activity in the Caribbean.

12. Angel investing has the potential to play a foundational role in the Caribbean entrepreneurial financing ecosystem. Angels often act as the first round of outside finance for entrepreneurs, introducing rigor to the due diligence and investment processes and providing non-financial support that helps companies grow. For successful companies that hope to access venture (expansion) capital, angel investors can provide an important layer in the financing continuum.

Relationship to CAS/CPS/CPF

13. The proposed project has strong synergies with the World Bank current and pipeline of projects that focus on for start-up and SME investment in the Caribbean. For instance, the US\$20 million “Youth Employment in the Digital and Animation Industries Project” has one of its components focus on developing innovative tech startups (Startup Jamaica) and enabling them to raise investment from angels and other early-stage investors. The US\$50 million Jamaica Growth and Competitiveness Project seeks to strengthen the business environment in Jamaica for private sector investment and productivity upgrading. A proposed loan to Jamaica for SME Access to Finance which focuses on revamping the credit guarantee scheme, factoring and leasing, and collateral registries will also focus on the legal and regulatory environment for venture capital. In addition, the Bank is undertaking project preparation for a Grenada DPC series (DPC1 under implementation, DPC2&3 forthcoming). In collaboration with EPIC, the Bank is also engaging in a pre-feasibility study to assess the modalities of a potential regional financial initiative to catalyze diaspora investment into the Caribbean region. Finally, the OECS Competitiveness Project aims to improve strategic tourism development. The CIFP will complement these initiatives by addressing the gaps in the early-stage financing space, and potentially contribute to supplying upstream investment opportunities for larger scale projects.

II. Project Development Objective(s)

Proposed Development Objective(s)

14. The project development objective is to pilot and test an investment facilitation model to enable promising early-stage enterprises to raise capital from private investors, particularly business angel investors.

Key Results

15. Key results for the project will be measured in two ways. First, as the project aims to develop a model to facilitate investments from business angels and other early-stage investors and into early-stage Caribbean firms, a key measure of success will be whether the investment facilitation activities lead to actual investment in target firms. These results will be measured in the following ways:

- Total capital enabled/leveraged from private investors into early-stage Caribbean enterprises through CIFP activities;
- Number of enterprises that receive grant funding and/or private investment through CIFP activities.

16. Second, because the project is testing and piloting new investment facilitation approaches, it will generate significant insights and lessons on the applicability and challenges of these approaches to mobilizing private finance for early-stage entrepreneurs in the Caribbean. Some of the key learnings, the project aims to achieve include:

- o Which types of enterprises (by sector, development stage, and other cultural and geographical factors) are suited for raising angel investing and other early-stage finance?
- o How ready are early-stage Caribbean entrepreneurs to raise investment capital, and to what extent can they be equipped to engage effectively with investors?
- o What investment instruments are most appropriate for early-stage entrepreneurs in the Caribbean?
- o What are the anticipated risks and rewards of using grant financing to stimulate private investment? What is a proper framework for expectations and anticipated results?
- o What mechanisms are most appropriate to develop angel investing and to unlock other forms of early-stage capital for Caribbean enterprises?

17. Given the increased interest globally in the seed and early-stage financing space in developing countries, these learnings will be shared within the World Bank Group and with international partners, to inform thinking on how to structure such solutions for early stage enterprises.

III. Preliminary Description

Concept Description

Background and Context

18. As noted earlier, the EPIC Access to Finance agenda focuses on testing and developing solutions that enable promising entrepreneurs in the Caribbean to access non-traditional sources of financing by strengthening the early-stage/SME financing ecosystem in the Caribbean through initiatives on both the demand and supply sides of capital.

19. To date, through bank-executed activities under the EPIC A2F Skills building Project, EPIC has undertaken the following activities to implement this agenda and to serve as a launch-pad for the recipient-executed initiative under CIFP.

- The main focus has been the piloting of formalized group angel investing in the Caribbean: EPIC A2F has provided hands-on coaching and technical assistance to support the development of the Caribbean's first three organized angel groups – two in Jamaica (First Angels Jamaica and Alpha Angels) and one in Barbados (Trident).

- Supplementing the supply-side efforts with angel investors, EPIC A2F has engaged the demand side with early-stage entrepreneurs, providing training to entrepreneurs on how to effectively raise capital from angels and early-stage financiers. The curriculum developed for these trainings can be leveraged for training other entrepreneurs in the region.
- In addition to angel investing, EPIC A2F has researched the potential of crowdfunding as another source of non-traditional financing in the Caribbean. An EPIC report on the Caribbean Diaspora Investing has also explored how the Caribbean diaspora can be tapped as a source of financing to support Caribbean enterprises.

Project Overview

20. The Caribbean Investment Facilitation Project (CIFP) will be a recipient-executed initiative delivered via a grant from the World Bank (through the EPIC Trust Fund) of \$1.6M, whose objective is to pilot and test an investment facilitation model to enable early-stage Caribbean entrepreneurs to raise capital from private investors, particularly business angel investors. The CIFP will be developed and managed by the Caribbean Export Development Agency (CEDA), a regional organization that has the institutional ability and strategic interest to develop and deploy the program across the region.

21. CIFP will involve the provision of investment facilitation grants to entrepreneurs, as well as non-funding activities to stimulate angel investing, and to support the development of deal-flow for early-stage investment.

22. Because many features of the CIFP are novel for the Caribbean, the Project will take an iterative approach to test/pilot what works, and to make appropriate pivots as it is further developed.

Key Activity 1 – Investment Facilitation Grants

23. CIFP will pilot investment facilitation grants to start-up and early enterprises in the Caribbean that stimulate private investment into these companies, from angel investors or other relevant financing mechanisms. The CIFP will develop and test two types of facilitation grants. The core success indicator of the grants will be whether they catalyzed private investment, while also providing funding that enables the enterprise to develop and grow its business. The beneficiary entrepreneurs will include enterprises throughout CARICOM countries, except Haiti. The CIFP will allocate \$1M to investment facilitation grants, representing the core of the grant award to the recipient.

Sub-activity 1.1: Co-Investment Grants

24. Co-investment grants will provide grant funding to enterprises that are able to secure investment from business angels and other approved investors. The purpose of these grants is to incentivize angels to take a bet on promising enterprises that they may otherwise not make— by reducing their investment risk. The intended benefit of the grants will be stimulate angel (and other relevant) investment into the enterprises. The grant contribution would be up-to 50% of the investor’s contribution up-to a maximum of \$100,000 per enterprise and would be made once the entrepreneur has secured the investment. Similar to how co-investment funding schemes operate in

other countries, the CIFP co-investment grants will rely on angels and private investors to carry out the bulk of the commercial/business due diligence on the enterprise. However, the CIFP will assess the use of funds and conduct fiduciary diligence on the entrepreneur and investor to ensure that the grant is in compliance with World Bank policies, including environmental and social safeguard policies.

Sub-activity 1.2: Pre-investment Grants

25. Pre-investment grants will involve grant funding to start-up and early-stage enterprises that show strong business and investment promise but are still not considered “investment ready” by investors. The purpose of these grants will be to prepare companies for angel or other investments within a short time frame (e.g. 3-9 months) by providing “pre-investment” funding for specified purposes (such as further product development, market testing/validation and early sales, securing intellectual property protection) that improve the prospects for investment. The pre-investment grant funding will be coupled with investment readiness mentoring that the CIFP will provide or arrange. To ensure that these pre-investment grants catalyze rather than crowd out private investment, the model will filter out entrepreneurs looking for “soft money” rather than seeing the grant as a springboard to leveraging additional capital. Pre-investment grants would be provided to entrepreneurs on the basis of an assessment of the enterprise’s ability to hit key business milestones in the near-term that could attract private investment. Entrepreneurs seeking pre-investment grant funding would be expected to be actively involved in raising capital (for example, are pitching to angel investors) and, when possible, the CIFP team would communicate with investors to confirm interest and to determine business areas investors find high priority. Investors in CIFP’s network will be invited to give input on the pre-investment grant proposals. As with the co-investment grants, the CIFP will assess the use of funds and conduct fiduciary diligence on the entrepreneur to ensure that the grant is in compliance with World Bank policies.

Key Activity 2: Support Activities to Facilitate Investments

26. In addition to the provision of investment facilitation grants, the CIFP will engage in non – financial facilitation activities on both the demand and supply sides to increase the prospects of investments. These activities would principally consists of the following:

- On the supply-side, CIFP will support the development of new angel groups/networks in the Caribbean as well as identify individual angels. This will include: i) conducting angel investing educational events for business leaders and other key stakeholders, ii) identification and cultivation of potential angel investing champions who can serve as anchors for developing individual angel groups, and iii) organizing master classes for angel investors (leveraging the content developed under EPIC’s Access to Finance Skills Building Project). Additionally, CIFP will organize annual regional angel forums where existing and new angel investors (as well as other early-stage financiers) can network with another and also explore possibility for investment syndication (particularly for non-local deals).
- On the demand-side, CIFP will support deal-flow for investment by a) conducting capital raising trainings for entrepreneurs seeking to raise capital and b) sharing the most promising deals as potential investment opportunities with investors participating in the CIFP. To identify relevant enterprises, CIFP will tap into Caribbean incubators, accelerators, business/entrepreneurship support organizations (including EPIC enablers Caribbean Climate Innovation Center and Caribbean Mobile

Innovation Program, and other World Bank programs such as Start Up Jamaica) as well as from CEDA's extensive BSO and professional network. CIFP will also publicize its investment facilitation efforts to tap promising entrepreneurs not associated with business enablers.

- To facilitate deal-flow, CIFP will pilot the use of an existing online angel investing platform to connect promising entrepreneurs (including those receiving investment readiness grants) with business angels and other early-stage investors in the CIFP network. The platform will serve as an access point for entrepreneurs across the Caribbean – not just those located on islands with existing angel groups – to apply for investor funding. The CIFP will maintain the site, setting up an application and review process for entrepreneurs. In addition the CIFP will recruit and manage requests from investors to be granted access, as the site will have privacy controls.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	1.6	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Borrower			0
InfoDev			1.6

VI. Contact point

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