

Opening Remarks

Venture Capital Seminar - Setting The Stage

By

Mr Errol Allen, Deputy Governor, ECCB

(Thursday 29 May 2003)

Good morning to you all – Facilitators, Participants. I trust that you had a restful evening and can now address your minds to the varied programme on today's agenda. My brief remarks this morning is by way of setting the stage.

Financial markets today play an important role in the successful evolution of emerging economies. These markets also work to enhance competition by providing lenders and borrowers with an alternative to debt financing from the banking sector. The Eastern Caribbean Central Bank has taken the view that while free market mechanisms should be accorded ample support within our economies, money and capital market development is not an area in which the free market should be left to dictate the course of events, but that some form of governmental guidance or assistance is necessary, particularly in the early stages when the developing economy is not yet sufficiently mature. Venture Capital is generally accepted to refer to risk capital provided to start up or early stage firms. The objective being to finance and nurture early stage firms until they develop to a point where they are ready to undertake an Initial Public Offering (IPO).

Economic development is a haphazard process of self- discovery. Today comparative advantage within a firm or a given country is almost impossible to predict in advance. There are many countries that have stumbled on lucrative export niches – software from India, footballs from Pakistan, hats from Bangladesh are a few examples. Investors and entrepreneurs in developing countries may lack sufficient incentives to invest in new industries, because businessmen will take the risk of innovation only if they have a chance of creating some monopoly. They would need to be assisted through the existence of patents, copyrights and trademarks. Investors in our countries are inclined to try out technologies that already exist abroad so the entrepreneur from Belize, for example, who decides to export cut flowers to the USA; cannot be expected to stay ahead of others for a long time. His fellow countrymen will rush to copy his business model and encroach on his terrain. To create an incentive to experiment in new industries, a case can be made for Governments to protect for a while, companies in infant industries from unfettered competition.

Many of you may already have discovered that steady improvement in your product and services wouldn't always guarantee your company's future. You have to be capable of making big changes at the same time. In the 1960s the Japanese watch making firm Seiko was a small player in the global watch industry, Seiko took the strategic decision to develop the quartz technology as a low cost alternative to mechanical movement which was then the dominant technology; and it transformed itself from merely a mechanical watch firm into a quartz and mechanical watch company. The move helped reshape the business as the quartz technology became the industry standard. Seiko and other

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Japanese firms prospered while the largest Swiss firm was less than half the size of Seiko. To be successful our companies need to be ambidextrous, capable of managing different innovative streams. The emerging private sector with innovative ideas would need to spend on research and development and many would be required to have access to venture capital type financing.

In conclusion, I share with you this very profound thought by way of a quotation which states as follows: “Knowledge is proud that it knows so much while wisdom is humble that it knows no more.” It is my hope for the future that as business leaders you can be instrumental in creating an environment where we can emerge from being mere knowledge workers to persons of wisdom by our craving for more knowledge.