

November 2015

Staying Connected

For the Alumni of the:
ECCB Savings and Investments Course
ECCB Entrepreneurship Course
ECCB Small Business Workshops

YOUR FINANCESYOUR FUTURE

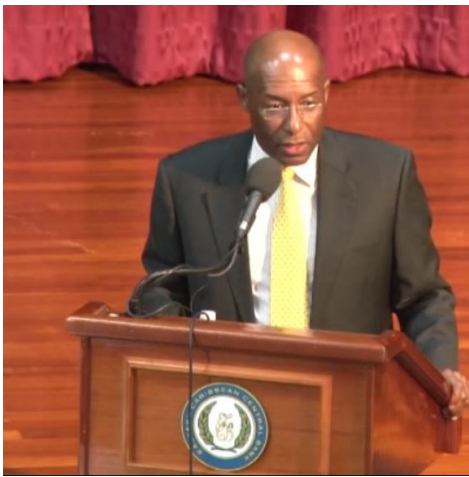
**YOUR FINANCIAL
NEWS**



“ Entrepreneurship activity must be seen and judged through this prism. Are you creating wealth? Are you attracting investments? Are you creating jobs? Are you making economic growth happen? ”

» Aubyn Hill, CEO, Corporate Strategies Ltd., Jamaica

Visit us at www.eccb-centralbank.org



Mr Aubyn Hill, CEO, Corporate Strategies Ltd, Jamaica speaking at the 2015 Financial Information Month Business Symposium and Innovation Forum

FINANCING ENTREPRENEURSHIP AND INNOVATION IN THE OECS

...**What** is innovation? What is entrepreneurship?

When you start a new Mexican restaurant in suburban USA, you are taking risk but you are not innovating anything; you are taking something else that someone else has already built. When you are McDonalds and you look at your processes, your tools, your training and you standardise them; you make sure you increase your yield; you make sure you bring new customers; you make sure you are changing management techniques and the technology, then you begin to be an innovator.

Innovation does not mean that you create something new. It means that you use things that were there, in a fashion that they were never used before. There

were never tools to make hamburgers in that fashion before. You never trained your employees the way that McDonalds trains their employees - a complete turnaround - that is innovation! So when you want to innovate something, look at something that exists and believe it should be different; change it completely and innovate on it or create something brand new.

When innovation and entrepreneurship come together:

I have watched the change over twenty years in Bangalore, India, where you have people straight out of university and some very experienced people creating new products and services for countries around the world.

Let us look at small Singapore. Mr Ronald Ramjattan (Baron Foods Ltd) in his presentation reminded us that **we cannot really think about growing in this region unless we export**. Singapore has a small base, but they are sending things to people all over the world. **If we are not looking at the market beyond the Caribbean we are**

not going to be the kind of success that we read about elsewhere.

You have to make sure that when you are doing “the entrepreneurship thing” in the region or in your country, that you look to see how businesses in the region have changed. Grace Kennedy Ltd. has become a conglomerate in Jamaica, Baron Foods Ltd. started in Saint Lucia and has now expanded to the wider Caribbean.

We have something in our society that does not want us to pay for innovation and entrepreneurship. Those who drive entrepreneurship must be rewarded. It must be fair, it must be equitable, but entrepreneurs have to try to make as much money as they can. Only those companies that make profits will survive. Please avoid the ‘crab in the barrel’ mistake: you see somebody going up and you don’t try to help them up, you act like a crab in the barrel - you pull them down. Our society must come to the place where we forget the crab in the barrel approach and reward innovation and entrepreneurship.

Public encouragement of entrepreneurship and innovation must be underpinned by CLEAR OBJECTIVES.

There must be clear public encouragement for entrepreneurship, and there must be clear objectives: (i.) attracting investments, (ii.) broad job creation, (iii.) wealth creation, and (iv.) broad and sustained economic growth.

If you are not creating jobs in the society, how are you going to get people to buy your products? Where are they going to get the money from? They must have jobs to earn money; so, create jobs. When you are considering your business, think about how you are going to create jobs. If you are not creating wealth and making profits, what's the point? We must have broad and sustained economic growth.

Economic growth is the harbinger for success and we have not been having a lot of it in some parts of the Caribbean.

Entrepreneurship activity must be seen and judged through this prism. Are you creating wealth? Are you attracting investments? Are you creating jobs? Are you making economic growth happen?



The countries of the OECS must prepare themselves like former Costa Rican Presidents, Oscar Arias Sánchez (*president from 1986 to 1990 and 2006 to 2010*) and José María Figueres (*president from May 8, 1994 – May 8, 1998*) did. They purposely went and invited Intel, Microsoft and others to come to their country; but they did something before that.

They made sure they educated their people to the highest international standards through formal education, apprenticeships and skills training; they shifted their economy to a knowledge economy. They educated, they trained, they employed, they educated. They prepared their country to attract investors (by direct invitation) to meet their employment, wealth and growth objectives. I can't stress how much we must change how we do things in the Caribbean. **We must educate our people to the highest international standards if we are going to grow because only then will we be able to**

differentiate ourselves.

When Oscar Arias went to see Intel's founder, Andy Grove, he had to camp out in Intel's corporate foyer until Andy Grove agreed to see him. He did not offer Andy Grove land or tax benefits, there may have been a few. He did not offer capital, he did not have any. He offered him the best resource that his country had to offer - a whole slew of knowledge workers and it is the knowledge workers that brought Intel to Costa Rica. The rest is history.

Peter Drucker, probably the finest management thinker of the 20th century, said this: "The basic economic resource - 'the means of production,' to use the economist's term - is no longer capital [China & USA have a lot of it], nor natural resources (the economist's 'land' [Russia, China, Canada, USA have a lot of it]), nor 'labor.' It is and will be knowledge [check Singapore, Rwanda, Finland]."

Paul Kagame, President of Rwanda, after a huge and terrible genocide changed his country by saying, 'I am going to make my country a smart country'. He made sure internet was everywhere and that the people were educated to innovate. His growth rate has been between 6%

and 8% after genocide.

There is no boundary to knowledge. Nothing holds back St. Kitts and Nevis or Jamaica from making sure that we train our people - We can do IT! We can do BPOs (Business Processing Outsourcing). In fact we are doing a lot of it in Jamaica.

When you are in the knowledge economy, Russia can't put up a border against you because the internet is not theirs. They can't even control it. The USA will beat a path to your country for expertise. There is no boundary on knowledge as is the case for land, capital and certain labour. I know a 16 year old working with a big company in Barbados who is being paid to develop apps for persons of his age group. He is good at physics and computers. I am saying to you that the knowledge economy has no borders.

The French economist Jean Baptiste Say (5 January 1767 – 15 November 1832) created the term 'entrepreneur'. According to Say's Law, 'a new company uses supply to create new markets'. Supply creates not its own demand but new demands. What Say is saying is that entrepreneurs must tear down things. That tune was picked up

by Australian economist, Joseph Schumpeter who created the idea of creative destruction.

When Walmart started spreading, it destroyed supermarkets. You got better prices, greater variety. You also got things that you did not like - sometimes the labourers weren't paid as well and they had to stand up. iPhone made sure that the telephone has changed completely. When iPhone was created, you threw away the traditional house phone, but you got endless amount of apps. When you begin to create, you destroy. Many people don't like the destruction part but things have to change. You cannot remain the same.

So how can we fund entrepreneurs? I am going to speak about this and I am not going to speak about banks. Banks are not necessarily for entrepreneurs. I ran banks for many years, I know how they work. Banks are not going to be the ones who will fund entrepreneurs per say. Nonetheless there is no reason why the regulator can't say that a small percentage of the profits made by banks must be set aside to help entrepreneurs. Granted there must be clear guidelines and they must be transparent.

So, from where are you are going to get money if you want to be an entrepreneur? Look at savings. Whenever you go to somebody to ask for help they are going to ask you how much money you are putting in. Sweat equity is great but sweat means money out of an ATM. That is the best sweat that you can have, so you need to have some savings.

Friends and Family are good places to start. When you are thinking about getting money the Limited Liability Company is one of the best inventions of western capitalism. It allows you to share the risk. It allows you to share the information and wisdom. It allows you to share the money that has to go into the company. However, you must also share the profits. Most people love to own a whole tiny little grape rather than the big slice of a Jamaican melon. (*We have big ones*). Why do you want to own a whole tiny grape instead of a big slice of a big melon? The limited liability company says, 'I have a great idea'. Choose your people well but invite other people into it to share. That also means sharing the profits and the dividends. We don't tend to do that as Caribbean people. We need to move away from that.

Seek grants from foreign

The knowledge economy has no borders.

countries. The European Union and Scandinavian countries can be generous once their criteria are met and the proper processes are followed. My daughter is a grant writer in Boston; she writes grants for a non-profit organisation. It is a very specialised job and I don't believe that everyone can do it but some of you can or get help from outside and go look for EU money. They will give it to you especially if you have a good idea and it relates more to the environment and helping people. Look for funds!

Grants from the USA are also available but a partnership would have to be formed with a USA domiciled corporation. The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) are good sources of funds for American companies. Outsourcing partnerships will have to be crafted and arranged if OECS firms are to benefit from these sources of funds. Funds are

available and you have people who can tell you about them. We just don't look enough.

There is a big hurdle that must be scaled to get U.S. SBIR and SBTTR funding. The request must communicate precisely how the market research is going to lead to a saleable product.

Entrepreneurs often find it a challenge to discuss how their technology is commercialised. You must be able to find a partner who can help you. Also you have to understand that you must have a value proposition. McDonalds' value proposition was based on the question that they kept asking, 'What is the value we are giving here?' They changed how people eat.

What is your value proposition? If you can't explain in three jargon-free sentences, or less, why customers need your product, then there is really no value proposition. At that point, you don't have a business – yet.

Government Policies:

This brings me to government policies. I believe that government policies will and are necessary to drive and develop funding for innovation and entrepreneurship but government must be kept small. We must

convert local infrastructure problems into developmental opportunities and funding sources for innovation and entrepreneurship.

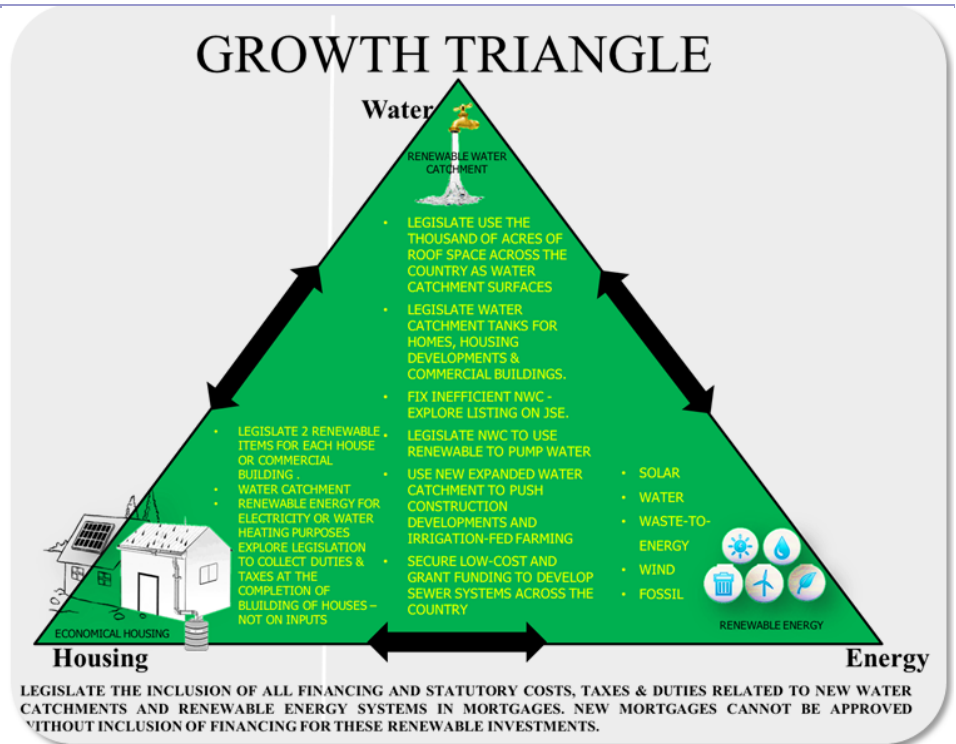
I am going to give you a Jamaican plan that we in the opposition are looking at. I am not a politician but I advise the opposition. We have a water problem in Jamaica, we have an energy problem in Jamaica, and we have a housing problem in Jamaica. In your countries, you probably have some of those problems too. In Jamaica, we spend between US \$1.8 - US\$2.5 billion on fossil fuel imports. The only thing renewable about this is that we spend the money each year. We have about five times the solar irradiance that Germany has and Germany is the leading solar power company in the world, even though they have cold weather all the time, but we don't get it.

So we are going to make a policy that says if you build anything over four (4) square feet, you must have at least two (2) renewables on it. You must have renewable water catchment and you must have renewable solar or wind if you live in a wind area. I have researched all over the world - Japan, South Korea, US -

there is no machine that puts up gutters around houses. You have to use people. These persons who put up gutters spend most of their disposable income. They turn the economy. They have jobs now. You use a problem to be the solution.

I am not stopping there. We have renewables, we have sugar cane. If we use the bagasse we would pay seventeen cents a kilowatt versus the twenty six cents we are currently paying. *(The cost is now down because of lower oil prices. It used to be at forty two cents a kilowatt but it is going to go back up if not soon then later. Make sure we use this chance to do that).* All the garbage that we produce, give it to private enterprise to make energy. If we do those three things then we can get about 334 megawatts of power in Jamaica. We use about 540 per year and if we were growing well we would use about 800 – 900 megawatts per year.

Housing it too expensive so here is what you do. Take off some of the duties to make the inputs cheaper, and then you make a second law to the one that mandates that you must have renewables that says the mortgage companies must include the full cost of the renewables in the mortgage *(equipment, labour,*



statutory costs, taxes and duties related to new water catchments and renewable energy systems in mortgages) and that way the house owners do not feel it.

We can use what government has, the tools of regulation and legislation, to help the economy grow. We need to look at how we use what we use.

We spend so much money on hospitals. Why aren't we coming together to create two or three uniform companies to supply the entire Caribbean region? Low hanging fruits - Governments can do these things.

This brings me to the next topic, **Future Generations Fund:**

I sat on pension funds boards and I ran banks so I understand how the money business works. We

can use government policy to change the pension fund rules to allow trustees to put a relatively small fraction of Pension Funds money *(start with 3% go to 5%)* into local entrepreneurial and innovation pursuits – against very clear and equally transparent and publicly known guidelines. We can use some of tax payers' money to do good things but make it transparent and properly run. It can work. We don't have to do what we have always done.

We have a Jamaican-Antiguan example. Mr Rudy Langley decided to make a film on Bob Marley. He teamed up with a Trinidadian, Guy Kempadoo, and some other partners, Don Allan and Neil Sacker, to bolster his project proposal and the Antiguan government thought

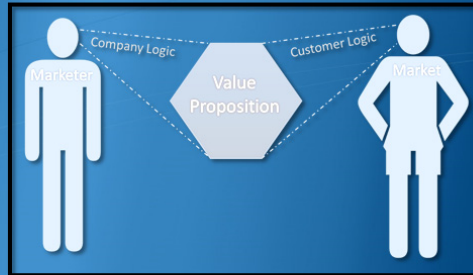
HOW DO WE FUND ENTREPRENEURSHIP AND INNOVATION?

There is a big hurdle that must be scaled to get U.S. SBIR and SBTB funding. **The request must communicate precisely how the market research is going to lead to a saleable product.**

Entrepreneurs often find it a challenge to discuss how their technology is commercialized.

What is your (local and U.S. partners) value proposition?

If one can't explain in three jargon-free sentences, or less, why customers need one's product, then there is really no value proposition. At that point, the promoter doesn't have a business – yet.



the project good enough to put in US\$125,000. That could come from a Future Generations Fund.

I lived in the Middle East and I reference as example the biggest one, the Abu Dhabi Investment Authority (ADIA in United Arab Emirates). I use it so that you can see where you can go. Sure they have oil. We have taxes. Oil is their taxes. We waste our taxes. Put some of our taxes in a Future Generations Fund that invests in buildings and businesses in New York and London so when our economy goes down we have foreign exchange to earn. We need to think differently. Don't re-create the wheel; check Singapore, Kuwait, and South Korea and other Future Generations Funds to find a basis for a suitable template for the

OECS countries. Properly administered and invested, the Future Generations Funds is a really good way to spend taxpayers' money to earn foreign exchange-based income and help worthy and qualified (*in terms of projects prospects and viability*) local entrepreneurs.

Entrepreneurship:

I want to say something else about entrepreneurship. In Japan the average age of an entrepreneur is over forty. We think entrepreneurs must be young guys coming out of school. We need those too. We need their energy and their willingness to take risks. There probably should be that combination of both groups to make sure we have the experience and the

savings, as well as those with spanking new ideas and an appetite for risk. We need to make sure we have people who are experienced leaving employment and going into business.

In May, I attended the commencement exercise at the Harvard Business School for the 2015 graduating class. Scott Cook, a 1976 Harvard Business School graduate and Co-Founder and Chairman of the Executive Committee of Intuit Inc. was the distinguished speaker. He said three things I want to leave with you as you think about being an entrepreneur. I hope that many of you will be thinking about leaving your employment and joining with others in a limited liability company to start businesses.

1. Dig. Ask for feedback on yourself Mr or Ms Entrepreneur. Know yourself well.
2. Get a coach/mentor so you can avoid silly mistakes.
3. Savour surprises – Scott Cook started with Intuit. Somebody wanted to have spread sheets and it grew into Quicken, then it grew into QuickBooks. Don't throw away all surprises and say this

is not my plan. Look at it. Serendipity brings you all kinds of benefits. Use it.

Sustainable Source of Funding for the OECS:

The first sustainable source of funding is knowledge. It is the new basis for growth. OECS countries, educate your people! Spend and make sure your government spends and not just on school things. Get people

from outside to help you sometimes and get your people into apprenticeships to learn skills and they will take these around the world. We cannot do cheap labour anymore and cheap land is no longer capital, so choose knowledge.

Right after knowledge you have to focus on attracting experienced and risk taking entrepreneurs. You have to have good economic and growth facilitating

government policies, not governments, to drive growth. Governments do not know how to do it. It won't work. Use government policy to provide additional seed funding through a Future Generations Fund and the amendment of Pension Fund laws. That is where governments have their expertise.

In conclusion ladies and gentlemen, I wish you well.

YOUTH

LEAD

Learn Empower Achieve Develop

Conference

9:00 a.m. – 3:45 p.m.

19 January 2016

Malting Moving Conference Centre, ECCB Headquarters

St Kitts and Nevis

with video connections to the other ECCU member territories