

Diaspora Investing

The Business and Investment Interests
of the Caribbean Diaspora



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Prepared by *infoDev*

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About infoDev

infoDev, a global trust fund program in the Financial and Private Sector Development Network of the World Bank Group, supports growth-oriented entrepreneurs through creative and path-breaking venture enablers. It assists entrepreneurs to secure appropriate early-stage financing; convening entrepreneurs, investors, policymakers, mentors and other stakeholders for dialogue and action. We also produce cutting-edge knowledge products, closely linked to our work on the ground.

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For more information visit www.infodev.org or send an email to infodev@worldbank.org.

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Executive Summary

The Caribbean region is unique for many reasons. Perhaps most striking among these is the demographic fact that for almost every resident in the region there is an individual living in the diaspora abroad. This near one-to-one ratio of nationals to diaspora members presents a tremendous opportunity for cross-border engagement among a people who share common cultures and histories.

infoDev conducted a study to assess the business and investment interests of the diaspora as part of the Entrepreneurship Program for Innovation in the Caribbean (EPIC)¹ and in line with the World Bank's respective Caribbean Country Partnership Strategies, which emphasize the importance of igniting private-sector led growth. EPIC aims to contribute to increased competitiveness, growth and job creation in the Caribbean region through the development of a robust and vibrant innovation and entrepreneurship ecosystem, with particular emphasis on supporting high-potential growth-oriented early-stage companies. These enterprises require a broad range of resources from mentorship to networks to financing. While there are numerous early stage financing models available, EPIC is focused on leveraging business angel investors from the diaspora who can bring "mentorship-based-capital" to address the financing gap that Caribbean entrepreneurs face.² The goal of this study is therefore to inform EPIC and related programs in their design and development.

1 EPIC is funded by the Government of Canada and implemented by *infoDev* at the World Bank; it aims to foster the creation and growth of competitive start-ups in 14 Caribbean countries through multiple activities.

2 An angel investor is an individual who makes direct investments of personal funds into a venture, usually early-stage businesses in return for ownership equity. Because the capital is being invested at a risky time in a business venture, the angel must be capable of taking a loss of the entire investment. Most angel investors are high-net-worth individuals and are nearly always "accredited investors" as defined under the Securities Act of 1933. [Source: Preston, Susan L. 2004. Angel Investment Groups, Networks, and Funds: A Guidebook for Developing the Right Angel Group for your Community. Kauffman Foundation.]

Engaging over 850 self-identified members of the Caribbean diaspora, the assessment brings together knowledge and data gathered from 636 respondents affiliated with every country in the Caribbean to an *infoDev* online survey, inputs from 200 participants of face-to-face focus group sessions with business leaders, opinion leaders, and high-net-worth individuals (HNWI) in the diaspora around the world, and insights from individual one-on-one interviews with 20 accredited business angel investors.

The assessment seeks to address four key questions:

1. **Profile:** Who are the members of the Caribbean diaspora?
2. **Engagement:** How willing are they to engage with the Caribbean?
3. **Investment:** What is their financial ability to invest back home?
4. **Models:** What models could work to increase diaspora investment?

This report presents findings from the assessment, including both the quantitative data from the surveys and the qualitative data from focus groups and individual interviews. It aims to help all stakeholders, including policy makers, multi-lateral financial institutions, donors, and program managers, among others to better understand and engage the Caribbean diaspora. The report also provides material for an open dialogue on new ways to engage the diaspora for investment purposes. Although the assessment is focused primarily on the diaspora members' willingness and ability to invest in and mentor high-potential growth-oriented enterprises (HGEs), it also touches on their interest to be involved through other channels and investment vehicles, such as diaspora bonds, volunteering, or charitable giving.

An overview of key findings from the survey shows that the Caribbean diaspora members are typically well-educated and fairly affluent with more than half having a bachelor's degree and almost a quarter having investible wealth of more than



Photo: Jamaican pictures for sale, iStock

\$100,000.³ While respondents came from around the world, the diaspora members are concentrated in four major cities: London, New York, Miami, and Toronto. Half of the diaspora respondents send remittances back home and a full 85 percent are engaged in some way, shape, or form. Most interestingly, nine out of ten respondents would like to be even more engaged in the future. Given the common heritage and strong familial connections across the region, diaspora respondents overwhelmingly took a regional approach to the Caribbean, rather than a nationalistic one.

Historically, 40 percent of the diaspora has invested in a start-up company of some sort around the world, a quarter of which has been in the Caribbean. Eight percent of respondents claimed to be accredited investors based upon the U.S. legislative definition.⁴ Most of these investors are engaged with online funding platforms and appreciate the potential of crowdfunding. Furthermore, accredited investors from the diaspora were keen to explore joining diaspora angel investing groups with a view to review Caribbean business opportunities together and share risk when investing.

A closer look at accredited investors shows that they are more active in making start-up investments, that they invest larger sums of money per deal, and that they are willing to spend more time investing. However, average deal size is still relatively small with 50 percent investing between \$10,000 and \$100,000 and only 10 percent investing above this threshold. Three-fourths of all respondents reported a desire for a three to five year exit from their investments. Practically all

³ All dollar amounts are U.S. dollars unless otherwise indicated.

⁴ Under the U.S. Securities Act of 1933, accredited investors are natural persons who have either individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million at the time of the purchase, excluding the value of the primary residence of such person, or, income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.

GIVEN THE COMMON HERITAGE AND STRONG FAMILIAL CONNECTIONS ACROSS THE REGION, DIASPORA RESPONDENTS OVERWHELMINGLY TOOK A REGIONAL APPROACH TO THE CARIBBEAN, RATHER THAN A NATIONALISTIC ONE.

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accredited diaspora members expressed the need for diaspora bonds to include a substantial level of transparency in the use and management of funds as a prerequisite for this instrument. The need to “touch and feel” an investment or to meet with the investee was crucial among the interests of these investors.

The findings demonstrate that a growing community of angel investors exist among the diaspora, but they have not yet recognized the investment potential of Caribbean HGEs. Key barriers include low visibility and awareness of deal flow for local and diaspora angels, difficulty in establishing a relationship of trust with entrepreneurs, primarily because of distance and lack of due diligence channels, and difficulty in maneuvering complex local legal processes. The interviews and focus groups also revealed that a number of enablers need to be in place to increase transaction activity. Some high-net-worth individuals and entrepreneurs will require capacity building on angel investing, the use of web-based crowdfunding platforms, and governance and operations associated with these kinds of investments.

It is hoped that the findings from this study can be used to improve dialogue and collaboration between innovation ecosystem participants on removing barriers to private sector involvement and better engaging the diaspora on a wide suite of development and investment objectives. Surely, the diaspora's investments can provide angels and investors around the world proof that the Caribbean has attractive and investable HGEs.

Introduction

This report represents an important step in the ongoing efforts of *infoDev* to make effective and useful knowledge available to policy makers, investors, and private sector development stakeholders to use in their efforts to encourage private sector investment and private sector led economic growth. Access to finance is a critical piece of the stronger innovation ecosystem required for small and medium enterprises (SMEs) and high-potential growth-oriented enterprises (HGEs) to prosper.⁵

The purpose of this report is to present a summary of the lessons learned and tools needed to effectively leverage the diaspora as investors in stimulating the start-up and venture sector.

Approach to the Assessment

The diaspora business and investment interests study used a three-pronged approach to assess the willingness and ability of the diaspora to invest in HGEs.

1. A detailed on-line survey targeted to all Caribbean diaspora members
2. In-person focus groups with business and opinion leaders, high-net-worth individuals and investors
3. One-on-one interviews with accredited angel investors

The assessment ran from April to May 2013. During this period, the assessment collected 636 online

survey responses, held focus groups with 200 individuals in San Francisco, Washington, DC, New York, Toronto, and London, and interviewed 20 accredited angel investors.⁶ The study and paper were completed during a five month period and were entirely executed by a World Bank Group team.

The online survey was distributed through various diaspora organizations, high commissions, and media channels and was open for a period of six weeks. Respondents represent a random sample of self-identified diaspora members claiming affiliation with the following 31 countries or territories: Antigua and Barbuda, Aruba, Anguilla, The Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Colombia, Cuba, Curacao, Dominica, Dominican Republic, Grenada, Guadeloupe and dependencies, Guyana, Haiti, Honduras, Jamaica, Martinique, Montserrat, Puerto Rico, St. Barthélemy, St. Kitts and Nevis, St. Lucia, St. Martin, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, and U.S. Virgin Islands (see Map 1).

Focus groups with select business and opinion leaders from the private and public sectors explored why diaspora members had not invested in start-ups, presented investment scenarios to test appetite and preference, and explored how the diaspora measure success, including ascertaining whether these measures of success included financial returns, jobs created, or other social development metrics.

The one-on-one interviews with angel investors explored their historical and expected investment terms and assessed whether there were any differences in expectations when investing back home in the Caribbean versus elsewhere.

⁵ High-potential growth-oriented enterprises (HGEs) are young, usually technology-focused start-up companies that tend to have a growth ambition beyond their home country or region. They are innovative, bringing a new, often disruptive product or service to consumers, possibly using new business models and processes. Essentially, HGEs are start-ups that aim to change the game in their respective areas of endeavor.

⁶ While the sample size for the survey, focus groups, and interviews are relatively high, findings from this study are intended to provide directional perspectives, rather than statistically significant perspectives.



Photo: Kingston Jamaica, iStock

Organization of the Report

The report is organized into seven sections. Following this introduction, Sections 2 through 5 are structured in the order of the four key questions that were explored.

1. **Profile:** Who are the members of the Caribbean diaspora?
2. **Engagement:** How willing are they to engage with the Caribbean?
3. **Investment:** What is their financial ability to invest back home?
4. **Models:** What models could work to increase diaspora investment?

THE ASSESSMENT COLLECTED **636** ONLINE SURVEY RESPONSES, HELD FOCUS GROUPS WITH **200** INDIVIDUALS IN **SAN FRANCISCO, WASHINGTON, DC, NEW YORK, TORONTO, AND LONDON**, AND INTERVIEWED **20** ACCREDITED ANGEL INVESTORS.

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Section 6 summarizes lessons for practitioners, such as incubator managers and transaction platform managers, as well as policy implications for government stakeholders who would like to increase investments. Section 7 provides concluding remarks.

MAP 1: Diaspora from 31 affiliations participated in the study



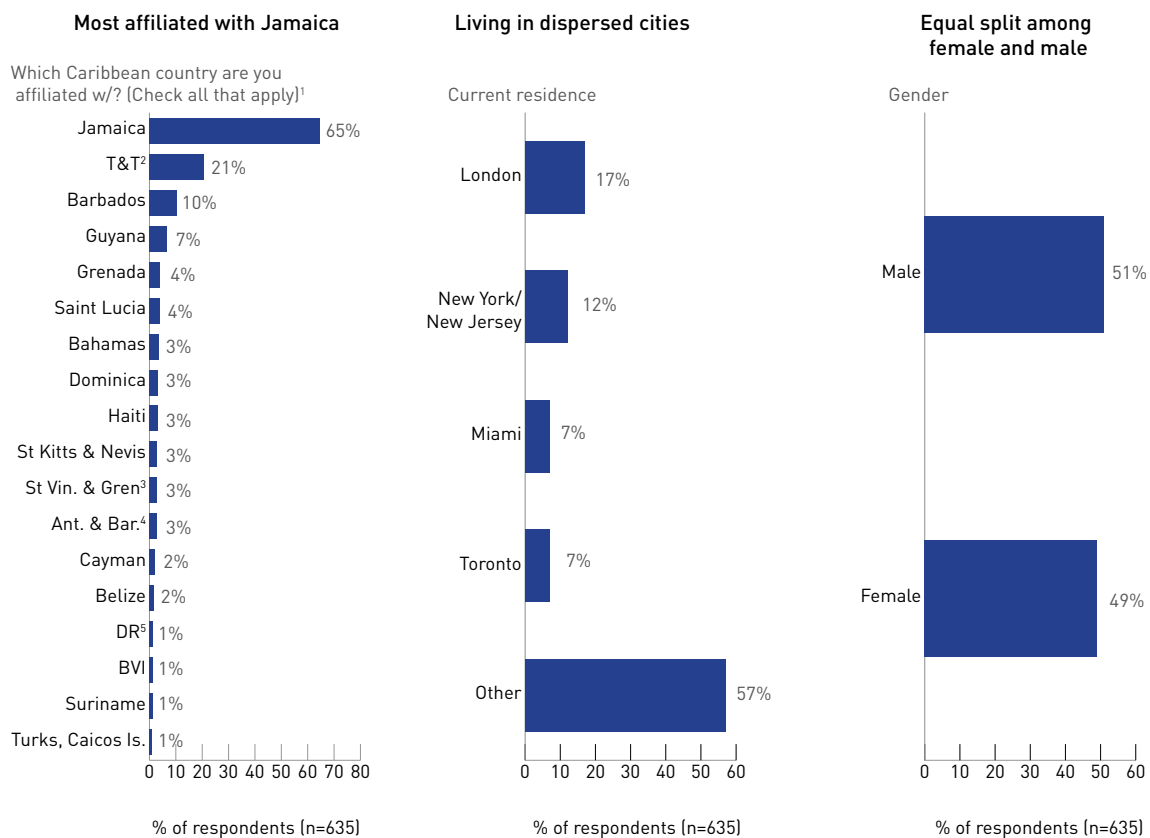
Caribbean Diaspora Profile

Demographics

In general, the Caribbean diaspora is a well-educated and affluent group of individuals, who have great potential to make valuable contributions to the Caribbean's economic development, both through the sharing of their knowledge and through the substantial financial resources they can bring to bear.

Diaspora members from each country in the Caribbean participated in the online survey. Jamaica had the largest representation, which reflects its population relative to other countries in the region. Half of the diaspora respondents are based in the four metropolises of London, New York, Miami and Toronto, with the remaining spread out over many cities. Respondents are normally distributed by age and balanced by gender (Figure 1).

FIGURE 1: Demographic profile



Notes: 1. Respondents from all Caribbean countries, only top 18 shown.
2. Trinidad & Tobago.
3. St. Vincent & Grenadines.
4. Antigua & Barbuda.
5. Dominican Republic.

Source: infoDev Caribbean Diaspora Survey, April-May 2013.

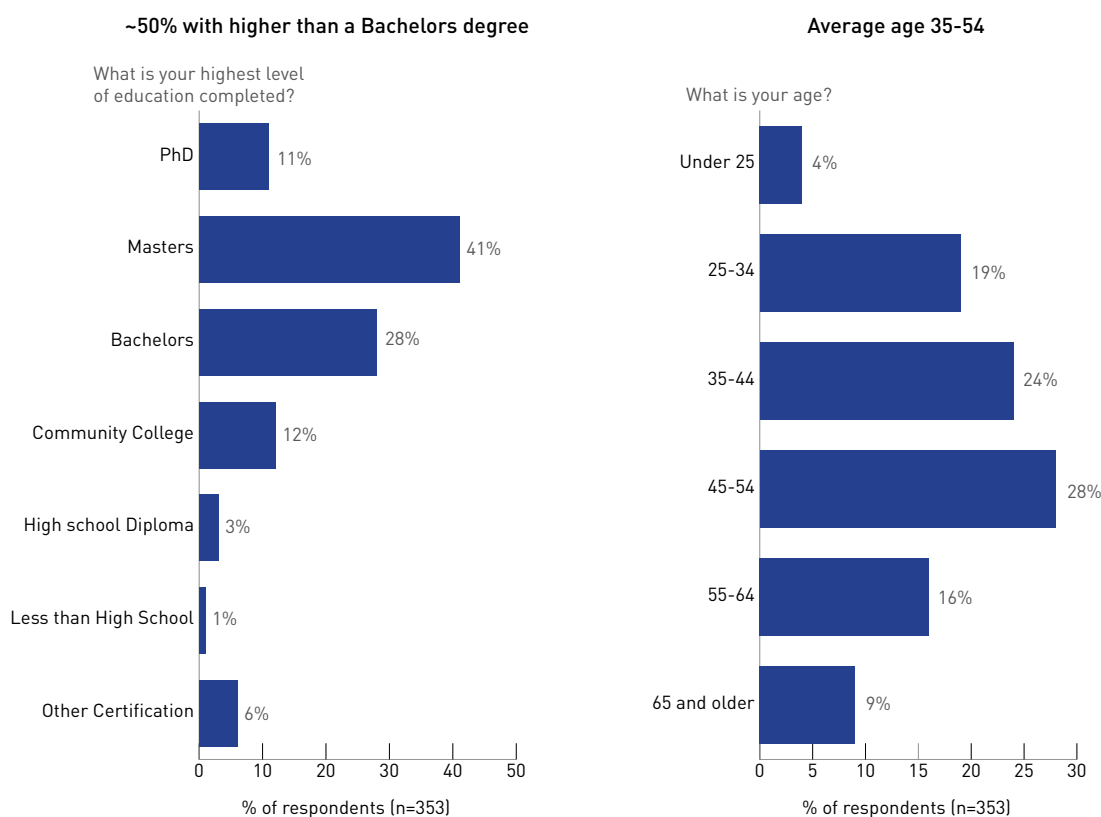


Photo: pitchIt Caribbean Bootcamp, Jamaica, 2013

In general, the diaspora is well-educated with 80 percent holding a bachelor's degree or higher (Figure 2). More than 65 percent of the respondents are employed in the private sector with almost 40 percent owning their own businesses. The top three most common professional backgrounds of respondents were in education, culture and arts, and business consulting. At least 6 percent came from investing backgrounds in asset management, private equity, or venture equity (Figure 3).

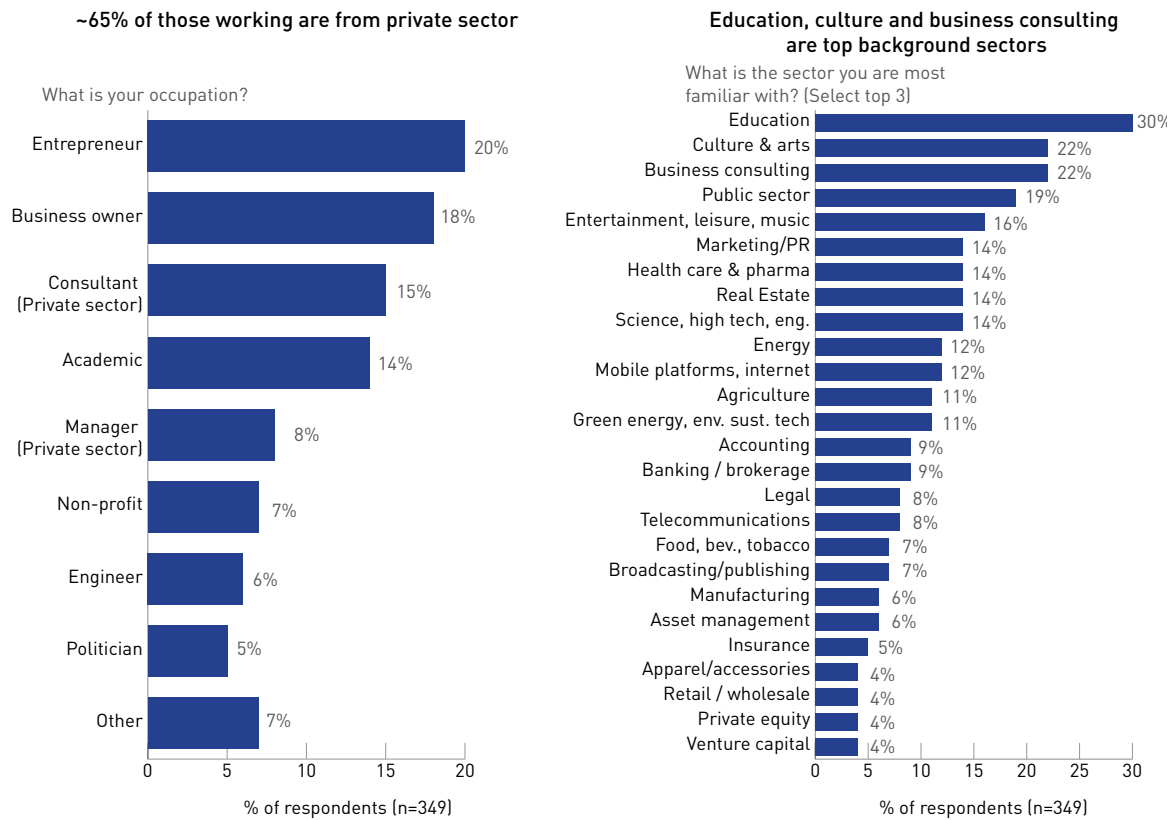
AFFLUENT AND ACCREDITED INDIVIDUALS ARE OF CRITICAL IMPORTANCE IN MAKING INFORMED INVESTMENTS BACK HOME. THEY TEND TO HAVE A LEVEL OF INVESTMENT SOPHISTICATION AND BUSINESS ACUMEN THAT PROMOTES BEST PRACTICES AMONG INVESTEEES, DEMANDS ACCOUNTABILITY AND RESULTS.

FIGURE 2: Most hold higher education degrees and are between 35-54



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

FIGURE 3: 65% with private sector backgrounds



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

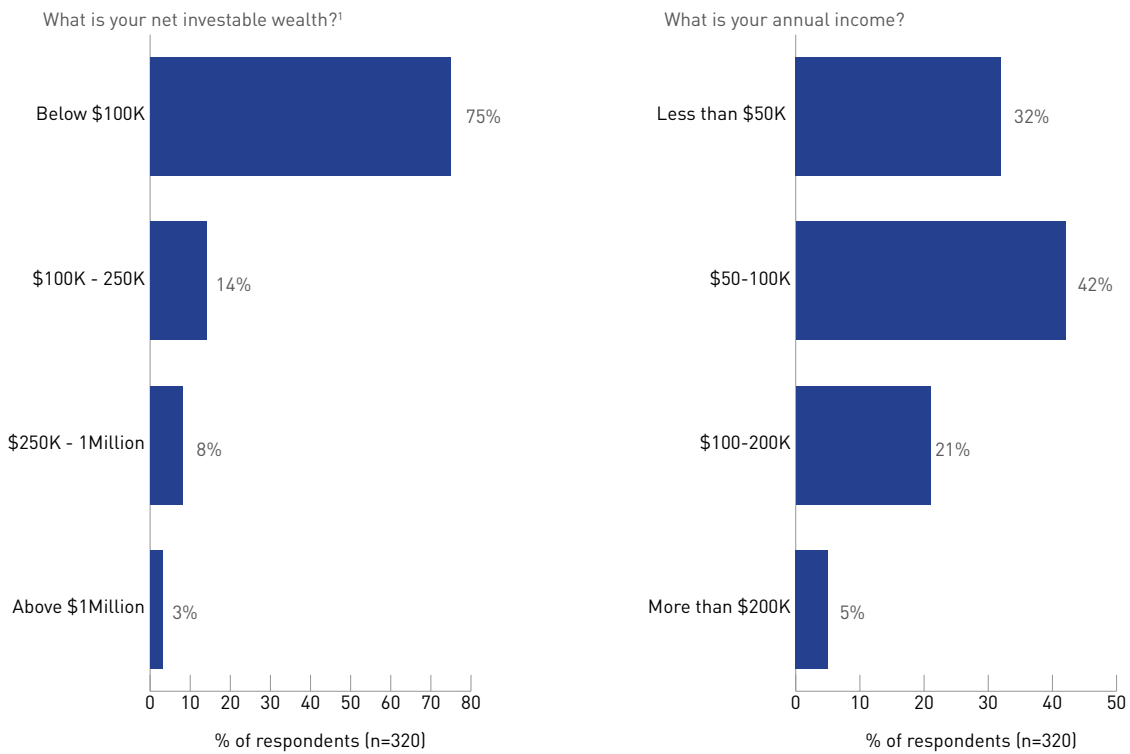
Financial

A quarter of diaspora respondents are considered affluent with either net investable wealth or annual incomes of more than \$100,000 (Figure 4). This income is held primarily in cash savings, real estate holdings, or public equity (Figure 5).

A small proportion of respondents (8 percent) identified themselves as “accredited investors,” having either an annual income of more than

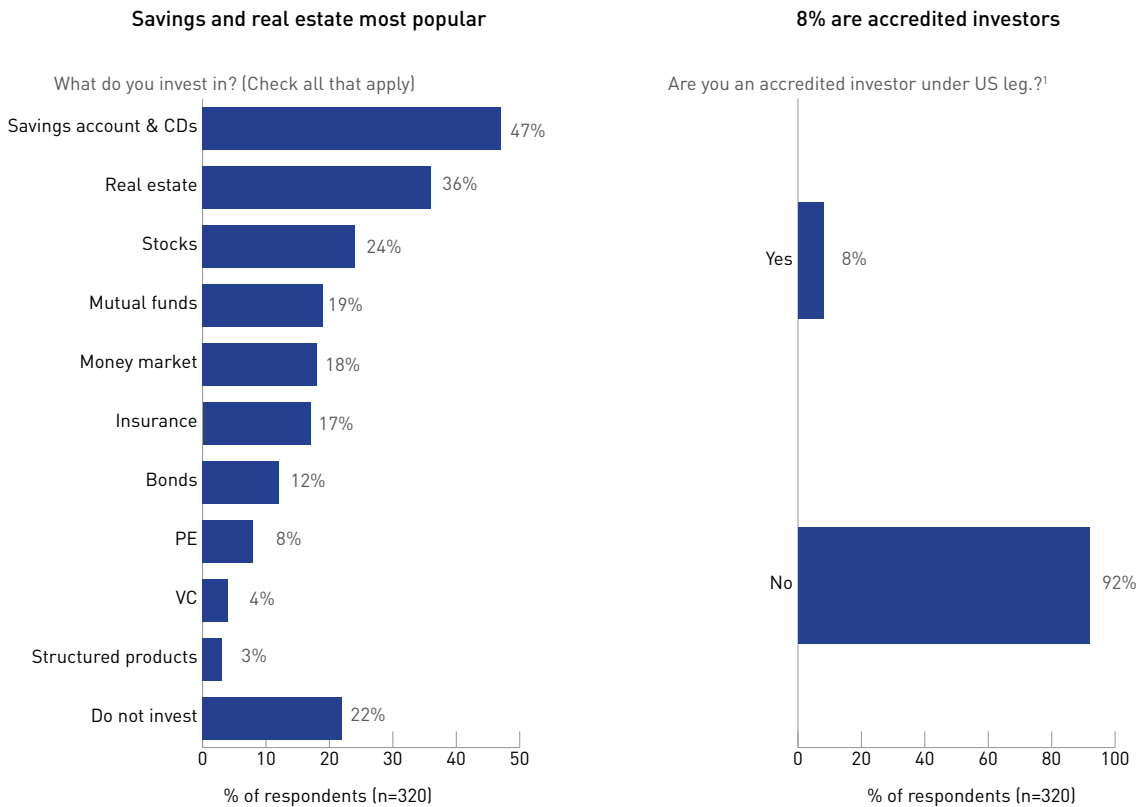
\$200,000 during the past two years or at least \$1 million in investable assets. These affluent and accredited individuals are of critical importance in making informed investments back home. They tend to have a level of investment sophistication and business acumen that promotes best practices among investees, demands accountability and results, and can have a major contribution to the development of Caribbean economies.

FIGURE 4: 25% have investable wealth or annual earnings over \$100,000



Notes: 1. Liquid assets such as stock, cash, other forms of investment excluding property.
Source: infoDev Caribbean Diaspora Survey, April-May 2013.

FIGURE 5: Diaspora tend to invest in real estate; 8% are accredited



Notes: 1. Annual income of USD 200,000 for last two years or \$1 million in investable assets.
Source: infoDev Caribbean Diaspora Survey, April-May 2013.

Engagement with the Caribbean

SOCIAL INSTABILITY, CONNECTIVITY AND DISTANCE, AND WEAK LEGAL ENFORCEMENT RANKED AS THE TOP THREE BARRIERS TO ENGAGEMENT.

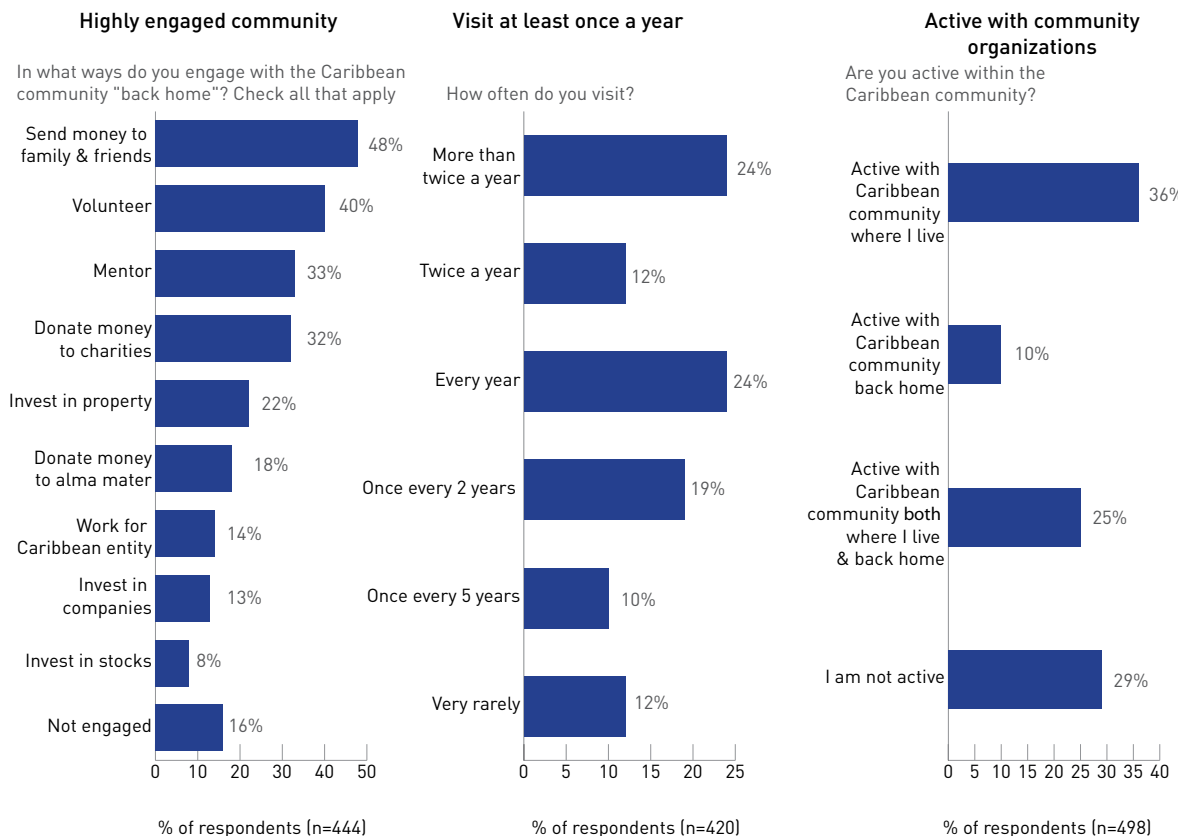
The diaspora is a highly engaged population and would like to be even more connected to the Caribbean in the future. Understanding barriers to engagement and working on ways to overcome these barriers could have a significant impact on opening the door for more latent diaspora members to increase engagement.

Engagement Now

The Caribbean diaspora is a particularly engaged and organized community, in which 70 percent belong to an affiliation organization whether formal or informal in their resident country or back

in the Caribbean. More than 85 percent of diaspora members give back to the Caribbean in some way, shape, or form. While half of the respondents send remittances, a large share gives back in nonfinancial means as volunteers and mentors. Charitable giving is a strong and important part of being a member of the Caribbean diaspora evidenced by one-third of the diaspora respondents who make donations to philanthropic enterprises and one-fifth

FIGURE 6: Most give back and are part of diaspora organizations



Source: infoDev Caribbean Diaspora Survey, April-May 2013.



Photo: Digital Jam 2.0, Jamaica, 2012

who give back to their alma maters. Private sector investment is perhaps a stronger pull on the diaspora. One in four diaspora members invests in real estate and one in ten invests in a business venture of some form. The diaspora could bring added value to job creation and productivity increases through these private sector investments, thereby shifting the culture from one of hand-outs to one of hand-ups, that is, entrepreneurship supported by remittances for investments. Visiting family and friends in the Caribbean are another key source of engagement, as almost 60 percent of diaspora make the trip home at least once a year and almost a quarter travel home more than twice a year (Figure 6).

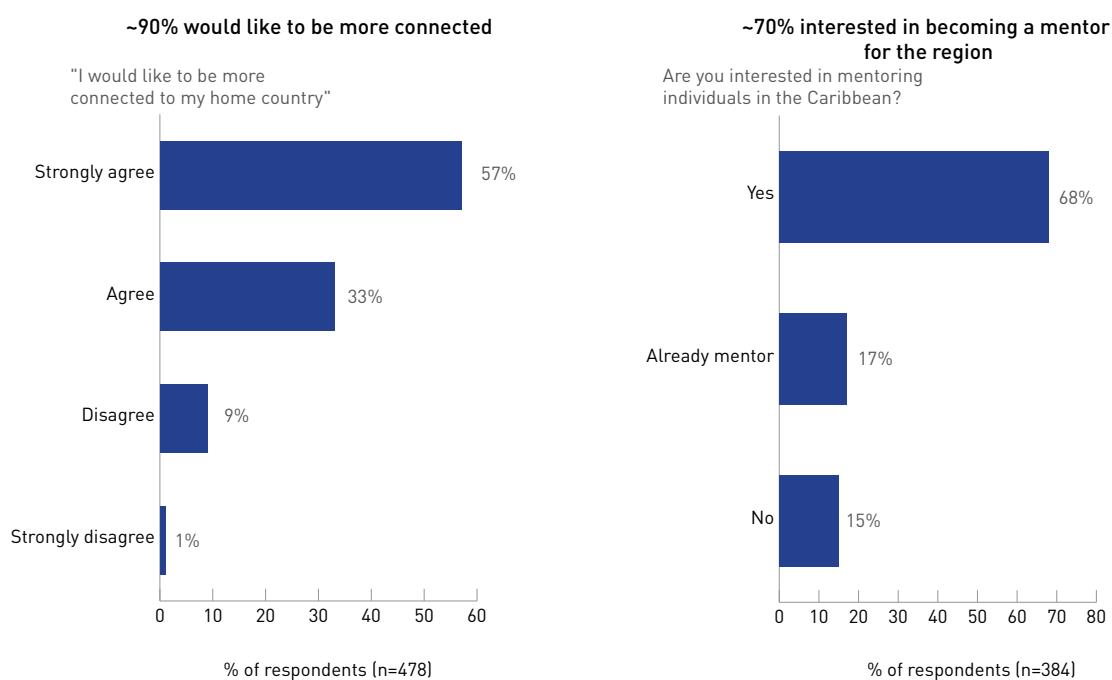
MORE THAN 85 PERCENT OF DIASPORA MEMBERS GIVE BACK TO THE CARIBBEAN IN SOME WAY, SHAPE, OR FORM. THE DIASPORA COULD BRING ADDED VALUE TO JOB CREATION AND PRODUCTIVITY INCREASES THROUGH THESE PRIVATE SECTOR INVESTMENTS, THEREBY SHIFTING THE CULTURE FROM ONE OF HAND-OUTS TO ONE OF HAND-UPS.

Engagement in the Future

Against this backdrop of already significant engagement back home, 90 percent of the diaspora members responded positively, when asked whether they would like to be “more connected” to

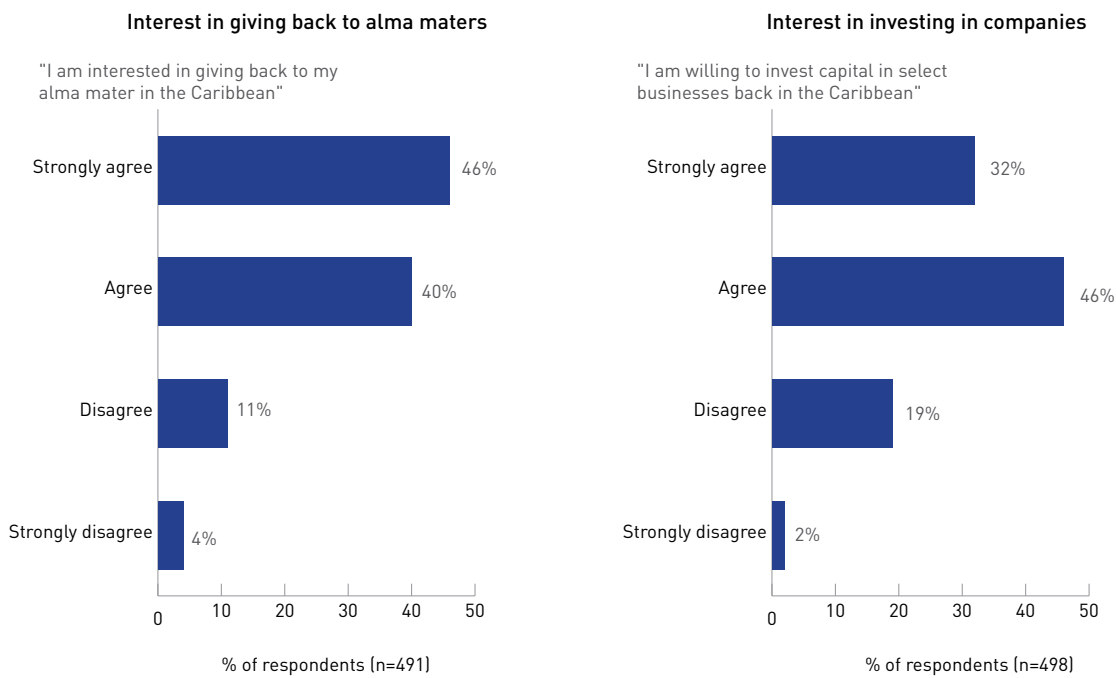
their home country, demonstrating the deep-seated desire to remain connected “back home.” These desires were manifested in the relatively high interest in providing mentoring to individuals in the Caribbean—68 percent were positively inclined to mentor and 80 percent of those are

FIGURE 7: Diaspora want to be more connected, possibly as mentors



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

FIGURE 8: Strong interest in giving back to alma maters and investing



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

willing to spend more than one hour per week mentoring (Figure 7).

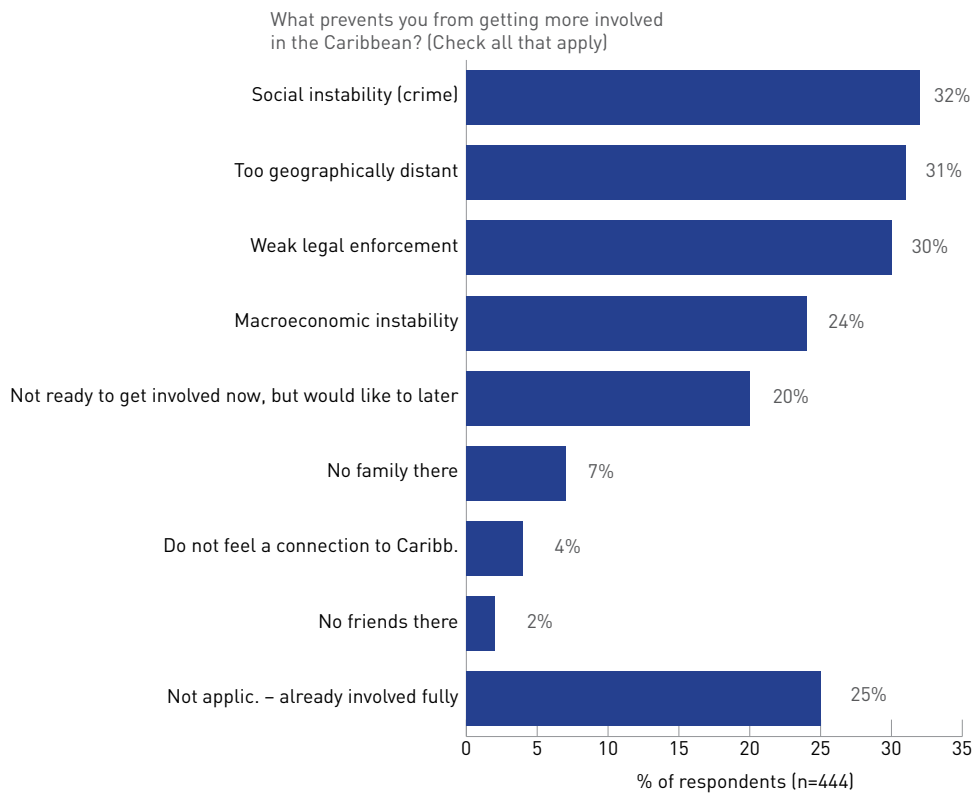
Interest in certain engagement channels was also much higher than actual current involvement. For example, when asked whether they were "interested in giving back to an alma mater in the Caribbean," 85 percent responded positively compared to the 18 percent that currently do. During the focus groups, a large number of diaspora members explained that they are active in their high-school alumni associations, a source of deep affiliation and nostalgia. Similarly, 80 percent were "interested in investing capital in a business back home" relative to the 13 percent that currently do (Figure 8). This demonstrates a very strong, but latent

opportunity for increasing the level of engagement from the diaspora in a meaningful way.

Barriers to Engagement

A number of factors currently constrain increased engagement from the diaspora. Social instability, connectivity and distance, and weak legal enforcement ranked as the top three barriers to engagement (Figure 9). Accredited investors and focus group participants also cited the lack of awareness of investment opportunities and the bureaucracy associated with making such investments as key barriers. Addressing these sources of dissuasion should be a priority going forward.

FIGURE 9: Barriers to increased engagement



Source: *infoDev* Caribbean Diaspora Survey, April–May 2013. Excludes respondents from Jamaica, Haiti, Cuba, Dominican Republic, Puerto Rico, Honduras, and Colombia; Including Jamaica would increase social instability (crime) as the major barrier by 10%.

Investment Background and Preferences

23 PERCENT OF DIASPORA MEMBERS HAVE ALREADY MADE INVESTMENTS IN NEW VENTURES IN THE CARIBBEAN REGION.

Perhaps the most impactful contributions diaspora members can make are through their investments in business ventures back home. It is important, therefore, to understand diaspora investment backgrounds and preferences, especially when it comes to the terms required by angel investors. Investment opportunities, diaspora bonds, and charitable ventures seeking donors could all be better designed and marketed if stakeholders know the diaspora's interests.

In fact, 40 percent of diaspora respondents have already invested in a business venture somewhere in the world, broadly defined as any company in its early stages. Of these investments, 57 percent were ventures based *in the Caribbean*. This means that 23 percent of diaspora members have already made investments in new ventures in the Caribbean region (Figure 11). This is a remarkable finding as it provides clear evidence that diaspora dollars are already flowing to new ventures in the region and that these come from fairly sophisticated investors.

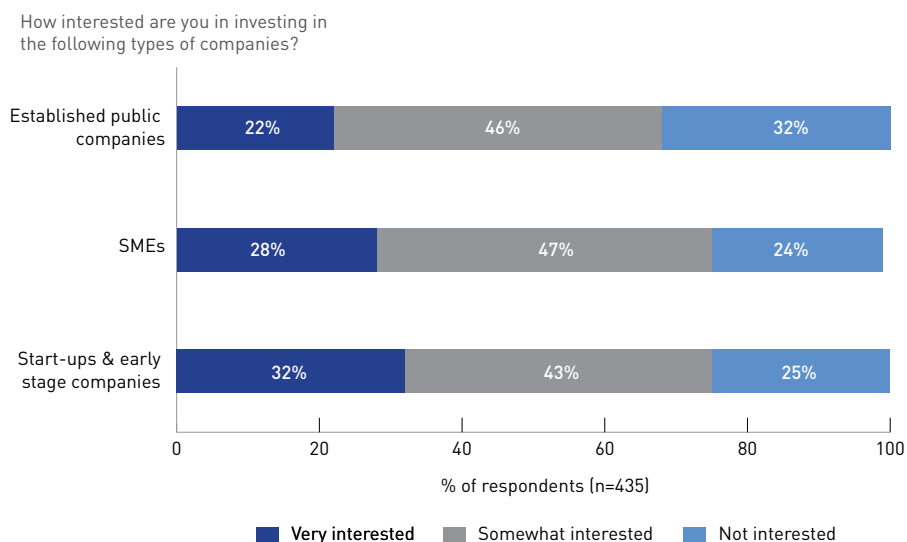
Interest in Investing in Start-up Ventures

As already noted, the diaspora is already investing in businesses both where they currently reside and back home. When asked what types of venture investments they prefer, start-ups were ranked first among all other types of venture investments, be they SMEs or established public companies (Figure 10).

Interest in Diaspora Bonds

Sixty-three percent of respondents indicated having some interest in investing in a diaspora bond. This was lower than their interest in invest-

FIGURE 10: Respondents very interested in investing in start-ups

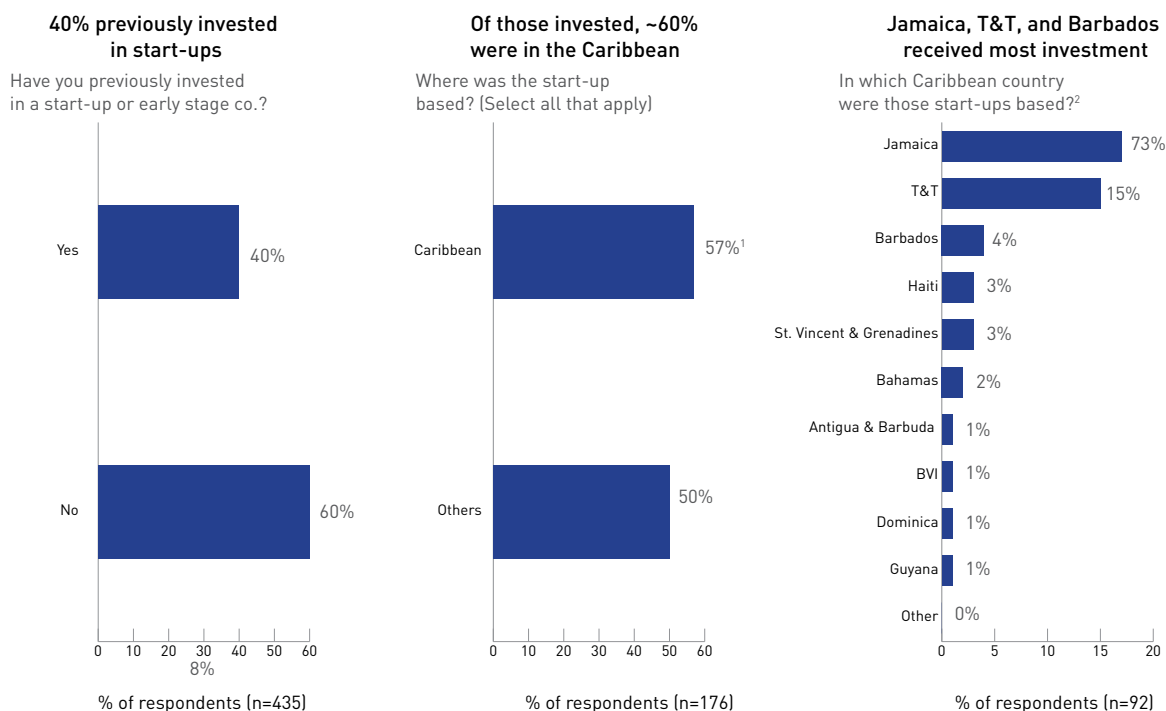


Source: infoDev Caribbean Diaspora Survey, April-May 2013.



Photo: Caribbean Ideas Marketplace, Jamaica, 2013

FIGURE 11: 40% of diaspora have invested in start-ups before



Notes: 1. Translates into 23% of the total respondents that has invested in start-ups in the Caribbean, asked only of those that indicated "yes" for previously invested in start-ups.
2. Only asked of those who indicated "Caribbean" as a region for where the invested start-up was based.

Source: infoDev Caribbean Diaspora Survey, April-May 2013.

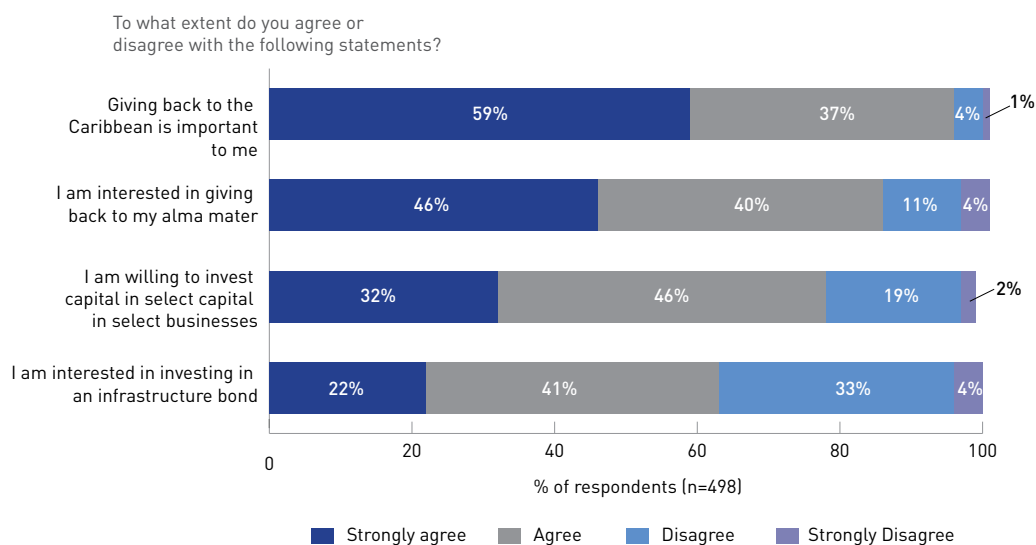
ing directly in business ventures by 15 percentage points and interest in giving back to their alma mater by 23 percentage points (Figure 12). Those who did respond positively to investing in diaspora bonds are slightly more active in investing in the Caribbean overall. They were generally two to three percentage points more inclined in their current activities of both real estate and business investment in the Caribbean. The interest is also stronger among diaspora with strong emotional connections to the Caribbean.

Many focus group participants expressed that they would be more interested in investing in diaspora bonds if these instruments were enhanced with transparency and accountability measures on the

use, governance, and administration of funds. Countries, such as Israel and India, that have raised the most development dollars through diaspora bonds tend to incorporate a number of best practices, including opening these instruments to all investors but strategically marketing them to the diaspora, providing relatively attractive financial returns, and most importantly, including robust transparency and governance measures in the use of proceeds.⁷ Overall, participants tended to favor opportunities to not only "touch and feel"

⁷ Kayode-Anglade, Seliatou and Nana Spio-Garbrah. 2012. "Diaspora Bonds: Some Lessons for African Countries." Africa Economic Brief, African Development Bank: pages 3-7.

FIGURE 12: Interest in diaspora bonds



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

the type of investments being made, but also to have an active role—preferring to give directly to family and friends, alma maters, and organizations whom they know and trust personally or ventures where they can have a majority stake and play an active role for enhanced visibility and risk management. Interventions aimed at increasing transparency, accountability, and measurement could therefore enhance trust and the desire to invest in such instruments.

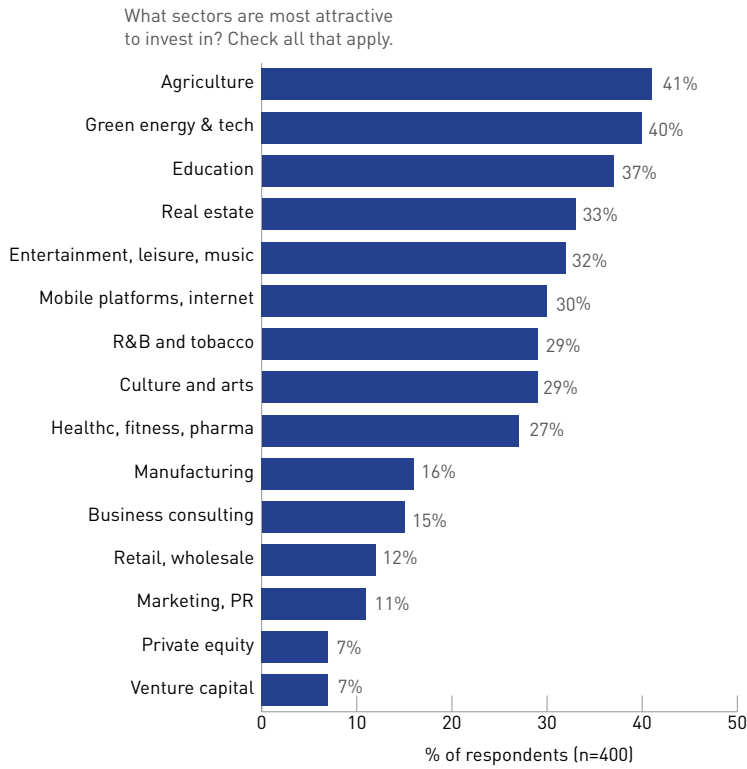
FOCUS GROUP PARTICIPANTS EXPRESSED THAT THEY WOULD BE MORE INTERESTED IN INVESTING IN DIASPORA BONDS IF THESE INSTRUMENTS WERE ENHANCED WITH TRANSPARENCY AND ACCOUNTABILITY MEASURES ON THE USE, GOVERNANCE, AND ADMINISTRATION OF FUNDS.

Investment Sectors and Geographies

Historically, diaspora investments in start-ups have been in a number of sectors ranging from entertainment and the arts to consulting and retail to real estate and manufacturing. These interests are also shifting with the times. Looking forward, sectors such as green energy, mobile applications, education, and agribusiness are most attractive among diaspora investors (Figure 13). In the case of “green energy and technology,” future investment interest is 40 times greater than historic investment activity. A need for business incubation services that target entrepreneurs in the green energy and mobile applications sectors is therefore important in meeting the demand and interests of diaspora investors.

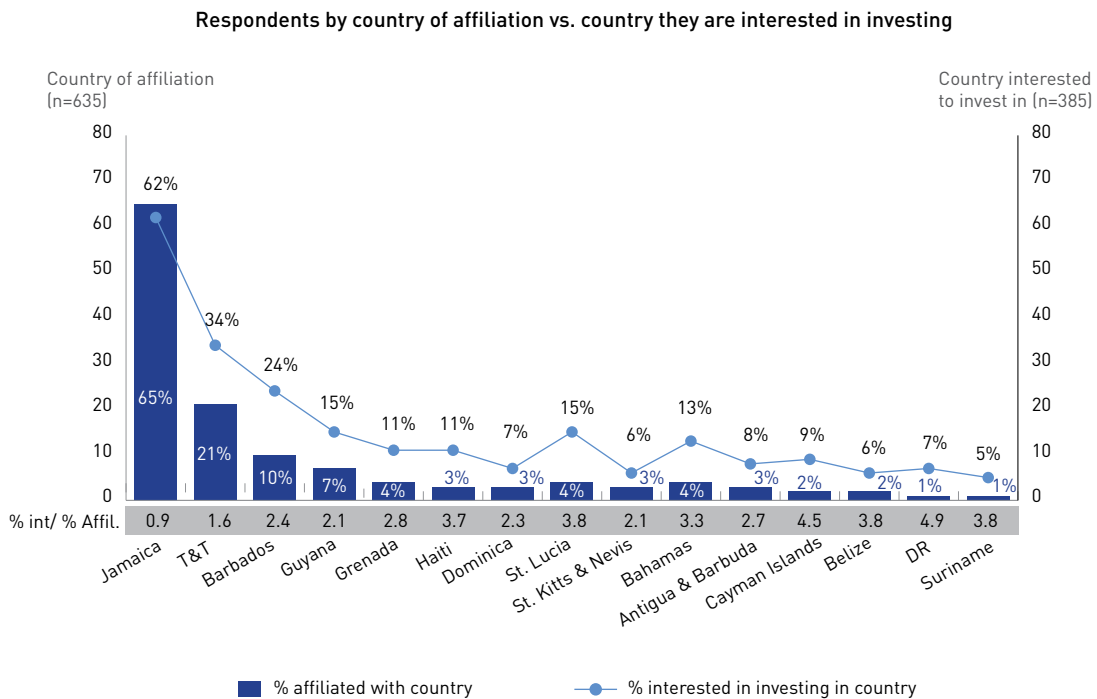
At present, matches between the angel investors and entrepreneurs are made almost entirely through friends and family with 86 percent of investors learning about their investment opportunity through this source. However, such matches limit the diaspora to a narrow universe of potential deals. This is in stark contrast to the actual desires of the diaspora investor community, who take a regional view for their portfolios. When asked about the countries in which they are interested in making investments, diaspora investors always listed more than one country, providing further evidence that they are seeking to make deals in multiple destinations beyond their country of primary affiliation (Figure 14). Fourteen percent indicated that they wanted to invest in the Caribbean as a whole and were completely country-agnostic. This perspective

FIGURE 13: Investors interested in a variety of sectors



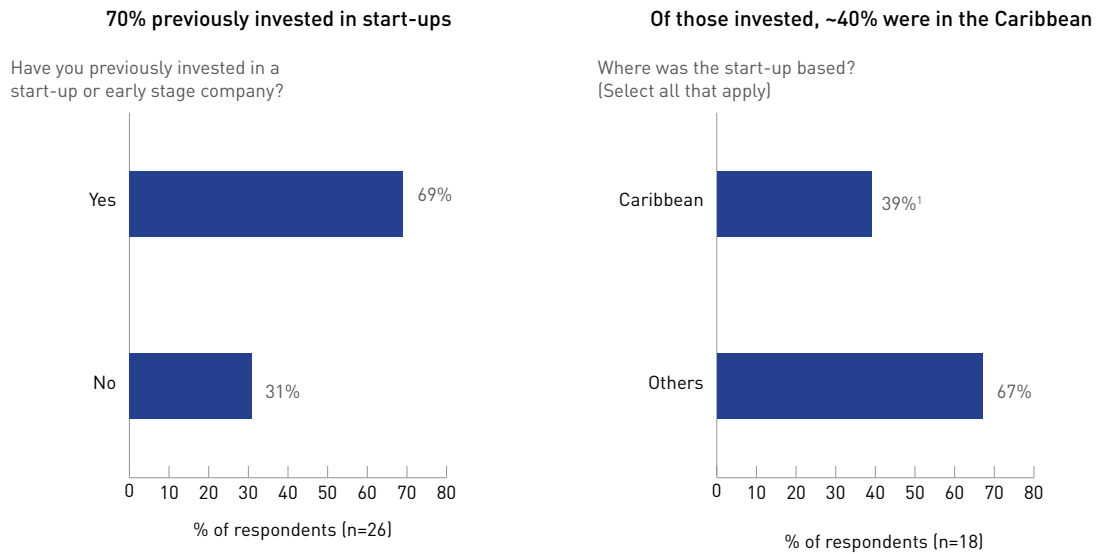
Source: infoDev Caribbean Diaspora Survey, April-May 2013.

FIGURE 14: Diaspora investors take a regional perspective



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

FIGURE 15: Accredited investors interested in start-ups and SMEs



Notes: 1. Translates into 27% of total accredited investor respondents that has invested in start-ups in the Caribbean, asked only of those that indicated "yes" for previously invested in start-ups.

Source: infoDev Caribbean Diaspora Survey, April-May 2013.

is not surprising given the strong family relations among individuals from different Caribbean countries, the migration and dispersion of relatives across multiple countries, and the common cultural heritage shared by Caribbean peoples. The regional outlook among diaspora investors has substantial positive implications for ventures seeking investments as it means they can appeal to a larger pool of angel investors.

Accredited Investors and Investment Terms

A closer look at accredited investors shows significant differences among the diaspora community in their willingness and ability to invest. Compared to overall respondents, accredited investors have invested more often and at larger investment tickets per transaction. Further, they are interested in investing more time and capital as "business angel investors" in the future.

Investment Activity

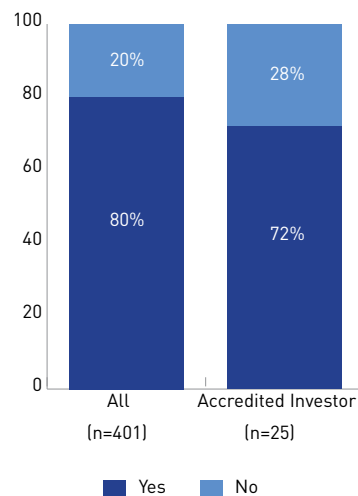
Seventy percent of accredited investors have made an investment in a business venture in the past compared to 40 percent of all respondents. However, a smaller share—only two in five of these investments has been in the Caribbean. One-on-one interviews with angels revealed that this is because they "go where the deals are" and are generally more region agnostic (Figure 15). While

all respondents were willing to accept slightly lower returns from their investments as a form of "giving back," 8 percent fewer accredited investors were likely to ascribe to this view (Figure 16).

FIGURE 16: Giving back is important to investors

~80% willing to accept lower returns as a form of "giving back"

Would you be willing to accept slightly lower financial returns if investing in entrepreneurs in the Caribbean means you are "giving back" and creating jobs in the Caribbean?



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

The diaspora expressed a strong desire for having an impact on job creation and economic development through their investing. In terms of impact for investors, these factors ranked second and third after generation of financial returns, highlighting that the diaspora do have a social metric for success in addition to a financial one. However, the need for financial return, or at least the prevention of financial loss, is important as it highlights the need for capacity building to raise the quality of start-ups and the need to package deals as an investment opportunity, rather than a charitable one.

Investment Terms

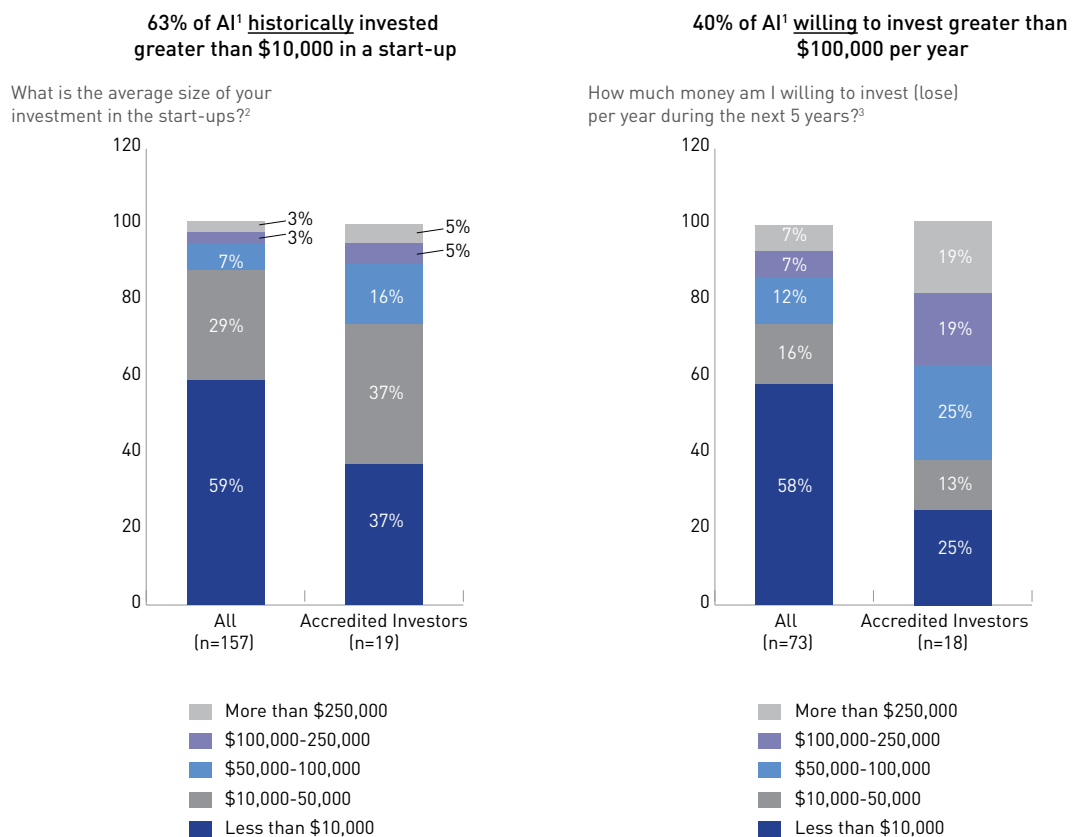
Historically, 11 percent of accredited investors compared to 6 percent of all respondents have funded new business ventures with capital injections of \$100,000 or more. The average size of an investment in start-ups for accredited investors was between \$50,000 and \$100,000 compared to between \$10,000 and \$50,000 for all respondents.

THE REGIONAL OUTLOOK AMONG DIASPORA INVESTORS HAS SUBSTANTIAL POSITIVE IMPLICATIONS FOR VENTURES SEEKING INVESTMENTS.

Looking to the future, 40 percent of accredited investors compared to 14 percent of all diaspora respondents expressed willingness to invest at least \$100,000 each year for a five year period in HGEs in the Caribbean, further demonstrating the desirability of available opportunities (Figure 17). This is particularly telling as it indicates a significant pool of capital available from accredited investors for ventures in the next five years.

Accredited investors are also willing to dedicate more time to angel investing, with 35 percent expressing an interest in spending more than 10

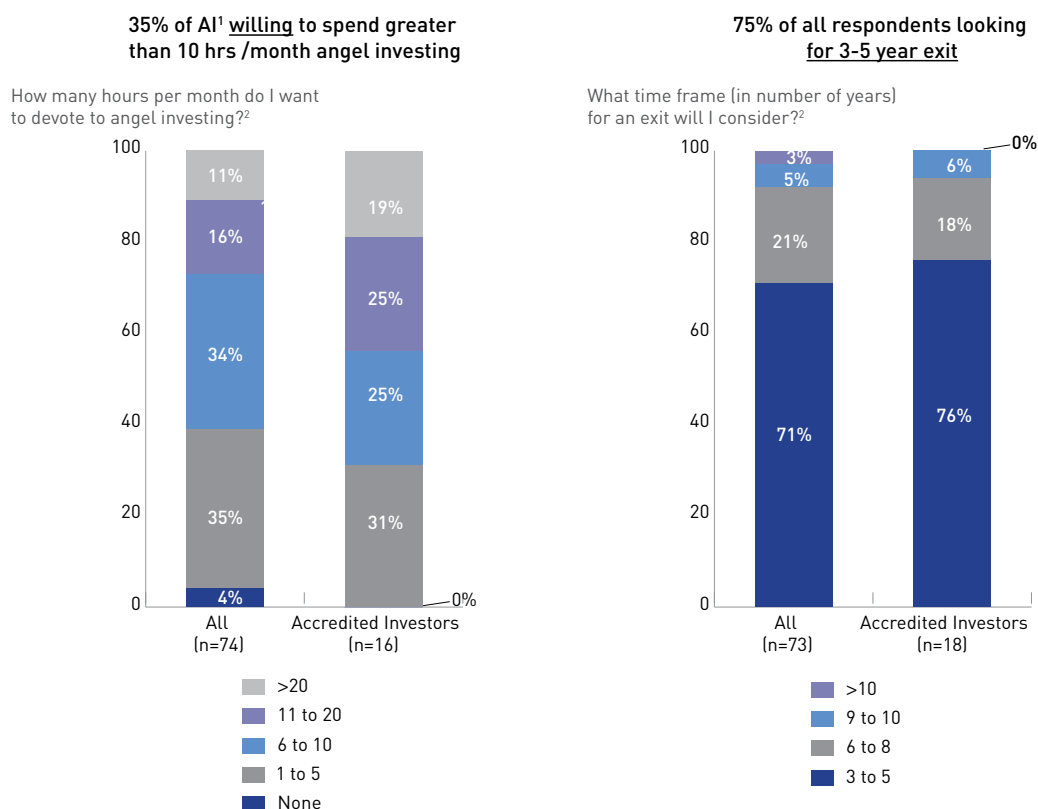
FIGURE 17: Accredited investors are willing to invest more capital



Notes: 1. Accredited investors.
 2. Caribbean Diaspora Survey Data only, question was asked of all those who indicated "Yes" to having invested in a start-up before, regardless of where it was based.
 3. Focus Group Survey data only.

Source: infoDev Caribbean Diaspora Survey, April-May 2013.

FIGURE 18: Accredited investors are willing to invest more time



hours a month angel investing. Three quarters of all respondents look for a three to five year exit time frame, which is relatively short, when compared to exit time frames in other parts of the world (Figure 18). Some focus group participants attributed this requirement to the perceived risk of investing in a developing market back home.

Accredited versus Nonaccredited Investors

Accredited investors, who are legally defined by minimum income or wealth thresholds, are most ideal for early stage, equity-based patient capital, because these investments tend to have more risk and often take multiple years to generate positive returns, if at all. While accredited investors are best suited for equity investments, nonaccredited investors can still play a significant role in supporting entrepreneurship through other instruments. For example, nonaccredited investors can participate in lending or donation crowdfunding platforms, such as Kiva.com or perks-based platforms such as Kickstarter.com or Indigogo.com and other channels that do not involve a sale of securities. They could also support entrepreneurs through nonfinancial means, such as mentorship and

capacity building. A number of online platforms to connect entrepreneurs and mentors now exist to facilitate this. A focused study on the instrumentality of crowdfunding, such as the one conducted by infoDev, could better explore the myriad of options available for nonaccredited investors.⁸

Investment Barriers

One of the primary challenges cited by accredited diaspora investors was simply visibility and awareness of interesting deals that could generate returns and positive externalities. In cases where diaspora investors were able to identify a deal, a number of other factors thwarted any real investment. Whereas investment returns and exit time frames were expected to be the primary barriers to investment, when asked to rank the barriers, insufficient trust in the entrepreneur, complicated legal processes, and the quality of the offering emerged as the most hindering barriers for both

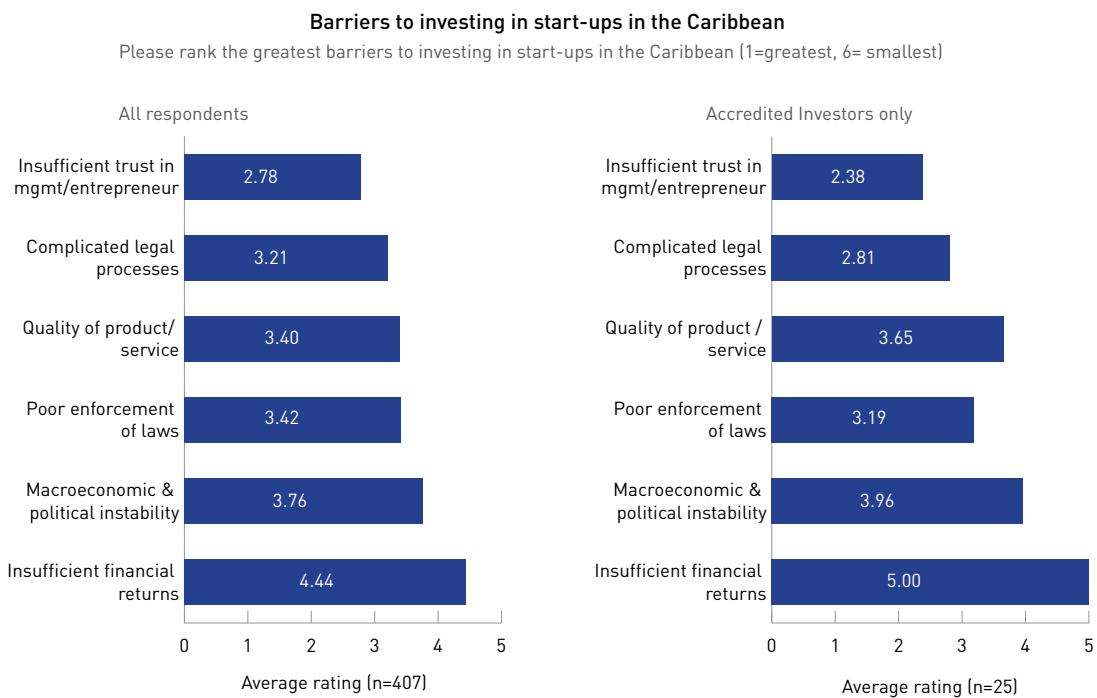
⁸ infoDev recently published an in-depth report on "Crowdfunding's Potential for the Developing World." It can be accessed at <http://www.infodev.org/crowdfunding>

accredited investors and overall respondents (Figure 19). During discussions with focus group participants, the overwhelming majority indicated that they did *not* understand the legal and regulatory framework for investing in Caribbean countries. Interestingly, insufficient financial returns were ranked last among the barriers. These findings are particularly significant as they suggest the diaspora firmly believe that lucrative investment opportunities exist, but that broader ecosystem issues constrain their uptake.

Practically all focus group and interview participants noted awareness of deals as a critical missing link in their attempts to make an investment,

suggesting that a platform that showcases interesting business venture opportunities could serve as a matchmaker for greater investment flows; that mechanisms or tools to enhance local due diligence or monitoring could enhance trust in the entrepreneurs; that a central reference source for investors to help them navigate the complicated legal processes could have significant upside impact on investment activity and reduce transaction costs; and that training programs, peer exchanges, and business incubators could help improve the quality of start-up products and services and enhance the overall innovation and entrepreneurship ecosystem.

FIGURE 19: Insufficient trust is cited as the greatest barrier to investing



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

Models that Could Operationalize Diaspora Investment

AN ONLINE PLATFORM COULD PROVIDE DIASPORA INVESTORS WITH SIGNIFICANTLY INCREASED VISIBILITY OF DEAL FLOW.

An Online Portal to Identify, Invest, and Mentor Entrepreneurs

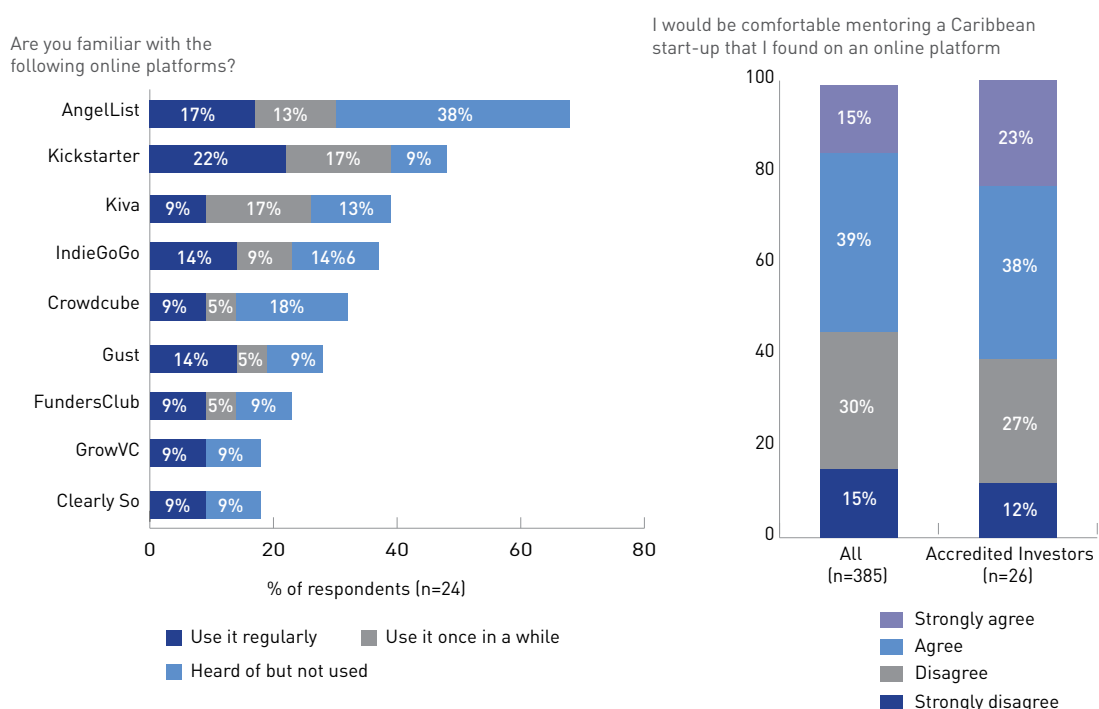
An online platform that connects entrepreneurs and investors could be a critical link in connecting diaspora investors with opportunities back home. Using a low-cost, scalable, and economically sustainable model, such an approach would capitalize on the geographically dispersed nature of diaspora populations, the increasing use of the Internet for social networking and investing, and the nascent but growing crowdfunding sector.

While an online platform could provide diaspora investors with significantly increased visibility of deal flow, it would also enhance access to finance for entrepreneurs and serve as an incentive to rally stakeholders around creating a network among in-

novation ecosystem participants. Incubators could exchange best practices on profiling and marketing entrepreneurs online. Service providers, such as law firms and training companies, could list themselves on the site to make it easier for entrepreneurs, incubators, and investors to find them.

In developed markets, most accredited investors are already familiar with or are using an online-based platform to find, invest in, and mentor entrepreneurs. While approximately 77 percent of accredited diaspora investors surveyed indicated that they have heard of online platforms such as AngelList, FundersClub, Homestrings, and CrowdCube, among others, only 30 percent reported to be using these platforms actively to find investments in start-ups (Figure 20). Almost two-thirds

FIGURE 20: Accredited investors use online resources



Source: infoDev Caribbean Diaspora Survey, April-May 2013.



Photo: Digital Jam 2.0, Jamaica, 2012

of accredited investors also indicated comfort in mentoring an entrepreneur online, with 15 percent of them already familiar with specific online mentoring platforms.

Equity-based platforms are important because the investors these platforms attract typically devote both funding and mentorship to the start-ups, what *infoDev* refers to as “mentorship-based-capital.” Although many of the equity-based investment platforms are restricted to accredited investors, nonequity investment platforms, which are open to everyone, are also growing in use. More than a third of all respondents were familiar with Kickstarter, a “perks based” crowdfunding site. With appropriate training, entrepreneurs could learn to distinguish and leverage the access to finance platforms that are most relevant to their specific needs.

As more crowdfunding platforms emerge to serve niche audiences such as CircleUp for consumer companies or Mozaic for solar energy projects, Caribbean entrepreneurs and investors interested in the region could also leverage such platforms to serve their geographical interests. One such platform, namely Homestrings.com, already exists and has connected diaspora investors to projects back home. This platform is an investment portal that facilitates investments for global diasporas. It has mobilized funds in the region of \$30 million since its UK launch in July 2011. Homestrings’ projects currently include commercial real estate, telecom, and SMEs. For the Caribbean, survey respondents indicated interest in investing in specific sectors such as green energy, mobile and Internet technologies, education, and agriculture among others. Further assessment may need to be conducted on the investment constraints in these sectors, such as legal and regulatory constraints specific to these sectors.

Engendering Trust

Focus group respondents overwhelmingly noted that their largest concern around investing in an entrepreneur, particularly one found online, is the ability to trust him or her. They expressed concerns over believing in the entrepreneur’s claimed capa-

NINE OF OUT TEN RESPONDENTS EXPRESSED THAT IT WAS IMPORTANT TO MEET THE ENTREPRENEUR IN PERSON PRIOR TO INVESTING.

bilities, ability to execute a business plan, or return investment dollars.

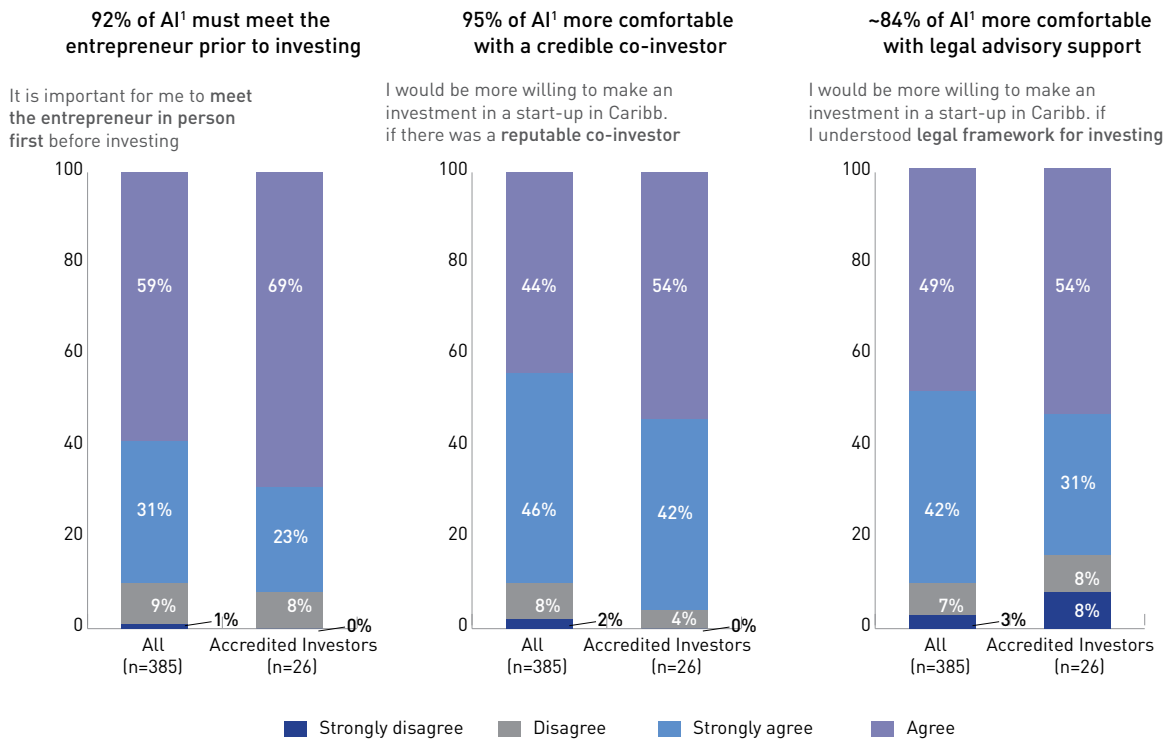
In ascertaining what factors could improve trust and increase investor willingness, three levers were suggested. First, the ability to meet the entrepreneur in person before “signing on the dotted line” was noted as a critical prerequisite. Second, the participation of trusted (potentially institutional or angel group) coinvestors was cited. Finally, sophisticated on-the-ground partners who could conduct due diligence or monitoring, such as local angels, were noted as possibly helpful.

Nine of out ten respondents expressed that it was important to meet the entrepreneur in person prior to investing (Figure 21). However, just over half of accredited investors participating in focus groups also stated that the geographic distance to their investment does not matter, suggesting that they are willing to invest globally and across distances, so long as appropriate due diligence such as an in-person meeting is conducted first. The fact that 60 percent of the diaspora members visit their home country at least once a year creates an opportunity for them to meet entrepreneurs and raises the possibility of such investments taking place. Regional “demo days” or “pitch events” where many entrepreneurs gather to meet and present their business plans to angel investors were also cited as a potential avenue to help bridge this concern.

Harnessing Angel Groups and Reputable Coinvestors

Almost all accredited investors stated that they would be more willing to invest in a Caribbean start-up if partnering with a reputable coinvestor, such as a multilateral financial institution, a reputable fund manager, or another angel investor. Investing as part of an angel group, instead of as an individual, was noted to create sourcing,

FIGURE 21: Meeting with entrepreneur is key prior to investing

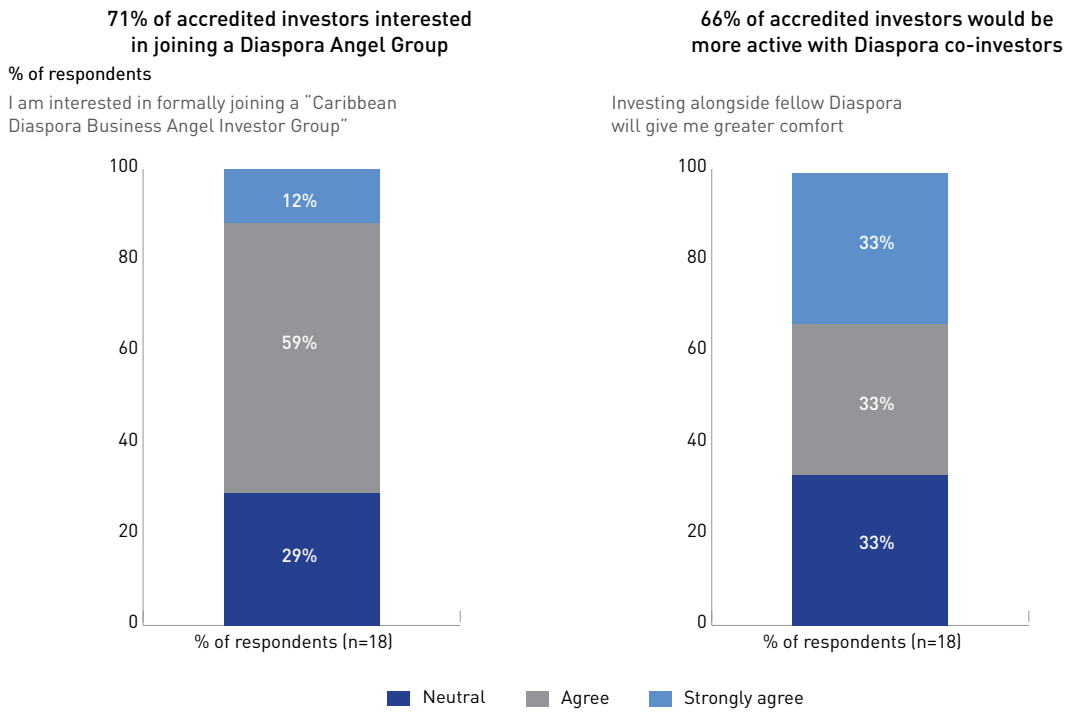


Notes: 1. Accredited investors.
Source: infoDev Caribbean Diaspora Survey, April-May 2013.

leverage, risk mitigation, and cost benefits. In such angel groups, any member can share a deal with the rest of the group to increase visibility of deal flow. In addition, members can also pool funds together to enhance leverage and sharing risk, while members with specific technical know-how can lead or advise on deals enhancing due diligence. In light of these benefits, 70 percent of accredited investors indicated an interest in formally joining a “Caribbean Diaspora Business Angel Group.” Two-thirds also emphasized that investing alongside fellow diaspora members would give them greater comfort (Figure 22).

Finally, the role of local angels in further enhancing due diligence and minimizing unease with investing in an entrepreneur was noted as a critical factor for increased diaspora investing. Local angel investors can conduct background checks on the entrepreneurs through informal networks, confirm the physical presence of the company, and continue light-touch monitoring of the company, if needed. Some interviewed diaspora angel investors had already set up relationships with local angels that married technical know-how with local knowledge.

FIGURE 22: Investing with others in an angel group minimizes risk



Source: infoDev Caribbean Diaspora Survey, April-May 2013.

Key Learnings and Recommendations

In general, diaspora members engaged in this study confirmed the various hypotheses of the *infoDev* team in the design of an entrepreneurship and innovation program for the Caribbean. Ensuring that venture finance deals occur in nascent venture markets, such as the Caribbean, requires several other ecosystem components to be addressed alongside access to finance. This includes significant capacity building for all stakeholders due to the interconnected nature of the innovation ecosystem, including policy makers, incubators, angel investors, mentors, and entrepreneurs. The Caribbean would also benefit significantly from activities that lower transaction costs, such as centralized legal resources or simplified investment processes. Developing an online marketplace and ensuring it gains momentum and facilitates deals requires a number of factors to be in place. The first factors are an appropriate design and launch to attract the required critical mass of entrepreneurs and investors.

This section discusses key enablers, gleaned from the engagement of participants in the diaspora study, for developing an active and sustainable access to finance ecosystem for entrepreneurs in the Caribbean. Addressing multiple enablers will improve momentum and success of deal activity.

Enablers for Entrepreneurs

- **Training on value addition that angels provide through their equity investments.** In particular, entrepreneurs need to be more informed about the importance of the mentorship-based-capital, networks, business savvy, and technical acumen that an angel can provide. In some cases, accredited investors from the diaspora cited the “narrow-mindedness” of entrepreneurs in relation to the value that angels could provide.
- **Training on leveraging appropriate crowdfunding platforms.** Crowdfunding includes a

broad spectrum of both platforms and avenues to raise finance for an enterprise, ranging from donations to perks to presales to equity. Therefore, selecting the right platform and fundraising vehicle for a particular business can be challenging and require breadth of knowledge. Entrepreneurs could benefit from capacity building as it relates to fundraising from online sources.

- **Training on general business and management principles.** Entrepreneurs need general management training and support on topics, such as business plan development, marketing strategy, fundraising, and sometimes, technological support and guidance. These topics can be delivered typically in a bundle by incubators or accelerators.

Enablers for Individual Investors and High-net-worth-individuals (HNWIs)

- **Angel investing capacity building.** As angel investing is a relatively new concept in the Caribbean and among the Caribbean diaspora, numerous HNWIs in focus groups and interviews expressed a desire to become better informed of the opportunities, benefits, and methodologies of becoming effective angels.
- **Provision of a venture finance resource center.** Accredited diaspora cited the complexity of legal and regulatory frameworks for venture financing as a major impediment to deploying their capital in the region. A potential mitigating factor, which emerged through focus group discussions, was an online venture finance resource center, which would be developed by a law firm and centralize information around investing procedures, legal templates, and legal service providers for use by anyone interested in making an investment.



Enablers for Angel Investing Groups

- **Establishing angel groups.** Diaspora HNWI's expressed a desire to join Angel Groups as an avenue for improved sourcing, financial leverage, and due diligence. At the same time they expressed a need for support in forming these groups and catalyzing their activity. Interestingly many diaspora HNWI's noted that investors from outside the diaspora would be equally interested in any opportunities arising in the region.
- **Identification of angel champions.** These individuals, identified from within existing or new angel groups, could take the lead in setting up the investing group and initiating deals in the Caribbean. They would not have to be from the diaspora, but would need to have fairly regular presence in the region.
- **Training on angel group governance, business models, and organizational best practices.** In developing and catalyzing the creation of angel groups, it would be particularly important to provide technical assistance on the governance, business models, and organizational best practices of angel groups to ensure these groups are well-functioning and present the greatest opportunity for success.
- **Linking diaspora to local angel investors or groups.** One avenue that was identified through focus group discussions to overcome the challenges related to geographical distance, trust in entrepreneurs, and monitoring of investments was to involve local angel investors to the extent possible. Such individuals, who are already based in the Caribbean and are angel investors in their own right, could serve as important focal points for diaspora angels.

Enablers for an Online Marketplace

A new online marketplace that matches angel investors and entrepreneurs faces a two-fold challenge of attracting sufficient investors and entrepreneurs

in the first place and ensuring that they are retained and engaged in transactions. A platform can attract users by leveraging the legitimacy of others, from the profile of pilot angel investors to the reputation of incubators to media firms that market the program. Retaining investor attention requires a continuous flow of high-quality deals.

While a drive for successful transactions on the platform would require many of the above enablers to be executed simultaneously, a number of success factors specific to the platform would need to be realized:

- **Identifying respected trail blazers.** It will be essential for investors from among the diaspora and local community to join the platform at launch and serve as trail blazers. These investors would not necessarily have to engage in transactions to provide the platform credibility, social activity such as commenting on companies or sectors would also create the desired effect.
- **Vetting companies with minimum quality standards to improve investor confidence.** Transparency around a quality vetting process and the source of deals will make investors more comfortable. For example, if investors know that the companies have undergone training by a reputable incubator, they are more likely to browse and assess the start-up profiles listed. The inclusion of any low-potential deals will quickly lead to loss of investor confidence and willingness to return and spend time on the platform in the future.
- **Packaging deals on the platform as attractive investment opportunities,** rather than charitable ones.
- **Boosting awareness and capacity building materials on the site.** The platform can provide increased value by serving as a one-stop-shop for relevant entrepreneur and investor capacity building materials and the venture finance resource center, in addition to serving as an online marketplace for entrepreneurs to match with investors. This would increase activity on the site and enhance the overall offering.

Conclusions

Undoubtedly, the Caribbean region is viewed as a destination with great opportunity and hope among the diaspora community. This study has shed light on the Caribbean diaspora's characteristics and investment interests. The report takes a broader view on how to leverage the diaspora to address the access to finance gap, tests various models for enhancing the entrepreneurship and innovation ecosystem, and lays out a number of recommendations for practitioners interested in applying the findings and interventions in the Caribbean or other markets.

The diaspora is a sizeable, well-educated, and affluent demographic whose large majority is interested in engaging even more back home. It is also evident that there is investment interest toward both specific Caribbean countries and sectors, such as green energy, Internet technologies, agriculture, and education. Caribbean governments, with the support of institutions, such as the World Bank Group and private sector input, could further explore these sectors and focus on ways to lower investment barriers and legal complexities for each. This willingness and ability to engage represents a significant untapped potential for Caribbean nations through reducing the barriers to, and improving the avenues for, engagement.

Specifically, policy makers can take a leadership role in supporting increasing transparency, establishing an investor friendly legal framework, reducing social instability and crime, and providing information resources. The private and public sector can come together to resolve information asymmetries, consolidate and increase the visibility of investment opportunities, and help investors and entrepreneurs connect through innovative channels, including credible online crowdfunding platforms. Private sector law firms could work with governments to create an easier to use information and tools portal for investors. Law firms could be incentivized to help underwrite such a portal as a marketing avenue to generate additional business. Institutions, such as the World Bank Group, could support governments in harmonizing these regulations and rules across the Caribbean and crafting policy to create a friendlier business enabling environment and investment climate overall.

The diaspora can indeed play an important role in the Caribbean's development story—but it will require leadership from governments and the private sector to lower barriers to engagement, facilitate structured opportunities, and increase information transparency. Policy addressing investment climate challenges, such as legal complexity and enforcement, can provide a significant first step in lowering barriers to engagement. In the long term, diaspora investments and their deals in the region can demonstrate to the rest of the world that the Caribbean has viable high-growth enterprises and is open for business.



Photo: Entrepreneur Roundtable, Barbados, 2013

