



Trinidad &
Tobago IFC

Financial Sector Development

Caribbean Financial Institutions, Market Structure & Legislation

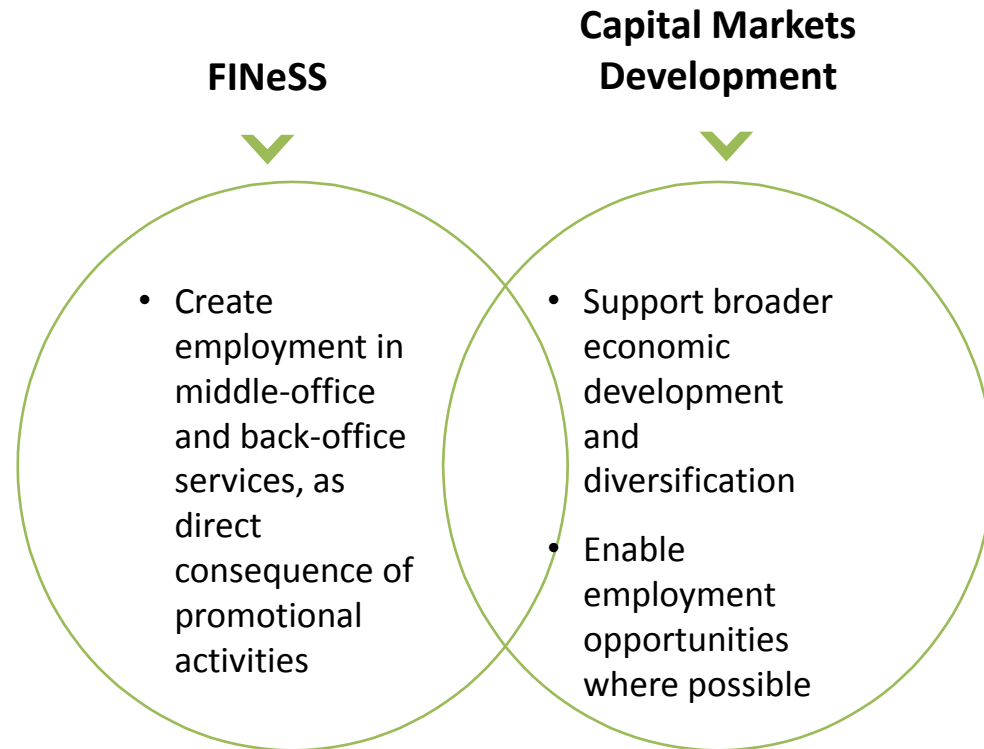


Objectives & Initiatives

Overall objectives for Trinidad & Tobago IFC

- Diversify Trinidad & Tobago economy beyond energy sector
- Create quality employment opportunities
- Support development of Trinidad & Tobago's economy

Key Initiatives



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FINANCIAL INSTITUTION SUPPORT SERVICES

FINeSS

Trinidad and Tobago's Value Proposition as a 'Nearshore Location'

Right-sourcing assessment framework: location comparison

Caribbean Region

Central/South America Region

Value Proposition Component	Trinidad & Tobago	Caribbean Region				Central/South America Region		
		Bahamas	Barbados	Jamaica	Dominican Republic	Colombia	Mexico	Costa Rica
1. Feasibility Near-shore location and Eastern time zone	✓	✓	✓	✓	✓	✓	✓	✓
Labour force with strong English skills	✓	✓	✓	✓				
Total labour force	~620K	~200K	~160K	~1.2M	~4.4M	~22M	~50M	~2.2M
2. Impact Average annual BPO salary levels (US\$)	~\$14-18K	~\$30-34K	~\$23-27K	~\$19-23K	~\$19-23K	~\$8-12K	~\$9-14K	~\$16-24K
3. Risk	Low (stable political system, established English law and regulations)	Low (safe environment, stable political system, compliant legislation, modern infrastructure)	Low (mature jurisdiction, stable political system, well regulated business environment)	Medium (stable political system, relatively poor infrastructure, high crime rates)	High (relatively stable political system, poor infrastructure and high crime rates)	Medium (relatively stable political system, high level of drug trafficking, relatively poor infrastructure)	High (high level of organized crimes, relatively poor infrastructure, stable political system)	Low (stable political system, stable middle class, no armed forces, investor friendly government)

Source: World Bank, International Labour Organization, Central Statistical office, Statistics Jamaica, Political stability index, various government sources.

Targets for Initial Phase






Achievements to date

- Scotiabank Shared Services Centre established - August 2012
- MOU Signing with Quattrro Global Service and CE Payments Ltd - December 2013
- The launch of Trinidad and Tobago's first Business Process Outsourcing Training Pilot Programme - March 2014



CAPITAL MARKETS





A well functioning Capital Markets 'ecosystem' helps deliver on overall public policy objectives by intermediating capital efficiently amongst "principals"

OVERALL OBJECTIVES

- 1 Promote **growth of overall economy**
 - Improved access to capital (operating, growth)
 - Complementary to bank lending
 - Direct employment as an economic sub-sector
- 2 Meet **investor objectives**, across risk-return spectrum and time horizons, e.g. long-term retirement obligations; near-term cash management
- 3 Provide tools for **risk management** needs of:
 - Individual corporations, e.g. currency risk
 - Financial institutions, e.g. asset-liability management
 - Governments, e.g. diversification across sectors and market actors
- 4 Develop a mechanism for **price discovery** across asset classes
- 5 Promote **improved financial disclosure** and **corporate governance**

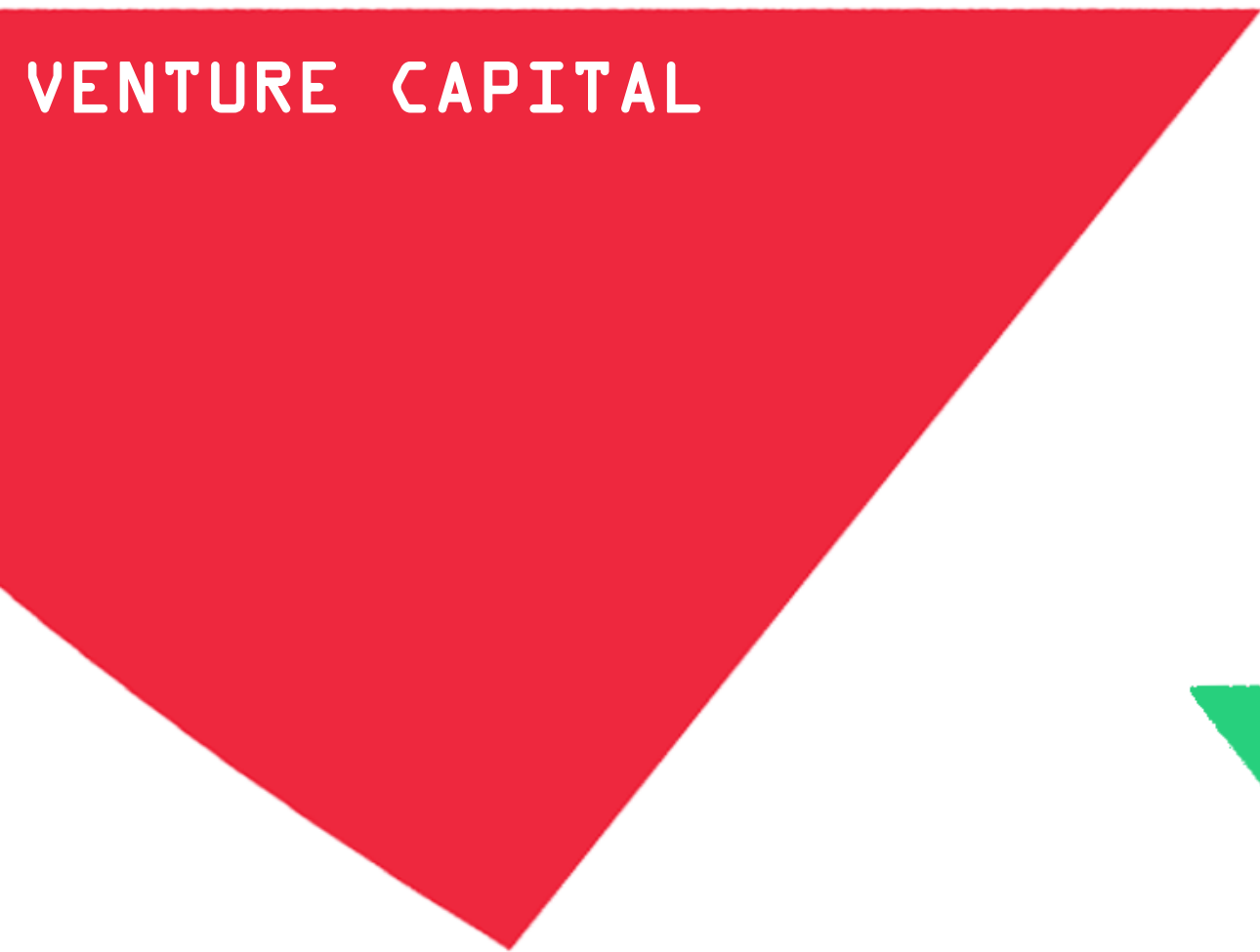
TTIFC's Capital Markets Development Agenda 2013-2014

Capital Providers

1. **Systematize Government Bond Calendar** - improves the pricing of fixed income securities, increasing the amount of government and corporate debt issued.
2. **Shelf Registration** - simplify securities registration process and set up process to facilitate issuance (i.e. Improve access to capital in times of need).
3. **Creation of active market to fund local and regional businesses** - increasing the listings
4. **Private Equity/Venture Capital** - serve as regional centre for issuance of quasi-debt and equity funding, expand beyond domestic investors/businesses.

Market Enablers

1. **Adoption of Credit Ratings** – Promoting price discovery across asset classes via effective utilization.
2. **International Partnerships and Recognition** – Benchmarking ourselves against established IFCs around the world.
3. **Trinidad and Tobago Institute of Finance** – Development of best practices in financial management- working with different educational bodies, creating the syllabus required.
4. **Investor Protection Legislation** – (IFC Unique Legislation)- under review.
5. **Capital Market Participant Program** – Assessment of the awareness, knowledge and decision-making process of businesses when selecting methods of financing.



VENTURE CAPITAL





Role of Venture Capital

- Important component of financial system
- Need for cash-flow based financing in start-up and early stage, and to accelerate expansion
- Banks not suited for this - Trend is toward tighter regulation of commercial banks with higher capital and liquidity requirements
- Separate vehicle needed with particular expertise

Closing the Risk Adjustment Gap

- Traditional Venture Capital Models
 - Viability depends on realisations of long-term capital gains from sales of equity participations
 - To cover write-offs and lacklustre performances from the majority of investments, a few must be exited at high multiples
- One approach being considered is that of achieving more even portfolios - fewer failures and fewer stars
 - Shift from dependence upon capital gains to participating in the gross sales of the investee companies

Example of a Shareholder Loan Investment (*in USD*)

Assumptions:

SME's required expansion financing:	500,000
Entrepreneur's pre-investment equity:	200,000

Structure of Investment:

Fund's equity contribution:	100,000 (for 33% of shares of the investee SME)
Shareholder loan from the Fund:	<u>400,000</u>
Total investment:	500,000

Terms of Shareholder Loan:

Base interest rate on loan:	5% = local prime minus 100 to 200 bps
Royalty as % of turnover:	3% of gross sales paid monthly
Term of loan:	5 years, amortized at 25% of principal p/a after a one-year grace period on principal

Example of a Shareholder Loan Investment (*in USD*)

Terms of the Equity Portion of the Investment:

Dividends distribution requirement: None

Collateral requirement: All available collateral, plus pledge of shares, but no requirement of 100% collateral coverage

Share buy-back exit price: Pre-established nominal multiple of original purchase price (e.g., 3 times) - or - a pre-established fraction of gross sales in the year prior to exit

"Tag-along" rights: If exited by acquisition or IPO, the investor has right to receive same price per share as investee principal(s)



Closing the Risk Adjustment Gap

Idea is to:

- ✓ Link Returns to Performance
- ✓ Provide Mid-Long Term financing
- ✓ Technical assistance
- ✓ Cash flow based financing
- ✓ Self Liquidating
- ✓ Affordable repurchase price of equity



Fund Considerations

1. Several funds (each sector specific) may be required for the critical mass needed
2. May need to be regional in coverage
3. Funding can come from multi-lateral development institutions, government and the local private sector
4. Funding from the Government preferably not in the form of equity and with no direct control or influence on management
5. Selecting the right Fund Manager and Investment Officers critical to success.

THANK YOU

Amplify Your advantage