A) <u>In what ways can venture capital impact the economic development of the Caribbean?</u>

Venture capital, otherwise known as patient, risk, or equity capital, is a type of long-term investment (five to ten years) that is typically invested in businesses with potential for high growth and profitability. Venture capitalists also bring practical managerial expertise to the investee company. Far from being merely inactive sponsors, venture capitalists cultivate development in companies through their participation in the management, strategic marketing and planning of their investee companies.

Entrepreneurial businesses can be distinguished by their aspirations and prospective for growth. Such businesses are intending to grow speedily to a considerable size.

Venture capitalists commonly finance new and rapidly growing companies, purchase equity securities, assist in developing new products and services, add value to the company through active participation, take risks with the expectation of higher rewards and have long-term orientation. Venture backed companies have been shown to grow faster than other types of companies.

While venture firms will invest in companies that are in their preliminary start-up modes, they will also invest in companies at different phases in the business life cycle. This can be either before the company or product is organised, during the first or second stages of development, which is known as early stage investing, or during expansion stage financing, which is financing to provide help for a company to grow beyond a critical mass to become more successful. When they assist in the growth of small or medium sized enterprises it in turn aids the growth and development of the economy.

Economic growth is a sustained increase in a country's productive capacity. Economic development is a process in which an economy not only experiences an increase in its real output per head, but also undergoes major structural chances, such as infrastructure development and a reallocation of resources between the agricultural, industrial and service sectors. It also refers to how government uses the taxes it collects from businesses to better the people of the country or how well it redistributes the wealth of the nation.

Risk capital plays a critical role in changing economies by investing in spanking new technologies, varying industries and revolutionary methods of acting. It is also essential where there is 'risk' in moving from the traditional method of procedure in an industry. Furthermore, businesses with a strong equity base are more stable and less likely to fail than those funded heavily by debt. Since most start up businesses initially have little or no cash flow to facilitate interest payments, or ‘hard’ assets as security for debt, they call for patient capital, which foregoes current return in favour of capital appreciation.

Established businesses with opportunities to boost operations require capital as well. To the extent that company income and a prudent amount of additional funds are inadequate to finance expansion, supplementary equity capital is required. This is often the case in fast growing small businesses.

Where there is a shortage of venture capital in the economy, serious negative side effects can result. Initially, a lower level of small business formation, growth and development is likely to result, as many potential entrepreneurs become unable to source affordable start up capital for their business. A sequel to this is a lower level of job creation and economic growth in the country, as the overall level of production and trade decreases.

Though there are those individuals who will source the capital to commence their businesses, a highly leveraged small business sector is indefinitely more vulnerable to failure and job losses during periods of high interest rates and economic downturns. Many small businesses fail because of insufficient equity capital, and when this type of financing is unavailable, it serves as a barrier to entrepreneurial activity, risk taking and innovation in the country. This is menacing to the economy, as it results in a slower pace of economic diversification and new industry development. It could also mean more foreign ownership and control of local businesses, as venture capital is recruited from external sources, to finance the best projects. Here, foreigners earn most of the revenue, which is then repatriated to the foreign country investing in the local economy. It also means that foreigners may be exploiting our exhaustible, natural resources, and our local economy is not satisfactorily profiting.

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