

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

CARIBEQUITY: A BLENDED FINANCE FACILITY TO CONSOLIDATE A CARIBBEAN INVESTMENT ECOSYSTEM FOR INCLUSIVE PRIVATE SECTOR INNOVATION

RG-O1702 & RG-T4019, RG-O1703, RG-O1697 & RG-T4018

FACILITY DOCUMENT

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OEL#1	Full EU Application
OEL#2	Government Non-Objection Letters
OEL#4	Alignment with Country Strategies
OEL#5	Draft Operations Manual

ABBREVIATIONS	
ACP	Africa, Caribbean and Pacific Countries
BEO	Bank-Executed Operations
CARIFORUM	Caribbean Forum of ACP States
CBA	Country Office in Barbados
CDB	Caribbean Development Bank
CFP	Call for Proposal
CRF	Corporate Results Framework
DIS	Discovery Unit
EA	Executing Agency
ECF	Ecosystem Challenge Fund
EDF	European Development Fund
E&S	Environmental or Social
ESPF	Environmental and Social Policy Framework
EU	European Union
FC	Facility Coordinator
FFPA	Financial Framework for Partnership Agreements
GDP	Gross Domestic Product
HNWI	High-Net-Worth Individuals
IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
LAC	Latin America and the Caribbean
LP	Limited Partner
MVP	Minimum Viable Product
OACPS	Organisation of African, Caribbean and Pacific States
OEL	Optional Electronic Links
R&D	Research and Development
SC	Steering Committee
SDG	Sustainable Development Goal
SIDS	Small Island Developing States
SME	Small and Medium-Sized Enterprise
STEAM	Science, Technology, Engineering, the Arts and Mathematics
UIS	Update to the Institutional Strategy
UN	United Nations
VC	Venture Capital
4IR	Fourth Industrial Revolution

PROJECT SUMMARY REGIONAL

CARIBEQUITY: A BLENDED FINANCE FACILITY TO CONSOLIDATE A CARIBBEAN INVESTMENT ECOSYSTEM FOR INCLUSIVE PRIVATE SECTOR INNOVATION

RG-O1702 & RG-T4019, RG-O1703, RG-O1697 & RG-T4018

The challenging economic context facing the Caribbean, now further exacerbated under COVID-19 has raised the importance of supporting private sector driven solutions, in particular new early-stage business innovations offering new solutions and/or business models, which can unlock development potential, create employment, and contribute to the re-activation and growth of Caribbean economies. Notwithstanding, the nascent nature of Caribbean ecosystems results in entrepreneurs facing significant obstacles to starting and growing their companies. Notably, early-stage financing is still very limited in the region¹, there is a lack of adequate access to effective business acceleration services, and public sector-driven innovation, which can provide important opportunities for GovTech startups, is still in its early-stage.

With this in mind, the IDB Lab proposes the CARIBEquity Program. The main objective of this Program is to consolidate a Caribbean investment ecosystem for inclusive private sector innovation, enabling early stage and growth-oriented Small and Medium-Sized Enterprises (SMEs) to innovate, thrive and create jobs. To accomplish this objective, the Program will be structured around three (3) interlocking, mutually reinforcing intervention areas: Pillar 1: Deploying investment capital in startups and high-growth potential companies; Pillar 2: Strengthening innovation ecosystem actors to expand investment, knowledge-sharing, and networks; Pillar 3: Fostering public sector-driven innovation through public-private engagement.

The total budget of the CARIBEquity Program is US\$33.7 million, which comprises a proposed EU contribution of US\$8.5 million, a proposed IDB Lab contribution of up to US\$4.7 million; with potentially US\$20.5 million leveraged from the private sector and private investors through the Venture Capital (VC) fund. US\$12 million (or 94% of the EU and IDB Lab joint-contribution) will be deployed directly to the private sector via an estimated 34 individual projects and 1 VC Fund (sourced via calls for proposals) and specialized advisory support to build capacity and expand private sector networks. The balance, to be funded by both IDB Lab and the EU, will be used to administer the facility and execute an EU communications and visibility plan (See C. Budget and Co-financing for details).

CARIBEquity will be executed as a key private sector innovation program under the European Union support for private sector development in African, Caribbean and Pacific (ACP) countries. The intervention will be guided by a Steering Committee (SC) and an Advisory Committee including EU, CARIFORUM, OACPs, regional agencies and IDB Lab.

Overall, it is expected that this intervention with its focus on the provision of direct investment in firms combined with technical assistance to support innovation ecosystem actors, will have an important demonstration effect in the region, signaling to other donors and private investors the potential for early-stage investments in less explored geographies, to be both financially viable and socially and environmentally impactful.

¹ For example, in the region domestic credit to the private sector as a share of GDP ranging from 30-50% (except Barbados) (IDB, 2020).

PROJECT INFORMATION

Implementation Arrangements and Budget						
Beneficiary Countries						
Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, Trinidad and Tobago, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines ²						
Executing Agencies:						
Legally established private entities and not-for-profit institutions may receive and administer resources under this Facility.						
Source		Amount (EUR) ³		Amount (USD)		%
EU (11 th EDF Intra-ACP) ⁴ :		7,300,000		8,519,830		25%
IDB Lab ⁵ :				4,659,063		14%
Counterpart ⁶ :				20,494,276		61%
Total:				33,673,169		100%
Project Summary						
<p>Objectives: The general objective of this document is to seek approval of the establishment of a Facility in IDB Lab to consolidate a Caribbean investment ecosystem for inclusive private sector innovation, enabling early stage and growth-oriented SMEs to innovate, thrive and create jobs. The specific objectives are to: (i) deploy investment capital in startups and high-growth potential companies; (ii) strengthen the capacity of innovation ecosystem actors to expand investment, knowledge-sharing, and networks for innovation; (iii) foster public-sector driven innovation, by catalyzing public-private engagement around innovative GovTech solutions deployed by private companies.</p> <p>Funding and Types of Financing: The Facility has a total proposed cost of US\$33.7 million. This will be co-funded by the European Union, under its 11th EDF Intra-ACP funding, in the amount of US\$8.5 million, together with a contribution by the IDB Lab of up to US\$4.7 million, and counterpart of up to US\$20.5 million. The Facility will deploy funding through: (i) non-reimbursable technical assistance; (ii) non-reimbursable technical assistance prototypes; (iii) contingent recovery grants; (iii) equity investments; and (iv) specialized advisory support. In all cases, resources will be channeled through Individual Projects to be approved by IDB Lab. All Individual Projects will have to comply with the eligibility criteria described in ¶2.7.</p> <p>Structure: The Facility will be structured in three components: Component 1: Deploying investment capital in startups and high-growth potential companies (US\$6,419,050); Component 2: Strengthening innovation ecosystem actors to expand investment, knowledge-sharing, and networks (US\$5,403,673); Component 3: Promoting Public-Sector Driven Innovation Through Public-Private Engagement (US\$233,420). The remaining resources will be allocated to cover visibility and program management (US\$772,620). These amounts do not include counterpart funding.</p> <p>Priority Sectors: The Facility will prioritize investments in the following IDB Lab thematic verticals: Agriculture and Natural Capital, Essential Services, Financial Inclusion, Talent and Employment, Health and Education; and cross-cutting themes: Climate Crisis, and Gender and Diversity.</p>						
Exceptions to Bank Policies: N/A						
Strategic Alignment						
Challenges ^(a) :	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
Cross-Cutting Themes ^(b) :	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC	<input checked="" type="checkbox"/>

^(a) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(b) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

² For the purpose of this Facility, pursuant to the terms of the Agreement Establishing the Multilateral Investment Fund, other CARIFORUM countries recognized by the EU's 11th EDF Intra-ACP Funding, who are also members of the Caribbean Development Bank (CDB), namely Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines - are also eligible for support and financing.

³ Exchange Rate: the exchange rate being used throughout the proposal is [EUR 1 = USD 1.1671](#), which corresponds to the exchange rate applicable at the time of the application to the European Commission (August 20, 2021)

⁴ Within the framework of the ECR (EU-IDB Financial Framework Partnership Agreement from 2020)

⁵ The Facility Document for CARIBEquity is also concurrently being presented to IDB's Board for approval.

⁶ For the purposes of this Facility, pursuant to EU requirements, counterpart funding includes (i) cash counterpart funding mobilized by Execution Agencies of Individual Projects (US\$3,162,841); and (ii) private investment leveraged by IDB Lab's potential investment in a VC fund (US\$17,331,435).

I. FACILITY DESCRIPTION AND OBJECTIVES

A. Background, problem addressed, and justification

- 1.1 The challenging economic context facing the Caribbean, now further exacerbated under COVID-19⁷, has highlighted the need to find new solutions to address the most pressing and persistent developmental challenges. This in turn has raised the importance of supporting private sector driven solutions, in particular new early-stage business innovations offering new solutions and/or business models, which can unlock development potential, create employment, and contribute to the re-activation and growth of Caribbean economies.
- 1.2 There has been increasing focus in recent decades on understanding how to promote and support entrepreneurial startups so that more will be innovative and grow, survive, and create jobs. The challenges of promoting entrepreneurship are complex – given high fixed costs in the research, development and demonstration phases and high risk in the commercialization phase, together with market failures environment and technology sectors.
- 1.3 For private sector to innovate, thrive and expand, there is need for sophisticated, diversified financial systems designed to best-fit different financial profiles and fund-raising strategies, particularly of early-stage companies. Yet, the private sector, have consistently reported that one of their most significant challenges is the severe constraint imposed by the existing financial system access to finance, with 60% of firms indicating that this is their most pressing obstacle which prevents them from investing in innovation and realizing growth.
- 1.4 Although the region has seen significant strides in building a financial industry that understands and is adapted to early-stage financing, including seed, venture capital (VC), and early-growth funds, there is still much capital that can be unlocked for tech entrepreneurs and startups. Robust VC ecosystems still revolve around a few key metropolitan hubs in more developed economies such as Brazil and Mexico but are in dire need in other parts of the region, particularly in smaller economies of the Caribbean Basin such as the Eastern Caribbean, Belize, etc. Striking gaps in access to capital are not just geographic, but also demographic. Only one percent of women entrepreneurs, for example, have access to angel, seed, and venture capital compared to seven percent of men entrepreneurs. Financial systems in LAC need to become more sophisticated to handle the needs of “technology-based, rapid-growth new companies,” and VC is “orders of magnitude” behind developed economies and China and India. Beyond increasing the offer of VC and private equity, great opportunities exist to broaden the spectrum of available early-stage financing instruments and capacity building across the region, particularly for impact entrepreneurs.
- 1.5 Moreover, in the Caribbean, despite concerted efforts by governments and the international community, the pace at which reforms are being introduced to create a more enabling environment for early-stage investment is less than ideal, which further exacerbates limitations to start-up formation, growth, and job creation. The region is also

⁷ Caribbean GDP was estimated to contract by 5.4% in 2020 (ECLAC, 2020)

falling behind when it comes to receiving technology and knowledge transfers or generating its own R&D. LAC countries, particularly those in the Caribbean Basin, currently underperform their economically similar counterparts when it comes to R&D intensity as evidenced by comparing R&D expenditures as a share of GDP. Ultimately, this creates a deficit in innovation, new ideas, and solutions.

- 1.6 Given the nascent nature of the local ecosystems in the Caribbean, entrepreneurs face three key obstacles to starting and growing their companies:
 - a. Early-Stage financing is still very limited in the region, due to the following factors: (i) angel investing is still very scarce. Although there is increasing interest from a number of high-net-worth individuals (HNWI) to provide the initial seed funding, there remains an enormous lack of education and experienced leadership to sustain active angel investments; (ii) access to VC (Seed, Series A/B funding) necessary to grow and develop the full potential of the startups, is very low due to a limited pool of qualified and interested investors, lack of private investment and illiquid capital markets, and limited exit options for VC investments in the region.
 - b. Lack of access to qualified mentorship, needed for such companies to address the multiple challenges they face in the initial phases of their businesses. Such mentorship is typically provided by incubators, accelerators, and early-stage funds, which offer hands-on involvement in enhancing the companies' sales and marketing strategy, governance structure, and resources planning. In the Caribbean, there is very limited supply of early-stage fund managers and investors that can provide specialized mentorship that seed-stage tech-driven startups need to establish their businesses and scale up. This stage is crucial to help them achieve proof of concept in the market and acquire their first clients to then grow and scale their businesses.
 - c. Limited linkages between universities, research centers, and industry, means that the ideas, research, and skills produced by entrepreneurs are often not well-aligned to industry needs and lack commercial applications. Many intermediaries needed to promote innovation and entrepreneurship, such as accelerators and incubators, lack sufficient capacity to effectively scale enterprises, connect them to other ecosystem actors, or work cross-border on a regional scale. For these reasons, to foster innovations among impact entrepreneurs, a whole ecosystem of influential actors needs to be strengthened across the region. There are many organizations that can contribute to the enabling environment, but a few worth highlighting include the following: government agencies and civil society organizations supporting innovation, entrepreneurship, and Science, Technology, Engineering, the Arts and Mathematics (STEAM) education; universities and research institutions that advance technologies, engage in research and development (R&D), and spur innovation; large businesses driving innovations, particularly within their value chains; startup incubators and accelerators that provide business development services and other support to entrepreneurs, etc.
- 1.7 Accordingly, startups face several so-called "valleys of death" as they grow. These companies need patient capital, longer timelines, and support over multiple years as they continue to grow their businesses beyond these "valleys of death" for emerging companies.

- The first gap is called the "Technological Valley of Death." At this stage, companies are still developing their technologies and business models as they get ready to raise a first round of institutional capital. At this pre-seed stage, startups require access to equity free grant funds/angel investment/pre-seed capital, technical advisory and bootcamps that can foster ideation and discovery, enable them to build their Minimum Viable Products (MVPs), market-test early prototypes and benefit from training bootcamps to accelerate their business idea/new solution. Accelerators/Incubators and Angel Networks play a key role in anchoring early-stage innovation and supporting private sector via their mentor networks, equity free grant offerings (awards/challenge wins)/angel investment/pre-seed capital as well as access to project preparation funds, bootcamps and specialized advisory support. Pre-Seed resides where the ticket size is low, but the risk is high and return mainly realizable at a later stage.
 - The second gap occurs when startups seek capital to fund their product-market-fit and commercial-scale projects, called the "Commercialization Valley of Death." Venture Capital funds, offering seed to Series A/B financing rounds, offer capital and comprehensive support during the process of testing viability and growing the business, including product development, talent recruitment, business development strategy, monetization strategies, customer acquisition, expansion of operations to other countries of the region, additional rounds of financing, and other areas. Venture capitalists can tolerate moderate technology risk, while traditional financiers are comfortable with large investments but not with bearing technology risks. To overcome this Valley of Death, diversified and more sophisticated smart capital offerings are required – centered around equity investment or blended finance/quasi equity funding (i.e., convertible notes).
 - A 3rd "valley of death" occurs when startups attempt to scale their operations, often expanding into new markets. This could mean new geographic markets or new customer segments, such as regional and/or global expansion. The ticket size is generally larger, risk is relatively lower, with later stage funds and/or commercial banks playing a pivotal role in supporting business expansion via additional equity financing or more traditional lending.
- 1.8 The Caribbean financial ecosystem for private sector innovation lacks development and sophistication, particularly in the earlier stages of the investment cycle – from ideation through demonstration, to deployment and early diffusion.
 - 1.9 Impact investors, or those that invest into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return are therefore an important group of clients, since they have the potential to direct much needed capital towards tech-driven impact enterprises. These investors may include fund managers, investment banks, foundations, development finance institutions, pension funds, corporations (through corporate venturing), high net worth individuals, etc.
 - 1.10 The proposed Program will therefore focus on addressing the first and second Valleys of Death via a blended finance (direct private investment combined with capacity building and advisory support) approach which focuses on:

- (a) Grants to stimulate ideation, discovery, and prototyping of new solutions, mainly attributed to accelerators, incubators, academia, angel investors and VCs that support startups and to founders following competition wins and awards.
 - (b) Pre-Seed investments, usually the first external investment that the entrepreneur receives, which requires high level of risk tolerance.
 - (c) Venture Capital (Seed to Series A/B funding) with investment in a VC fund as a Limited Partner (LP) combined with capacity support for fund managers⁸. The investment in the VC fund will be fully funded by IDB Lab, contingent on the sourcing (via IDB Lab's Investment Unit's [Call for Proposals for Venture Capital Funds](#)), selection, due diligence and investment approval by IDB Lab's Donors Committee. Therefore, this amount is being proposed to be approved as a container via this facility document, however, the individual VC investment will be presented separately for IDB Lab Donors' Committee approval in the latter years of the facility⁹.
- 1.11 The investment thesis of this Program centers on investments that are smaller in ticket size and higher in risk, and support early-stage proof of concepts, to equity for initial scale. This recognizes the varying degrees of sophistication of the entrepreneurial ecosystems present in the various countries represented under this proposal. These range from the smaller and more nascent entrepreneurship ecosystems, such as those in the Belize and the Eastern Caribbean as compared to the larger and the more developed ecosystems as in Dominican Republic and those more medium-sized ecosystems such as in Trinidad and Tobago and Jamaica. This heterogeneity will be considered during program execution to ensure that support is adequately tailored to the needs of the specific ecosystem.

B. Objectives

- 1.12 The general objective of this Program is to consolidate a Caribbean investment ecosystem for inclusive private sector innovation, enabling early stage and growth-oriented SMEs to innovate, thrive and create jobs. The specific objectives are to: (i) deploy investment capital in startups and high-growth potential companies; (ii) strengthen the capacity of innovation ecosystem actors to expand investment, knowledge-sharing, and networks for innovation; and (iii) foster public-sector driven innovation, by catalyzing public-private engagement around innovative GovTech solutions deployed by private companies.
- 1.13 **Participating Countries.** The facility will support the following countries The Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago to development a sophisticated diversified financial market alongside a dynamic innovation ecosystem where innovative firms can access targeted advisory support, access mentor networks and financial investment aligned to their needs and progress along the innovation lifecycle. It is expected that this will in turn promote sustainable and inclusive growth in scalable startups and create a sustainable pipeline of high-growth potential startups and SMEs in the region that bring innovative solutions closer to the public sector and promote broader social, financial, and economic inclusion. For

⁸ To better understand the link between Venture Capital and innovation see Kortum, S.S. and Lerner, J., 1998. "Does venture capital spur innovation?"

⁹ The investment in the VC fund will be funded by IDB Lab, contingent on the sourcing (via IDB Lab's Investment Unit's [Call for Proposals for Venture Capital Funds](#)), selection, due diligence and investment approval by IDB Lab's Donors Committee. The approval of the investment is not expected until the latter years of the program, once the toolkit and training activities have been advanced.

purposes of this facility, other Caribbean Forum of African Caribbean and Pacific (ACP) States (CARIFORUM) countries recognized by EU's 11th European Development Fund (EDF) Intra-ACP funding, namely Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines could also be eligible for support and financing and would be permitted target countries pursuant to the terms of the Agreement Establishing the Multilateral Investment Fund.

- 1.14 **Strategic Alignment.** This Facility is aligned with these priorities and with the need to support Caribbean countries in their post pandemic economic recovery efforts. With its focus on bridging the early-stage financing gap and creating a more attractive investment environment for new and innovative solutions promoted by local entrepreneurs - particularly those addressing economic, social, and environmental needs (e.g., health, education, climate change) and promoting decent job creation, especially for young people and small businesses, the Facility is also consistent with Vision 2025, specifically the priorities outlined for the digital economy, support for SMEs, gender and diversity, and climate-change action; it is also aligned to the Second Update to the Institutional Strategy (UIS) 2020-2024 (AB-3190-2) and the development challenges of: (i) Productivity and Innovation, as it expected to support a series of investments in the private sector as well as build capacity of ecosystem actors to support innovation, as well as to create jobs and support the region's goals to build back better; (ii) Climate Change and Environmental Sustainability, as it will promote investments that support climate innovation and bring forward climate resilient and environmentally sustainable solutions; (iii) Gender Equality and Diversity, by promoting gender mainstreaming activities where applicable to Individual Projects and advisory support services; and (v) Institutional Capacity and the Rule of Law, as it will finance activities to improve the capacity of regional and national entities to foster an innovation ecosystem. The Facility is also aligned with the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12) on (i) strengthening the IDB Group's Work on the cross-cutting issues of the Institutional Strategy; (ii) resource mobilization as this Facility is expected to attract foreign investments to be partnering with local business and, (iii) technology innovation considering that technological innovation is reflected by this Facility as a fundamental aspect of boosting inclusive private sector innovation. The Facility is also aligned to the IDB Lab Business Plan along with its thematic verticals and cross-cutting themes, including Talent and Employment, Health and Education, Financial Inclusion, Essential Services, Agriculture and Natural Capital, Gender and Diversity, and Climate Crisis (MIF/GN-264). Where applicable IDB Lab will seek alignment and synergies with the IDBG in these sectors, at the level of the Individual Projects to be originated through Calls for Proposals. The Facility is also aligned the United Nations (UN) Sustainable Development Goals of Gender Equality (SDG 5), Climate Action (SDG13) and Industry, Innovation and Infrastructure (SDG 9). All interventions in IDB member countries under this Facility will be aligned with their respective country strategies (OEL#4).

II. COMPONENTS AND RESULTS

A. Components

- 2.1 The Program will feature **3 Pillars of Action** (or Components), each supporting interlocking and mutually reinforcing actions, which promote synergies under a common approach. Each Pillar delivers activities that support a specific beneficiary type, as detailed below.

Pillar 1: Deploying investment capital in startups and high-growth potential companies. Beneficiaries: founders/entrepreneurs, startups, growth-oriented SMEs.

Pillar 2: Strengthening innovation ecosystem actors to expand investment, knowledge-sharing, and networks. Beneficiaries: Innovation ecosystem actors (accelerators, incubators, academia or other agencies that host innovation labs).

Pillar 3: Promoting Public-Sector Driven Innovation Through Public-Private Engagement. Beneficiaries: Private entities (startups, growth-oriented SMEs) advancing innovative solutions that address challenges in the delivery of public sector services. Public agencies driving innovation who are seeking greater uptake of technology solutions offered by private entities, will also benefit from this Pillar indirectly.

The three interlocking Pillars (or components) are detailed below.

- 2.2 ***Component 1: Deploying investment capital in startups and high-growth potential companies (Total: US\$25,302,728; EU: US\$2,159,135; IDB Lab: US\$4,259,915; Counterpart: US\$18,883,678).*** The overall objective of this component is to bridge key financing gaps and capacity constraints that limit innovative startups and companies from driving inclusive and systemic change in the Caribbean. This will be achieved by deploying a range of early-stage financing products, contracted via Individual Projects, to support founders/entrepreneurs, startups, growth-oriented SMEs throughout their life cycle¹⁰. Executing Agencies (EAs) of Individual Projects will implement innovations aligned with the key priority sectors of the facility. Approximately twenty-two (22) Individual Projects will be identified via Calls for Proposals (CFP) in line with applicable EU requirements and one (1) Venture Capital Fund which will be funded and sourced by IDB Lab¹¹. In addition to the deployment of investment capital as described above, this component will also provide capacity building support and catalyze early-stage investment networks and knowledge sharing among early-stage private investors across the Caribbean. This will be accomplished through the following activities: (i) development of an Early-Stage Investor's Toolkit, including practical guidance, best practice tips and case studies on how to promote and mainstream innovation for inclusion across their investment thesis; (ii) delivery of a series of investment management training and networking events for first time fund managers, angel investors, and other early-stage investors to build capacity of fund managers and investment teams within accelerators/incubators, VC funds, angel networks and other investment agencies concerned with early-stage investment. See OEL#5 Draft Operations Manual for further details.
- 2.3 ***Component 2: Building Capacity of Accelerators and Innovation Ecosystem Actors (Total: US\$7,154,323; EU: US\$5,403,673; IDB Lab: US\$0; Counterpart: US\$1,750,650).*** The overall objective of this component is to build institutional capacity of

¹⁰ All funding deployed to founders/entrepreneurs, startups and growth-oriented SMEs under the CARIBEquity facility are captured under Component 1, this includes (i) **Ideation Grants** (to be deployed to founders by Accelerators executing Individual Projects under Component 2), (ii) **TC Prototypes** (including GovTech Prototypes supported by complementary activities funded under Component 3), (iii) **Contingent Recovery Grants**, and (iv) **Equity** (to be financed by IDB Lab). See footnote below for further details.

¹¹ The investment in the VC fund will be funded by IDB Lab, contingent on the sourcing (via IDB Lab's Investment Unit's [Call for Proposals for Venture Capital Funds](#)), selection, due diligence and investment approval by IDB Lab's Donors Committee. The approval of the investment is not expected until the latter years of the program, once the toolkit and training activities have been advanced.

innovation ecosystem actors (accelerators/incubators/academia, etc.), so that they can generate opportunities for entrepreneurs to deploy innovative solutions that address the needs of vulnerable populations, through private sector led solutions, in the priority sectors of CARIBEquity. Component 2 will deploy an Innovation Ecosystem Challenge Fund (ECF) to build capacity of ecosystem partners by deepening their networks, expanding their service offerings to entrepreneurs, catalyzing “Triple Helix” (university-industry-government) interactions to stimulate innovation, and building their financial sustainability. IDB Lab will identify approximately ten (10) Individual Projects under the ECF, via Calls for Proposals (CFP) in line with applicable EU requirements. Executing Agencies of these Individual Projects will benefit from Non-Reimbursable Technical Cooperation funding. In addition to deploying the Innovation Ecosystem Challenge Fund, this component will also promote knowledge, networks, and capacity-building for early-stage investment. This will be accomplished through the following activities: (i) Caribbean Startup Ecosystem Benchmarking and Data Analytics; (ii) Playbook for Innovation Ecosystem Actors - including Gender/Climate Mainstreaming and Innovation for Inclusion; (iii) training, networking and events to build capacity of accelerators and innovation ecosystem actors, and (iii) CARIBEquity website and networking platform. This Component will also support an Innovation Ecosystem Advisor, who will have the responsibility for providing overall technical guidance and advisory support to activities under the program. See OEL#5 Draft Operations Manual for further details.

- 2.4 ***Component 3: Fostering public sector-driven innovation through public-private engagement (Total: US\$233,420; EU: US\$233,420; IDB Lab: US\$0; Counterpart: US\$0).*** The overall objective of this component is to promote open innovation among the private sector, governments, and public institutions to foster public-private collaboration and generate opportunities for entrepreneurs to deploy inclusive innovative solutions. Governments face increasingly complex problems, which require new more agile solutions. Recognizing this potential, IDB Lab is actively fostering interactions between [GovTech ecosystems](#) and public agencies to allow startups to better understand public sector challenges, and for public sector representatives to learn about how startups work and what technology solutions they can deploy tailored to their needs. Thus Component 3 will pilot a *Caribbean GovTech Ecosystem* building on best practices arising from IDB Lab’s LAC wide GovTech Ecosystem portfolio. To achieve this, the Program will pilot a demand driven approach that will connect startups with public agencies who are seeking new solutions to address public sector challenges. This will be implemented via following activities: (i) GovTech virtual open innovation events (venture days, bootcamps, demo days etc.) to bring together startups and governments and demand from public sector for innovative experimental solutions; (ii) co-creation and acceleration of solutions between key public and private innovation actors; (iii) virtual knowledge and network generation through events, workshops, and knowledge briefs that together entrepreneurs, startups, innovation ecosystem actors with public agencies and civil servants to share know-how, case studies and best practices around GovTech solutions. Approximately three (3) GovTech startups/scale-ups¹², will receive TC Prototype funding (identified via Calls for Proposals and with funding under Component 1).

- 2.5 The remaining resources will be allocated to support facility administration and cover

¹² GovTech startups/scaleups bring new technology solutions and/or business models, built on emerging technologies (such as Artificial Intelligence, advanced sensing, Big Data analytics, blockchain, advanced data processing, etc.) to improve the delivery of public services, through increasing efficiency and lowering costs.

communication and visibility activities (**Total: US\$1,122,750; EU: US\$723,602 (including an administrative fee of USD350,130); IDB Lab: US\$399,148**). This includes the following activities: (i) implementation of the EU Communications and Visibility Plan; (ii) fiduciary control of program operations; (iii) supervision/design missions; (iv) mid-term/final evaluation, and (v) an administrative fee for audits, project administration and contingencies.

B. Individual Projects: Delegation of Approval and Eligibility Criteria

- 2.6 Individual Projects Approval:** All Individual Projects under the facility financed will be approved by the IDB Lab General Manager in line with the established delegation of authority¹³. In line with this delegation of authority, IDB Lab requests authority from the Donors' Committee for the General Manager to approve Individual Projects under this facility, financed with IDB Lab funding.

IDB Lab may approve Individual Projects under the facility without direct consultation to the EU, as long as Individual Projects meet the eligibility criteria established in this document (established in ¶2.7). The approval of Individual Projects will follow all IDB Lab policies and regulations for reimbursable and non-reimbursable instruments as appropriate. IDB Lab systems have a proven track record in the successful implementation of these instruments and therefore add value to the process. Individual Projects financed by the Facility are expected to be in the order of US\$100,000 or higher. Execution of Individual Projects will follow IDB policies with additional EU requirements arising from the Financial Framework for Partnership Agreements (FFPA), (see OEL#5 Draft Operations Manual for details).

- 2.7 Individual Projects' Eligibility Criteria:** Individual projects to be financed under any of the Facility's components must comply with the following criteria: (i) be aligned with the objectives of the Facility; (ii) be approved at least six (6) months before the administrative closure date of the Facility; (iii) benefit private entities and/or not-for-profit institutions from participating countries as stated in ¶1.13; (iv) technical, financial, environmental and social feasibility validated by IDB Lab/CARIBEquity project team; (v) compliance with IDB's risk assessments and policies, including IDB's Environmental and Social Policy Framework (ESPF); (vii) not classified as Category "A" under IDB's ESPF; (viii) commitment to comply with IDB Lab's and the EU's reporting and accountability requirements (see OEL#5 Draft Operations Manual for details); (ix) demonstrated levels of counterpart financing (both cash and in-kind)¹⁴; (x) innovative application of business models, technology, partnerships and approaches; and (xi) potential for replicability or scalability. Private sector companies or not-for-profit institutions that have a negative impact on society or the environment or are not eligible to receive funding from the IDB (e.g., tobacco companies or producers of alcoholic beverages).
- 2.8 Individual Projects - Priority Areas:** Businesses benefitting from enhanced support (including acceleration, incubation, access to knowledge, networks, and investment) channeled via Caribbean agencies, will be selected from the priority sectors described

¹³ OP- PR-501 approval of Non-Reimbursable Operations

¹⁴ Counterpart will be mobilized from Executing Agencies implementing TCs/Contingent Recovery Grants. All projects will follow the prescribed IDB Lab counterpart requirements, which require that the proponent must provide at least 50% of the project funding, of which at least 50% must be in cash. Note that in the case of Technical Cooperation Prototypes the leverage is lower up to 20%, given the higher risk profile of these operations. In keeping with EU requirements, for the purposes of this facility, IDB Lab will only count the cash counterpart as part of the funding leveraged from the private sector.

below, which represent the key economic drivers in the Caribbean region.

- **Agriculture and Natural Capital:** the facility will prioritize incorporation of environmentally sustainable agricultural practices and nature-based solutions; promotion of market access and competitive penetration of high value chains; and design, deployment, and uptake of locally relevant ag-tech solutions, digital innovations as well as green and blue economy advances - tailored to the uniqueness of the Caribbean region. Approaches will respond to needs of producers - from subsistence and smallholder farmers to larger commercial farms – operating in varying regional geographies. Support will be provided to address vulnerability to climate crisis, prevention of degradation of fragile ecosystems, landscapes, forests, oceans, and coastal resources – including recognizing particularities relating to Small Island Developing States (SIDS).
- **Essential Services:** including water and sanitation, connectivity, energy, housing, and mobility. The focus will be on harnessing innovative solutions and business models that address inequality of access by disadvantaged, poor and vulnerable communities - in both rural and urban areas – to these essential services.
- **Financial Inclusion:** will seek to amplify the penetration and use of financial services by poor, disadvantaged, and vulnerable individuals - addressing gaps in access to finance; low levels of digital technologies in the provision of financial services and persistent high uses in cash for financial transactions; asymmetric information that limits widespread use of client data and risk information; and complex, expensive traditional distribution channels.
- **Talent and Employment:** focusing on inclusion, where poor, disadvantaged and vulnerable have equal access to skills development and quality jobs. Solutions will address skills gaps – in e.g., digital skills and Science Technology, Engineering, Arts and Mathematics (STEAM) - for Fourth Industrial Revolution (4IR) and gig economy jobs. Specifically, the approach will ensure innovative solutions are grounded in a Caribbean context – e.g., promoting the adoption of tech-solutions to enhance post-pandemic tourism recovery; harnessing global opportunities in emerging tech sectors such as animation and coding; boosting manufacturing sector with e.g., digitization to firm-up value chains; and amplifying the creative industries (encompassing but not limited to music, literature, fine arts, culture, fashion, carnival, film). In addition, this focal area will seek solutions to enhance access to transversal skills - digital and socio-emotional skills - required for any job market. Innovations will also consider re-skilling and up-skilling of the workforce particularly across demographics – including youth and the Silver Economy, while ensuring rights of independent or Worker-Tech, LBGTQ, as well as gender equality.
- **Health and Education:** the pandemic has demonstrated the need of countries to urgently provide better health and educational services to their citizens. Limitations in quality and reach of these services have contributed to and exacerbated pre-existing inequalities that continue to limit access to health and education by poor, vulnerable and disadvantaged populations. Moreover, the pandemic has demonstrated the need to open channels to more efficient seamless digital delivery. Innovations will focus on ensuring poor, disadvantaged, and vulnerable populations gain access to more efficient

and person-centric services, which ensure quality of service and respect for citizens' rights particularly with regard to responsible use of data and Artificial Intelligence.

- 2.9 **Gender and diversity considerations at the Individual Project level:** In keeping with the IDB Lab Business Plan¹⁵, the Facility will target gender approaches for building capacity and skills of women entrepreneurs and women-led firms, strengthening research and academic institutions of the ecosystem to provide gender-responsive support, and providing increased targeted access to grant and equity financing for women led firms and women entrepreneurs.

C. Key results indicators

- 2.10 Investments under the Facility are expected to lead to: 34 startups and growth-oriented SMEs receiving investment capital and capacity-building and networking support; US\$6 million in early-stage investment capital deployed to startups and growth-oriented SMEs; US\$3.5 million to strengthen the capacity of innovation ecosystem actors; 10 innovation ecosystem actors benefitting from Challenge Fund and adopting improved innovation methodologies; 4 GovTech solutions prototyped with public agencies. Gender-based indicators are also included in the Results Matrix to foster the support of women-led startups and growth-oriented SMEs as well as to ensure gender-based engagement with female investors and ecosystem actors participating in knowledge sharing/networking and capacity building events. See Annex 1 Results Matrix for details.

III. FINANCING STRUCTURE

A. Financing instruments

- 3.1 **Source of funding:** The Facility has a total cost of US\$33.7 million. This will be co-funded by the European Union, under its 11th EDF Intra-ACP funding, in the amount of US\$8.5 million, together with the IDB Lab in the amount of up to US\$4.7 million. It is estimated that up to an additional US\$20.5 million will be leveraged from the private sector, and private investors in counterpart funding.
- 3.2 **Types of financing instruments:** The Facility will deploy funding through: (i) non-reimbursable technical assistance, (ii) non-reimbursable technical assistance prototypes; (iii) contingent recovery grants; (iii) equity investments; and (iv) specialized advisory support. The use of these financing instruments will be defined by the financial needs of each Individual Project approved under this Facility. Resources provided by the EU have non-reimbursable character (grant resources).

B. Budget and co-financing

- 3.3 **Budget:** The Facility's budget will be structured as follows IDB Lab USD4,659,063 of which IDB Lab Discovery Unit, up to USD2,733,348 (via RG-O1702/RG-T4019); and IDB Lab Investment Unit, up to USD1,925,715¹⁶ (via RG-O1703), and European Commission funding EUR7,300,000 or USD 8,519,830 (via RG-O1697/RG-T4018). See Annex II for the

¹⁵ Refer to Annex B: Mainstreaming Cross-Cutting Themes – Gender and Diversity (MIF/GN-264)

¹⁶ IDB Lab's Investment Unit potential funding of up to USD1,925,715 is contingent on the sourcing (via IDB Lab's Investment Unit's [Call for Proposals for Venture Capital Funds](#)), selection, due diligence and investment approval by IDB Lab's Donors Committee. The approval of the investment is not expected until the latter years of the program.

Detailed Budget and Annex IV for the Facility Structure and assignment of funds):

Table 1. Facility Budget (in USD¹⁷)

DESCRIPTION	IDB Lab		European Commission RG-O1697/ RG-T4018		Sub-Total USD	Counterpart USD	TOTAL USD
	RG-O1702/ RG-T4019 USD	RG-O1703 USD	EUR	USD			
COMPONENT 1: Deploying early-stage investment Capital	2,334,200	1,925,715*	1,850,000	2,159,135	6,419,050	18,743,626	25,162,676
COMPONENT 2: Building capacity of Accelerators & Innovation Ecosystem Actors	-		4,630,000	5,403,673	5,403,673	1,750,650	7,154,323
COMPONENT 3: Fostering Public Innovation through public- private engagement	-		200,000	233,420	233,420	-	233,420
FACILITY ADMINISTRATION Fiduciary control, visibility, evaluation, travel	399,148		320,000	373,472	772,620	-	772,620
Administrative Fee			300,000	350,130			
TOTAL	\$2,733,348	\$1,925,715	€7,300,000	\$8,519,830	\$13,178,893	\$20,494,276	\$33,673,169

*Note: USD1,925,715 for the potential VC fund under Component 1, will be subject to separate approval by IDB Lab's Donors Committee, therefore the amount is being proposed for approval as a container via this Facility Document (see footnote 16 for other details relating to sourcing, selection and approval for the VC fund).

- 3.4 **Resource Mobilization:** It is estimated that up to potentially US\$20.5 million could be leveraged from the private sector in the form of (i) counterpart contributions¹⁸ mobilized by each partner executing an Individual Project; and (ii) private investment leveraged as a result of IDB Lab's potential investment in a Venture Capital (VC) fund. The Facility is open for additional contributions from external donors as long as these donors accept the conditions outlined in this facility document or any other conditions established by the IDB and/or the EU. The approval of additional contributions from other donors to CARIBEquity will be approved following IDB procedures including IDB Board approval.

IV. IMPLEMENTATION ARRANGEMENTS AND MAIN RISKS

A. Implementation and execution arrangements

- 4.1 **Overall implementation arrangements:** The Facility will be bank-executed by IDB Lab, through its Barbados Country Office (DIS/CBA). DIS/CBA will appoint a dedicated Innovation Ecosystem Advisor/Facility Coordinator (FC) to oversee the day-to-day management of the Facility, including internal administrative tasks, facilitation and

¹⁷ Exchange Rate: the exchange rate being used throughout the proposal is [EUR 1 = USD 1.1671](#) which corresponds to the exchange rate applicable at the time of the application to the European Commission August 20, 2021)

¹⁸ Counterpart will be mobilized from Executing Agencies implementing TCs/Contingent Recovery Grants. All projects will follow the prescribed IDB Lab counterpart requirements, which require that the proponent must provide at least 50% of the project funding, of which at least 50% must be in cash. Note that in the case of Technical Cooperation Prototypes the leverage is lower up to 20%, given the higher risk profile of these operations. In keeping with EU requirements, for the purposes of this facility, IDB Lab will only count the *cash counterpart* as part of the funding leveraged from the private sector.

administration of CFP through which Individual Projects will be originated, validation of potential Individual Projects against the eligibility criteria and objectives of the Facility.

- 4.2 **Executing agencies:** Legally established private sector entities in beneficiary countries may receive and administer resources under this Facility. These include (i) private entities eligible to receive non-reimbursable and reimbursable financing from IDB Lab; and (ii) not-for-profit institutions, including civil society organizations and associations, and academia.
- 4.3 **Operations Manual (OM):** a draft OM has been developed to systematize the detailed implementation arrangements of the Facility, including the role of executing agencies (EOL#5).
- 4.4 **Execution period:** per agreement with the EU (EL#3), the life cycle of the facility extends to five years (60 months) after the Facility is officially approved by the IDB Board. All individual projects must be approved at least six (6) months before the administrative closure date of the facility. The Facility may be extended following IDB policies and procedures and approval by EU.

B. Summary of arrangements for monitoring results

- 4.5 **Monitoring:** As a bank-executed facility, IDB Lab, through its Barbados Country Office (DIS/CBA), will monitor the implementation of the Facility. The FC will liaise with external executing agencies to obtain information necessary to track Individual Projects, verify the portfolio's sustainable impacts, monitor expected results, support problem solving and prepare portfolio management reviews and reporting documents. Clear data collection plans will be established at the Individual Project level that are consistent with the Facility's reporting requirements. Sources of data needed at the Individual Project level will be identified during their design along with appropriate reporting periods. During monitoring, the Facility (as well as Individual Projects) will identify areas of early success (e.g., intermediate values established in Results Matrix) as well as adapt feedback related to potential shortfalls in project activities and implement corrective action as necessary. The FC will also be responsible for managing the EU's accountability and reporting requirements provided by Individual Projects. Reporting, monitoring and evaluation will comply with IDB Lab and EU requirements, and it will apply to all individual projects approved under the Facility. Individual Projects approved will also adhere to the standard Bank procurement policy¹⁹ and financial management²⁰ arrangements as specified in Annex VII and VIII and follow IDB Lab's project templates for reporting – as well as additional EU requirements arising from the FFPA.
- 4.6 **Evaluation:** An overall mid-term and ex-post evaluation of the Facility will be conducted by IDB Lab (with EU funding) through an independent third party, which will feed in the evaluations conducted at the Individual Project level. Each Individual Project will define its own evaluation arrangements in accordance with the evaluation arrangements established in this Facility Document. These evaluations will be used to verify the effectiveness at the project-level as well as at the Facility-level and serve as knowledge

¹⁹ Link to the Policy: [Procurement of Works and Goods Policy](#)

²⁰ Link to the document [Financial Management Operational Guidelines](#)

inputs to systemize the solution.

- 4.7 **Communication with Donor:** As implementing agency of the Facility, IDB Lab through the project team in the Barbados Country Office will be responsible for all formal communication with the EU, including participation in steering committee and advisory committee meetings. (see OEL# 1 Full EU Application (Approved), Annex IV Communications and Visibility Plan)
- 4.8 **Procurement of Goods and Services and Financial Management.** As executing agency for this Facility, IDB Lab will apply Bank-Executed Operations (BEO) procurement rules to the hiring of administrative and advisory support activities (under RG-T4018 and RG-T4019), following: (i) GN-2765-1 Policy for the Selection and Contracting of Consulting Firms for Bank-Executed Operational Work; and (ii) OP-1155-4 Operational Guidelines for the Selection and Contracting of Consulting Firms in Bank-Executed Operational Work. The applicable procurement policies for Executing Agencies of Individual Operations (sourced via Calls for Proposals) will be the Bank's policies for the procurement of goods and works (GN-2349-15) and for the selection and contracting of consultants (GN-2350-15). In accordance with the 2020 Financial Framework Partnership Agreement the following exceptions to such policies (approved by the Bank under document GN-2605-5, 4.14 and 4.15) have been established in order: (i) to allow goods, works or services originating from or rendered by nationals from IDB non-member countries be eligible for procurement activities to be financed with resources contributed by the EC under the FFPA, provided that the country of origin of the goods and the nationality of the suppliers, contractors and service providers is recognized as eligible by the EU under its applicable regulations. The EC publishes the list of eligible countries (or any updates thereto) as an annex to the "Practical Guide to Contract Procedures for EU External Actions" (PRAG), which is available on its Internet website; (ii) to extend the retention period of project documentation required for executing agencies and the Bank, from three years to five or more years²¹; and (iii) to recognize EU Restrictive Measures as an eligibility requirement to prevent awarding contracts to entities, individuals or groups of individuals subject to restrictive measures and identified in the list available at <http://www.sanctionsmap.eu/>. Financial management of the Facility's resources will follow the Bank's Financial Management Guidelines (OP-273-6).

C. Environmental and social safeguard risks

- 4.9 The transaction was screened against the Environmental and Social Policy Framework (GN-2965-23). There are no adverse Environmental or Social (E&S) impacts at the Facility level. Therefore, the Facility is, therefore, a Category C project. Potential E&S impact occurs when individual projects are supported.
- 4.10 All individual projects approved under the Facility will have to comply with IDB's ESPF, including the need to perform and E&S Due Diligence for Category B projects. IDB Lab will disclose project-specific information under the Facility for medium risk projects (FI-2 or B), including and Environmental and Social Review Summary before committing

²¹ Documentation shall only be retained after the period of five years if, before the expiration of such period the Bank is notified of an on-going audit, verification or investigation by the European Anti-Fraud Office (OLAF), or a claim directly related to the activities financed by the EU.

to each new operation (See OEL#5 Draft Operations Manual).

D. Fiduciary and other risks

- 4.11 The following fiduciary risk has been identified: (i) lack of pipeline: There is a risk of not enough deal flow of projects with high growth potential, especially in the context of a post-COVID-19 recovery period, thus making the demand for the investment instruments lesser than expected. To address it, additional resources are allocated in the components to generate deal flow as part of the EU contribution. Technical cooperation resources have also been allocated to capacity building and networking of incubators/accelerators that would enable them to become more proactive in sourcing and accelerating a pipeline of impactful startups. Additionally, open call for proposals will be organized to identify projects under Components 1 and 2. In addition, IDB Lab specialists throughout the Caribbean will also support pipeline identification.
- 4.12 Other risks have also been identified: (i) given the risk profile of the Program's investments, particularly because they are early stage, these investments may fail to realize the expected returns, so the facility's financial results may not allow some or all of the invested capital to be recovered. The IDB Lab team is aware that investment in early-stage companies is a high-risk strategy. As an innovation laboratory, IDB Lab can take on this risk in order to support high-risk but high-potential companies, based on their underlying business models and technologies, and high potential for scale and social and environmental impact; (ii) there may be an inadequate supply of SMEs and startups that are willing and/or eligible to receive incubator and accelerator business support and coaching services. To mitigate this risk, collaborative arrangements will be established with innovation ecosystem partners and key stakeholders in the sector to source SMEs and startups from their network for participation in the program; (iii) Some CARIFORUM countries may be ambivalent about the need to improve the innovation ecosystem, resulting in slow progress on regulatory reforms. To mitigate this risk, capacity-building and awareness raising activities will be held to build institutional capacity of public actors, strengthen the enabling environment and foster public-private collaboration. This will cover topics ranging from catalyzing early-stage investment, start-up friendly public procurement, and public sector innovation sandboxes; (iv) lack of demand for innovation financing, specifically the innovation challenge does not receive enough applications (quantity) or of required quality. This risk will be mitigated through technical workshops for applicants and targeted communication/outreach.