Key note speech by Torek Farhadi, Head of Islamic Development Bank’s Investment Promotion Technical Assistance Program.

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Shaping the future through innovation and entrepreneurship

Excellency, Ladies and Gentlemen,

It’s a great honor for me to be here this morning and share some thoughts on entrepreneurship and how it helps create jobs and opportunities for advancement in society.

At the Islamic Development Bank, poverty reduction in our member-countries is at the top of our agenda. We realize that poverty is fought best by enabling people to create economic value and resources. Value is created by imagination and innovation which is implemented and translated into goods and services that are sold in a competitive market. Sheltering new businesses in a catalytic environment such as a business incubator puts us one step closer to ensuring the survival of a young business which can develop new products and services.
It is also a great honor to be meeting today in Bahrain, a country that has done an exemplary job of nurturing entrepreneurship and innovation. I have had the pleasure of visiting the Bahrain small business incubator and I met companies there that are producing goods, which are marketed and sold throughout the region, well beyond the borders of Bahrain itself. This is an example of how Bahrain contributes to the economies of neighboring countries receiving those goods and services. The initiative of the Bahraini government to sponsor a business incubator is not only a benefit to the local economy but also a service to the regional environment altogether. It is a great example of Institutional/Public Private Partnership for innovation.

In this process, the link that has been created between the different incubators in the MENA region is also likely to promote and enhance further creation of value for everyone. The effort to launch an incubator with a regional context makes the initiative more meaningful from a business standpoint. The presence of guests and participants representing MENA countries is testimony to the fact that we are all advocates of the same cause: Our cause is creating jobs by supporting entrepreneurs, helping them establish and expand their businesses. This is how we contribute to the long term and sustainable economic growth of our economies. We are advocating for the
creation of conditions favorable for technology transfer to industry through
development and commercialization of new products and services. This
process needs the help of public institutions. The private sector which is
composed of a multitude of companies needs the leadership of government
for this shepherding process. Only the government is in a position to
encourage and facilitate cooperation between business, educational
institutions, technology-driven labs and research centers together with public
institutions in a coherent way. In an ideal situation, a better coordinated
spending in research and development should be focused on sharpening a
competitive advantage in a certain niche. This is one reason the geographical
positioning of business incubators in proximity publicly funded universities
and research centers can be conducive for exchanges between the scientific
community which is generator of the latest technological advancement and
business, which is a user of innovation but always rationalizes the economic
equation of profit generation. In this process, the proximity of business
incubators to large successful businesses also offers opportunities for
twinning arrangements, allowing larger entities to sponsor small enterprises.
Larger firms might relegate a project to a young startup, outsourcing it to a
small dynamic entity which is solely focused to reach results. This
relationship could even lead to the smaller firm being absorbed by the larger
one if the products and services of the smaller firm can give the larger firm a competitive advantage throughout its larger sphere of activity. In such a case, the incubator would have fulfilled a very noble role of nurturing with support services, a firm -allowing it to focus on a core issue. By paving the way for its acquisition by a larger entity, incubators enhance the economic and competitive sphere of the country. In fact, the main role of an incubator is in the nurturing aspect of it. In that role, the incubator offers access to professional networking to its resident businesses, it can offer industry mentoring services, creating links between various players; it can do lead referrals as well as support services such as advice on business planning, access to finance, marketing and sales. Research shows that a large percentage of new businesses never make it beyond the first or second year of existence. Many reasons cause this, among which the fact that business owners have to concentrate on a number of management related issues instead of focusing on their core business. New businesses are thus very fragile during the first months and years of their existence. Sheltering them in a business incubator, giving them access to the services we mentioned earlier gives them the strength and immunity to sail through this very risky period of their existence.
The government’s involvement in financially supporting business incubators makes a whole lot of sense. In fact the government helps in the creation of new jobs in healthy businesses, which will pay taxes and salaries down the line. In other words, the government’s investment has a return at the end of the day. The example of Singapore with its venture accelerators giving small promising businesses access to venture capital, helping them in deal structuring, market intelligence, branding of their products and opening market access not only helps the firms concerned but also the Singaporean economy’s competitiveness at large. Supporting the entrepreneurial process, helping individuals or companies with business ideas that have high growth and employment potential and contribute to the competitiveness of the local economy becomes a public good. This is indeed a noble role for modern public institutions.

The challenge ahead is to have specialized windows within financial institutions that are willing to take a little more risk when it comes to financing new start-up businesses. One completely understands the traditional commercial banks shy away from financing business ventures that have not proven themselves yet. This is why specialized teams which can understand the potential of a product offered by a young innovative
start-up are needed, to be willing to take the calculated risk to finance these entities. A good product, good management, market access are important elements, but an important ingredient of success is the financial ability for the firm to accomplish its goals. Going forward, at the policy level, the financing gap for new start-ups needs to be addressed. Several ways can be envisaged: in the current environment, some countries in the region might want to endow special funds from their Sovereign Investment Funds towards the financing of new promising start ups, let the Fund be managed by a bank specialized in financing ICT and high potential ideas. Another idea is to have a network of angel investors who can dedicate special resources under the management of specialized underwriters, so to speak dedicating a portion of their investment resources to risk capital. Ideally, a combination of both public and private funds can ensure that the convening power of public institutions is also leveraged.

The other challenge in our region is the brain drain of our scientific community. Countries might want to initiate a special brain regain program by rolling out the red carpet for those scientists that originating from the region but are now in the Diaspora. These talents should be invited to come home and put their knowledge and contacts at the service of local business
incubators. Diaspora scientists can create many beneficial bridges between their home country and labs and universities abroad. They also become economic ambassadors of their countries promoting global links for local businesses.

This is why our advocacy for the existence and support of start-up incubators in the context that we just saw makes tremendous sense.

Thank you.