

Turkey

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THE ANGEL ENTREPRENEURIAL ECOSYSTEM

The 2014 Global Entrepreneurial Report (GER) by the Oracle Capital Group ranks Turkey as the second most entrepreneurial of 33 countries.¹ In common with most of the other developing economies in the report, Turkey scored low on fear of failure, and well on attitude to risk and early stage business activity. Moreover, Turkey was found to have best attitude toward self-funding. Willingness to self-fund allows Turkish entrepreneurs to pitch to angel investors in a shorter period of time, due to already completed “demos.” This is corroborated by the 2013 EBAN Angel Investment Market Growth Report, which ranked Turkey as the eight biggest angel investment market in Europe.²

ANGEL INVESTMENT ECOSYSTEM IN TURKEY

Like many countries, the early stage market in Turkey is comprised of angel investors, angel networks, incubators, accelerators, banks, VC firms, co-investment funds, government grants, universities, and business plan competitions. Important players in the public policy arena include: the national angel association and the global voice of

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Turkey's early stage market, the Business Angels Association of Turkey (TBAA)³; the Under Secretariat of the Treasury; the SME Development Department of the Government (KOSGEB); and the Istanbul Stock Exchange (Borsa Istanbul). Active angel groups include:

- Links Angel BAN—32 members
- Galata BAN—24 members
- Metutech BAN—18 members
- Sirketortagim BAN—40 members
- BUBA BAN—28 members
- EGIAD BAN—27 members
- Lab X—5 members
- Keiretsu Forum Istanbul—18 members
- E-Tohum—29 members
- BIC Angels—20 members

GOVERNMENT POLICIES TO PROMOTE BUSINESS ANGELS

There have been four major developments in the Turkish angel ecosystem: a new Angel Investment Law; a fast-developing angel investment community; TBAA's global performance; and attempts by Borsa Istanbul to create more liquidity for startups.

SMEs in Turkey have limited access to finance because of their size, lack of collateral, and in some cases the low financial literacy of entrepreneurs, many of whom may need mentoring to develop their businesses. Financial institutions are reluctant to provide credit to startups and early stage companies due to the very high risk involved. According to a 2008 World Bank Group Survey, access to finance is the biggest problem of SMEs in Turkey. SMEs also struggle with lack of professional management and institutional capacity.

In 2013, the Under Secretariat of the Treasury implemented a new system to encourage angel investments in Turkey by targeting SMEs in early development stages with funding difficulties. The law aims to increase professionalism and ethics among angel investors, make angel investments more attractive through state support, and ultimately make angel capital an institutionalized and trustworthy source of finance. Under the law, the Turkish Treasury licenses business angels who want to benefit from tax incentives for their investments. (Accredited angel networks can provide the license applications.) Accordingly, 75 percent

of the participation shares of qualifying Turkish resident joint-stock companies held by angels can be deducted from the angel's annual income tax base in the calendar year the shares are held. The maximum annual deductible amount is TL1 million (The deduction ratio is 100 percent for those angel investors investing in companies whose projects are supported by the Ministry of Science, Industry and Technology; the Scientific and Technological Research Council of Turkey; and the Small and Medium Enterprises Development Organization). To get a deduction from their taxable income, investors must hold the stocks for at least two years.⁴ There are also a number of investment limitations on the part of investors—such as maximum investment amounts and number of investments—and on the SMEs (e.g. a turnover of less than TL5 million, less than 50 employees).

There are two criteria to get an angel license for the support scheme. An investor must either be of high net worth (have an annual gross income above TL200,000 or possess net assets above TL1 million) or be “experienced” (have two years of experience as a manager/director in a financial institution or a company with a TL25 million turnover, have one year of membership in a local business angel network with shares in three SMEs, or have TL20,000-plus investments in three technology companies supported by an incubator).

Matching angels and startups has proven to be problematic. An efficient way to increase angel investments is therefore to build a network that gets angel investors and entrepreneurs together, increasing both funding capacity and investment capability. For this reason, the Turkish Treasury created an accreditation mechanism for angel networks that are willing to work in the areas of licensing and tax incentive application, and provide data about their members' investments. The legislation describes an angel investor network as an association founded according to Turkish Civil Code, the Law of Obligations and the Turkish Commercial Code. The networks are required to:

- have a convenient physical place to meet with entrepreneurs,
- employ a minimum of one expert to process the applications of entrepreneurs,
- have a minimum of five licensed business angels and five angel investments of those members in total, and,
- have a functional web page and data base.

The Angel Investment Law has definitely helped foster the ecosystem. By October of 2014, there were 264 accredited angel investors and 10 angel investment groups. Turkey's global angel presence has also grown. Turkey's angel representative was elected to be an EBAN board member in the 2011 elections in Moscow and elected unanimously as the Vice President of EBAN in the 2013 elections in Dublin. Turkey is also has a board member on the WBAA—World Business Angels Association in UK.

In 2014 Borsa Istanbul and other parties signed the European Early Stage Investments Financing Support Cooperation Protocol⁵, which aimed to increase mutual cooperation in creating employment and innovation. Private Market, designed to offer a new marketplace that brings together entrepreneurs and investors within Borsa İstanbul in order to solve their financing and liquidity problems, started accepting members in 2014. This Market brings start-up companies and rising companies together with qualified or business angel investors, and therefore offers them equity financing and liquidity facilities without going public and without being subject to the arrangements of the Capital Markets Board. Shareholders can sell their existing shares on it and by doing so have access to liquidity. It also provides investors with the opportunity to find buyers and liquidate their investments. In Private Market companies can completely control their shareholder structure and choose their new shareholders. They can manage and control the information flow and find counter-parties anonymously. They can also benefit from services including legal and financial consultancy, valuation, and brokerage, provided by Private Market member partners at reasonable prices. Companies and investors can also be matched algorithmically, and negotiate in a secure environment through the “data and deal room application.”

ANGEL INVESTMENT TRENDS

Many changes have been observed in world economy since the 1980s. Technology is assuming an increasingly important role, service industries are growing, the world economy is more open to competition, and outsourcing is creating an opportunity for small firms. These changes have transformed the way in which business is conducted. Niche markets are being developed to cater to changes in customer preferences and/or technology. There has also been a shift from the concept of the “marketplace” (physical business activities) to the “market space” (business done electronically). This has helped small businesses

gain competitive advantages over large competitors. Moreover, the independence and the relatively small size of entrepreneurial companies gives them the flexibility to change and innovate in response to customer demands. The entrepreneur is at the core of the process and as such, the social and cultural environment and attitudes of a country are important factors influencing its entrepreneurial activities. It is therefore important for policy makers to promote entrepreneurship and provide an encouraging environment that allows potential entrepreneurs to flourish. Access to finance for entrepreneurs and access to talent for angel investors are very important in achieving startup success stories.

There is a wide agreement on the importance of entrepreneurship and early stage finance for economic development. Startups backed by qualified angel investors drive and shape innovation, and speed up structural changes in the economy. They also introduce competition that contributes to productivity and job creation. Encouraging entrepreneurial activities in the early stage market is vital for economic development in Turkey. Startups backed by angel investors will flourish in an environment where the individual is encouraged to take risk, where innovation is supported by public policy, and where a potential entrepreneur is backed by the technical and managerial skills of qualified angel investors, incubators, techno-parks and accelerators.

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Endnotes

- ¹ The report measures the opinions, attitudes, experiences and activity that contribute to entrepreneurship, <http://orcap.co.uk/online/media/Entrepreneurial-report-final.pdf>
- ² <http://www.eban.org/wp-content/uploads/2013/08/OECD-Financing-High-Growth-Firms.pdf>
- ³ www.melekyatirimcilardernegi.org
- ⁴ Business angels cannot be controlling shareholders either directly or indirectly in the companies they invest in.
- ⁵ <http://www.ebaf2014.org/node/5>