

iVCi: Turkey's Venture Capital Investment Platform

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In his 2005 Commencement address at Stanford, the late Steve Jobs sent a distinct message that today echoes all over the world: "Stay Hungry. Stay Foolish." It certainly resonated in Turkey as, five years ago, the Government of the Turkish Republic launched the Istanbul Venture Capital Initiative (iVCi), Turkey's first and still the only fund of funds, together with the SME Association of Turkey (KOSGEB), the Technology Development Foundation of Turkey (TTGV) and Kalkinma, and under the management of the European Investment Fund (EIF).

iVCi is a EUR 160 million investment platform, a true public private partnership, with KOSGEB, TTGV and Kalkinma joining forces with the leading innovation and SME-focussed bank, Garanti Bank. It is also a local international partnership, with both the National Bank of Greece Group and the EIF present. iVCi operates under independent decision and management principles as expected in international standards. Apart from investing into venture capital funds, iVCi also plays a key role in building a local capacity in the field and dissemination of international best practices on what and how the venture world works. It has an established Strategic Network, which twice a year, and under the chairmanship of Ali Sabanci, brings together the industry leaders to discuss specific common topics which affect them.

The aim of this initiative is to act as a catalyst for the development of the venture capital industry in Turkey based on the vision of Istanbul becoming a regional centre for the venture capital industry by 2020, and the mission to offer Turkish businesses enhanced access to finance to support their growth.

However, why make Istanbul the centre for venture capital of Turkey?

The reason is twofold:

First from a macroeconomic viewpoint, Turkey has a sizeable and young population, an ongoing strong GDP growth, the potential of becoming one of the ten largest economies in the world by 2023 if current productivity doubles, and is on the EU conversion path; then from the microeconomic point of view, Turkey demonstrates a highly

entrepreneurial society, skilled and educated young labour force, diversified and conglomerate productive sectors structure with an increasing number of Anatolian Tigers who represent the Turkish brand all over the world, with Istanbul being an attractive location for international capital and labour force. These reasons make Istanbul an extremely attractive and unique value proposition.

Furthermore, the city is an excellent activity base for the region (there is an increase in cross-border activities with neighbouring countries and the Ataturk airport has become a real hub) and is a natural centre point for South East Europe, Central Asia and Middle East.

But why venture capital? The World Economic Forum's 2010 venture capital impact report concluded that industries where venture capital funds have invested in the past five years have grown quicker than their peers – i.e. capital accumulation is faster in a company that is supported by venture capital than otherwise. Venture capital is also considered to be three to four times more powerful than Research & Development in the delivery of innovation. When the chronic problems linked to capital availability and the creation of unique value added products and services faced by entrepreneurs in Turkey are considered, the strategic role and importance of venture capital is much more apparent.

Although in today's agenda all these facts are undisputable, such an ambitious vision may have been seen as foolish and naive back in 2006. Today, on hindsight, the vision (a.k.a assertion) of the institutions behind iVCi has proven to be right and, as a leading figure in the venture world said at an open forum in Istanbul recently, "iVCi is leading the way in the development of the asset class in Turkey". These words certifying that iVCi is meeting the market's expectations.

By definition, venture capital is a long term investment asset class. However, iVCi's results are already tangible. Its best market practice governance has allowed it to originate over 60 leads during the past five years. Among these 7 are considered to be in line with iVCi's original investment and risk strategy and received investments representing commitments of over EUR 110m. By the end of October commitments

are expected to reach over EUR 140m, which means a leverage of over EUR 1bn for Turkish companies– yes, iVCi with its leveraging impact inherent to its design, is catalysing nearly ten times its resources into Turkish companies. In addition, iVCi's portfolio strongly prioritises first time Turkish fund managers, thus providing an important opportunity to Turkish talent that would otherwise not be seen.

When considering the last three years, where significant financial struggles were endured, one can easily state that the existence of iVCi prevented potential market failures for the development of venture capital for SMEs. Additionally, as a result of the awareness iVCi created at policy and programme level, Turkey's first-ever regional venture capital initiative for the benefit of SMEs in the converging regions of Turkey is being supported through EU IPA funds and expected to be launched under the iVCi umbrella in 2012.

The internationally acclaimed Harvard University scholar Josh Lerner, who performs important research on public interventions in venture capital, describes in his book *Boulevard of Broken Dreams*, what public programmes aiming at doing what iVCi does should and should not do. iVCi ticks all the boxes of what it should be doing. iVCi, as Turkey's Investment Platform, is therefore poised to become an international case study which will be studied by academics in the near future. Building on Steve Jobs' mantra, iVCi, as a successful example of a public private partnership, should continue to push the boundary of the asset class and open to a new and expanded vision. Having helped build the backbone of the industry by focussing on growth funds –five years ago there was only one independent Turkish fund manager in the Turkish VC market, today a critical threshold has been reached in the growth equity –it is now time to build on this base and continue such support. Leveraging on iVCi as Turkey's VC Platform, opening the window for early stage and moving down the innovation and entrepreneurship value chain must continue. This would be consistent with iVCi's original vision and present an important target for the public sector through KOSGEB, TTGV and Kalkinma.

I would also like to take this opportunity to extend my gratitude to all the stakeholders that have believed in and supported iVCi.

For more information on iVCi visit www.ivci.com.tr