

What do international impact investors think of Turkey?

by

Anja König

Social Impact Markets & Policies
Mercator-IPC Fellow at Istanbul Policy Center at
Sabancı University

June 2013

IPC

ISTANBUL POLICY CENTER
SABANCI UNIVERSITY
STIFTUNG MERCATOR INITIATIVE



Anja-Nadine König is a business economist (MBA) with a focus and global experience in advisory, finance and research on public-private partnerships, impact entrepreneurship, social investment and policy reforms. Prior to locating to Turkey in 2010, Anja established *reformconsult*, an economic and investment advisory firm, worked with the German International Agency GIZ in Kenya, Corporate Finance/PricewaterhouseCoopers in Kenya and Germany and with an international energy and infrastructure advisory firm (S&W) in London UK. She holds an MBA from Mannheim University/Germany, and degrees from Institute d'Etudes Politiques in Paris/France and the German Development Institute in Berlin/Germany.

Social Impact Markets & Policies (SIMP) is an initiative supported under the Mercator-IPC Fellowship Program at Istanbul Policy Center of Sabancı University. SIMP focuses on social and green ventures, impact investing and the role of government with a specific emphasis on the environmental and climate change sector. SIMP carried out the first social and green enterprise survey in Turkey and researched on a range of related topics. The project has been also been supported by the Impact Investing Policy Collaborative/Rockefeller Foundation. More information and other blogs are available at www.socialimpactmarkets.org/blogs/.

Email: akoenig@socialimpactmarkets.org

Impact investments are investments intended to create positive social and/or environmental impact as well as financial returns (check out the Global Impact Investor Network [GIIN](#) for more information). Impact investors invest, for example, in organizations that create jobs, provide affordable housing in low-income urban areas, improve access to good quality and affordable education, health or financial services or accelerate agricultural growth in rural areas.

1. The global rise of investing for social impact – where is Turkey?

The size of the market for impact investment has grown significantly over the past years. In 2010, in their work on [Impact Investment: an Emerging Asset Class](#), JP Morgan estimated the market size at USD 400 billion to 1 trillion in assets in the next decade, and in 2013 impact investors stated in a [JP Morgan survey](#) that they would commit USD 9 billion worldwide for impact investments in the current year.

Despite the increase in financial resources for social impact as well as impact investments into emerging markets international players are so far practically absent from Turkey (and in fact, much of Eastern Europe or the Middle East).

I was wondering why Turkey was missing on the map of international impact investors. I therefore contacted a number of them to understand:

- How impact investors make their decisions to expand their operations into one country (and not into another one);
- Their perception of Turkey as an impact investment destination; and
- How a prospective engagement in Turkey might look like.

Why are the views of international impact investors important for Turkey? In Turkey, the social investment market is still in its infancy. The inflow of social investment capital would therefore be very welcome. Maybe even more importantly, however, with their engagement in Turkey international impact investors would share their technology and know-how in investing for social impact and help establish a track record of successful social investments in Turkey. They may be able to attract other players from their network, thus contributing to the general growth of the social investment market in Turkey.

How do impact investors make decisions to expand geographically?

My interview partners carry out the majority of their activities outside of the country where the organization's headquarters are located (77% on average with six respondents stating that all of their activities were outside their home country). Five out of eight of those who run both domestic and international activities expect international activities to increase in the future.

Most of the fourteen organizations I interviewed are active in South Asia or South East Asia (11), in Latin America (10) or Africa (7) followed by Central and Eastern Europe (5) and the Middle East (1). When considering an engagement in a new country, a number of criteria play a role (Figure 1 below). For most investors the availability of high quality opportunities as well as more generally the demand for their products and services is crucial. Almost as important are personal contacts and local partners and – to a slightly lesser extent – government policies and the market environment. Some also reported to take note of the country's level of economic development:

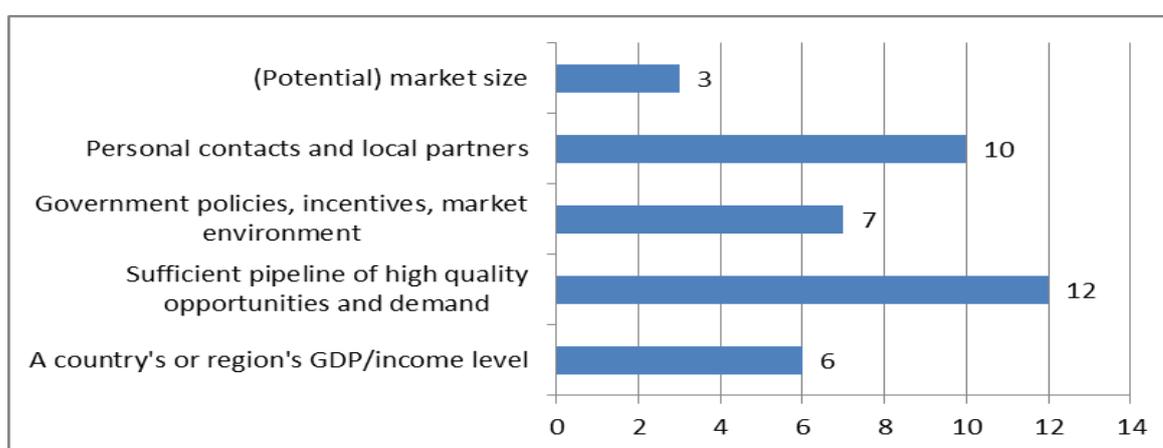
What do international impact investors think of Turkey?

“Traditional philanthropists prefer low income countries unless they have a connection to a particular country or region”, Interview No 10.

One investor commented on the importance of synergies in their portfolio and investors’ preferences:

*“We try to build on the current geography where we are investing to add a country or neighboring region or one where there is synergy. It also depends on our investors’ interest in a market as we primarily manage funds on behalf of others”.
Investor interview no 13.*

Figure 1: What are the most important criteria you take into account when considering engagement in a new market?



I was told, however, that in practice engagement of impact investors in a specific country depended less on an elaborate geographical expansion strategy, but appeared rather opportunistic based on personal contacts as well as individual preferences of the investor’s key stakeholder. The view below is shared by other interview partners:

“If there was a promising deal, we would engage in a specific country but this would be on an opportunistic basis (Interview No 8)”.

2. Perception of Turkey as a social investment destination

I asked my interview partners what they associated with Turkey as a country. Many of the comments referred to Turkey’s economic growth and opportunities (e.g. “dynamic”, “growth”, “entrepreneurial culture”), its geo-strategic role (“bridge between worlds”, “increasingly powerful and assertive”) and Turkey’s culture and religion (“blend of ethnicities”, “rich culture”). While generally positive, some also expressed some caution (“initially scary”, “strong barriers in society”). One interviewee commented:

“I see Turkey as a large, entrepreneurial dynamic market with increasing income levels. As a regional power it is increasingly powerful and assertive. But there are growing inequalities, rural and urban development issues, violation of women rights, religious, ethnic and cultural tensions. In my view, Turkey is ripe for social investment.” Interview No 14.

A majority of investors I spoke to have not yet considered an engagement in Turkey. However, a few considered it and some have started an engagement. A variety of reasons were given for not engaging in Turkey or for considering it and deciding against it (Figure 2 further below).

Firstly, impact investors do not appear to have Turkey on their radar screen. This seems closely related to the lack of local contacts as well as data and information on the Turkish market. One interviewee stated:

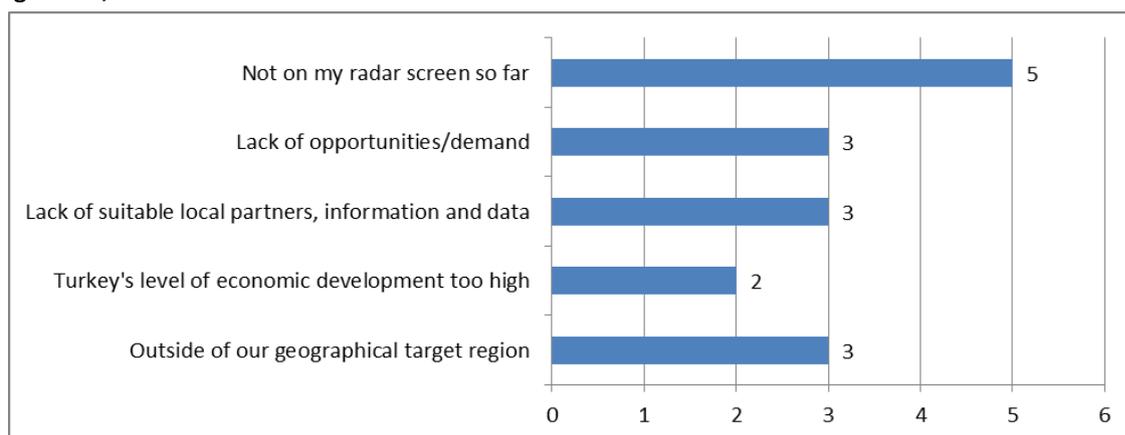
“You find out more about what is happening in a certain country when you go to these conferences, you meet someone or when you hear about a successful social entrepreneur from someone you know. It is a lot about personal contacts. I have simply not met anybody from Turkey in this field before you contacted us.” Interview No 10.

In fact, many argued that they did not know a reliable partner in Turkey who could help them navigate in unknown territory, identify organizations and – possibly co-invest.

Furthermore, those who considered an engagement but decided against it, argued with the level of investment readiness and capacity of potential investees in Turkey. One investor stated:

“We had been in touch with two social enterprises in Turkey during the past months. One did not match our investment criteria. The other one has been unreliable and did not know where they wanted to go and what they wanted from us. When they did not show up for an arranged conference call with us, we stopped the discussions with them.” Interview No 13

Figure 2: If you never considered an engagement in Turkey or you have considered it and decided against it, what were the reasons?



3. Prospective engagement

I asked for more details in which way investors would invest for social impact if they were to invest in Turkey.

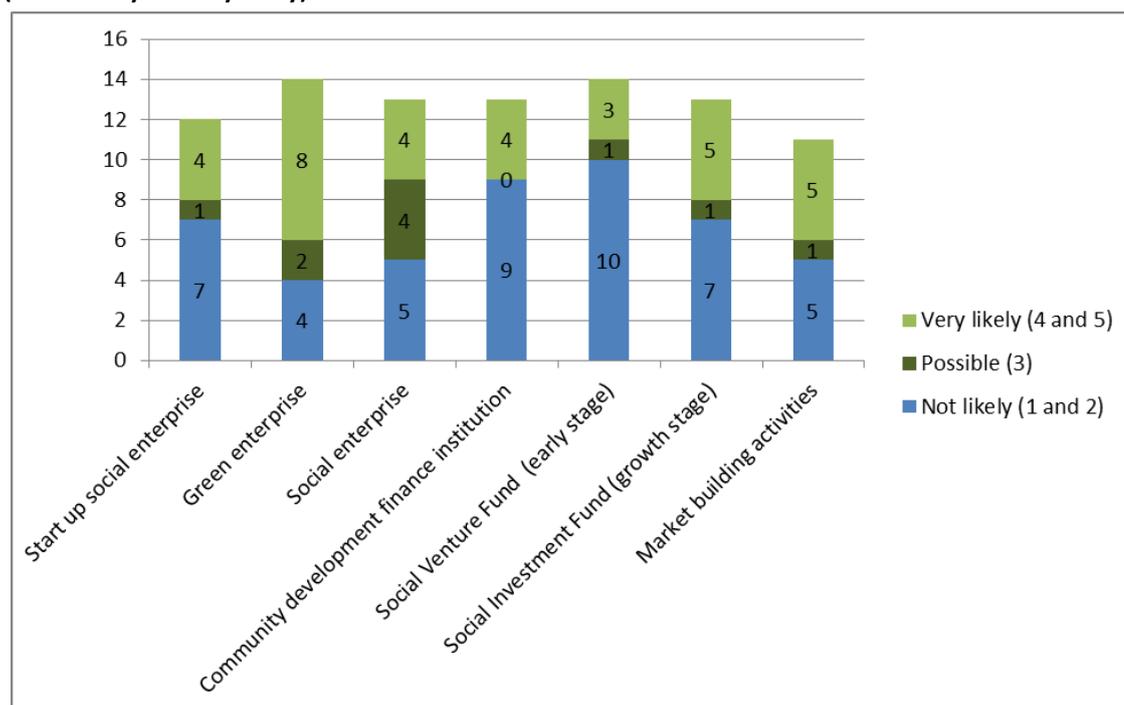
What do international impact investors think of Turkey?

Seven of my respondents would prefer to invest directly into organizations, two through a fund or another intermediary, whereas three respondents would consider both direct and indirect investment.

When asked whether they would have a preference in terms of the impact orientation of their investees, six of the respondents would prefer an investment into an organization with social impact, five would target both social and environmental impact and one indicated a primarily environmental focus.

I also presented seven investment scenarios including three direct investments, three indirect investments and one engagement into market building activities and support of intermediaries (Figure 3). The results show clearly that investors are not homogenous in their preferences. However, overall my interview partners are more likely to invest in profit making than in non-profit social ventures, in growth ventures than in start-up organizations and to make direct investments rather than use intermediaries such as an investment fund.

Figure 3: If you were to engage in Turkey, how likely are you to consider the following opportunities (1=not likely – 5 very likely)



Some of my interview partners did not see their role limited to one-off investments only but indicated more flexibility in terms of their engagement. For example, they suggested that the investor could:

- Use their experience to provide advice to an individual family office or a foundation in Turkey on their engagement strategies;
- Play an advisory role in helping to set up a locally funded and managed social investment vehicle;
- Act as a (temporary) fund manager to share their knowledge and expertise, and train local staff, if a social investment vehicle had been set up in Turkey.

What comes out of these conversations is that in addition to good quality investment opportunities all forms of engagement by international impact investors require visionary and well connected individuals in Turkey to take the lead in establishing the link with the international impact investing community as well as in developing ideas, attracting co-investment and mobilizing local support. Where are these individuals and organisations in Turkey? It seems, we need more of them.

ENDNOTE

The organisations I contacted included a mix of members of the global impact investment community and they do not fit into one single category. Most described themselves as investment fund manager (10); social enterprise support organization (5); private foundation (3); philanthropic advisor (2) as well as non-profit think tank, investment advisor, investor networks or impact investment firm (1). A big thank you to those who participated in this study: Acumen Fund; Calvert Foundation; D-Capital; LGT Venture Philanthropy; NESST; Omidiyar Network; Responsibility; SEAF; Social Venture Fund; Toniic; Village Capital; Willow Impact; World Resources Institute/New Ventures and a philanthropic advisory firm (anonymous)

IPC

ISTANBUL POLICY CENTER
SABANCI UNIVERSITY
STIFTUNG MERCATOR INITIATIVE

Istanbul Policy Center
Bankalar Caddesi No:2, Minerva Han
Karaköy, 34420 Istanbul, Turkey
P +90 212 292 4939
F +90 212 292 4957
E-mail: ipc@sabanciuniv.edu
www.ipc.sabanciuniv.edu