

PRIVATE EQUITY AS AN ALTERNATIVE FINANCIAL METHOD THAT SUPPORT ENTREPRENEURSHIP: TURKEY CASE

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Abstract

Entrepreneurship that came up by the rising of capitalism had loomed large in economic life which underwent significant changes by the globalization fact that we met in 80s. Entrepreneurship and innovation concepts had become important by the significant improvements in the domain of science, technology and communication and besides, they had become the most important advantage in the intensive competition environment.

Studies had showed that the countries which have high entrepreneurial activities had provided a growth above average. Complementary financial institutions are needed in order to increase entrepreneurial activities which are too important for national economies. At this point, private equity takes place as an alternative financial method that meets the needs of entrepreneurs. Private equity is a new fund acquisition method for all sectors and businesses that are affected from new business process and production techniques in new economy atmosphere.

Financing of the projects which have high development potential but also high risk factor and to get expected revenue over the long term, are the businesses that is avoided because of not overlapping their missions by enterprises which expects yield in short term and furnish provisional fund demand. Equity owner supplies capital to entrepreneur in return for stocks of project by participating risks of project in opposition to the other financial associations and after 5-10 years when the stocks come into value in stock market, equity owner sells them and gains revenue from this investment.

In this study, private equity that hasn't showed improvements in countries which has a conservative investment concept will be examined and the practices in Turkey will be discussed.

Keywords : Entrepreneurship, Private Equity, Financial Method

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GİRİŞİMCİLİĞİ DESTEKLEYEN ALTERNATİF BİR FİNANSAL YÖNTEM OLARAK GİRİŞİM SERMAYESİ: TÜRKİYE ÖRNEĞİ

Özet

Kapitalizmin doğmasıyla gündeme gelen girişimcilik, sanayi toplumunun yerini bilgi toplumuna bırakması ve 80'li yıllarla birlikte tanıştığımız küreselleşme olgusuyla önemli derecede değişikliğe uğrayan ekonomik hayatta daha da ön plana çıkmıştır. Bilim, teknoloji ve iletişim sahalarındaki baş döndüren gelişmelerle girişimcilik ve yenilik kavramları popülerlik kazanmış, ayrıca artan rekabet ortamında en önemli avantaj unsuru haline gelmiştir.

Yapılan araştırmalar, girişimcilik faaliyetleri yüksek olan ülkelerin ortalamanın üzerinde bir büyüme sağladıklarını göstermiştir. Ülke ekonomileri için bu kadar önemli olan girişimcilik faaliyetlerinin arttırabilmesi için birbirini tamamlayan farklı finansal kurumlara ihtiyaç vardır. Bu noktada girişimcilerin ihtiyaçlarını karşılayacak alternatif bir finansman modeli olarak girişim sermayesi karşımıza çıkmaktadır. Girişim sermayesi, yeni ekonomi ortamında yeni iş süreçleri ve üretim tekniklerinden etkilenen tüm sektörler ve girişimler için yeni bir fon sağlama yöntemidir.

Büyüme potansiyeli yüksek ancak yüksek risk faktörüne sahip olan ve beklenen getirisi oldukça uzun vadede elde edilecek projelerin finansmanı, kısa vadede getiri bekleyen ve geçici süreli fon ihtiyaçlarını sağlayan kurumların misyonlarıyla örtüşmediğinden uzak durdukları girişimlerdir. Girişim sermayedarı, diğer fon sağlayan birçok kurumun aksine projenin riskine katılarak, projenin hisse senetleri karşılığında girişimciye sermaye sağlar ve yatırımdan sağlayacağı kazanç 5-10 yıl sonra bu hisse senetlerinin borsada değer kazanarak satılması şeklinde vuku bulur.

Bu çalışmada, yatırım konseptinde muhafazakâr duruş sergileyen ülkelerde pek gelişme imkânı bulamayan girişim sermayesi irdelenecek ve Türkiye'deki uygulamalar ele alınacaktır.

Anahtar Kelimeler: Girişimcilik, Girişim Sermayesi, Finansal Yöntem

1. Introduction

The financing of a business in the correct means is a critical key to success of that business. In present conditions, especially in the countries which have advanced markets, there is a quite wide range of method to finance businesses. Although each financial method has advantages and disadvantages, businesses' background and how they settled in the market plays a significant role in choice of financial method.

In Turkey, the investment of the businesses is largely financed by the entrepreneur himself or short-term bank credits. However financing such investments which are supposed to yield return in average-term or long-term by short-term bank credits, brings out negative results in the aspect of banks and entrepreneurs alike as we had experienced during the crisis in 2001.

With the concept of globalization which we met around 1980 and the following decade, nations and markets have come closer, developments in the fields of communication and technology along with the market actions became cross-borders. This case, with the emerging alternative methods along with the traditional finance, has added diversity and prosperity to the managing finance and in an aspect, it helped entrepreneurs to set free of traditional methods. Diversity in finance methods will surely contribute to the development levels of nations by affecting nations' entrepreneurship activities in positive manner. "Private equity" which makes up the subject of our study stands as an alternative factor supporting entrepreneur and entrepreneurship.

2. Private Equity

The history of the financial method known as "private equity" in English literature and despite its translation in Turkish is "özel sermaye"; translation of it has been accepted in Turkish as "girişim sermayesi", derives from early ages in European and American countries. In Europe Charterhouse Development Capital (1934), 3i (Industrial and Commercial Finance Corporation (1945) and in USA American Research and Development Corporation (1946) are the first foundations of private equity.

Private equity is classified under the title of "alternative investments" and it includes various investment techniques and strategies as well as asset classes contains shares and bond portfolios which are traditionally used by investors (EVCA, 2004: 2).

Considering the fact that private equity is largely to the companies whose investments are not quoted to the capital markets it is a field of alternative investment for the investors as well as it is obvious that it will be an alternative finance type for the small and medium size enterprises also known as SME which are main arteries for our economy and entrepreneurship.

Since the main purpose of private equity investment is to yield high profit from shares, target enterprises are the ones who could provide this high profit, and mostly the ones which are small but able to achieve a rapid development with their technology (Tuncel, 2000: 6). Private equity is not only a type of investment financing risky investments. Its main scale is innovation (Ceylan, 2000: 306). Provided that it includes new products and services as well as technology it can cover all fields.

In fact private equity investment is a kind of equity investment (Sarıaslan, 1992: 3). An equity owner can join in management of the business he has invested according to the conditions of relative enterprise, can join in information sharing by supporting indirectly, or may not join in management. There might be two reasons for this situation; first, small and medium size enterprises may have less experience than the investor. The other is investor might want to have control over the company to lower the risk (Zaimoğlu, 2001: 4). If the investor joins in management the purpose is to lower the management risk. The aim in joining the management is not to take the control over management but to support organization and management (Tuncel, 2000: 5).

Private equity is rather used for development. For that, the companies which plan to utilize such kind of fund should have a clear development strategy. Private equity has been considered as a high-risk high-profit asset class. Such investors join a company for 2-7 years and than they quit. The expected profit rate for the investor is annually 18-35% in the developing markets, maybe even more. Private equity may also be used for buy-outs. Investors take control over a company which can not fulfill its entire potential, reconstruct it and manage it for a few years, and finally sell it to a strategic buyer or offer it to the public with high profit (Deloitte, 2007: 2).

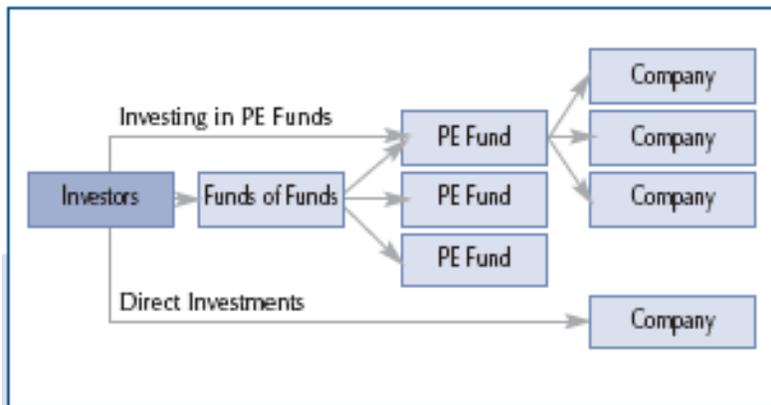
There are some features of private equity which attracts the investors. The most important of these is it promises high revenue and at the same time it increases the portfolio variety of the investor, it decreases the volatility therefore decreasing the portfolio risk. Moreover another important feature is to be able to reach the information of the enterprise legally (EVCA, 2004: 5-6). As known insider trading is not legal in the enterprises which are active in stock exchange market. As the enterprises supported by private equity are

the ones which are not quoted, learning information from business inside is not illegal.

Private equity has also repulsive features for the investors. For example private equity is a long term investment. Investment period is at least 3 years. By initial public offering (IPO) this period can be shortened in countries which have developed markets. Investor doesn't have the right to exit during the investment period or this right is limited. During the investment cash can be delivered but time for the delivery is unpredictable. The risk of liquidity is the most important risk of private equity. Therefore private equity should be considered as a long term investment strategy (EVCA, 2004: 7). The reason why the investment is long term therefore it cannot be liquid in short term is there is no active market for the stocks and bonds of the private companies. This situation prevents the reselling of investments in certain periods by making itself harder to achieve through legal limitations (Altıntaş, 1985: 33). Since it will take time to develop its product and itself the company invested cannot be offered to the public in short term.

Private equity investments can be achieved in three methods. These methods are demonstrated in the figure below (EVCA, 2004: 10).

Table-1 Private Equity Investment Methods



Resource: EVCA, “Why and How to Invest in the Private Equity”, March 2004, p.10.

a. Direct Investment: In this method investor himself finds the company he is going to invest in, analyses it, invests in, and terminates the investment when it is time. It has a high revenue yet losing the invested capital is a possibility. Therefore this method should be applied by investors who are experts in private equity, who can analyze accurately and who can make accurate investment decisions.

b. In-House Private Equity Fund Investment: In this method investors invest their extra funds to a private equity investment fund. Professionals in this fund are experts in finding the enterprises which will be invested in, analyzing, investing, managing and quitting the investment. Therefore it is more likely to invest accurately in this method. Moreover, since there are more than one investor in the fund, the risk of losing the capital is less compared to direct investment.

c. Fund of Funds: A fund manager who invests in private equity funds is someone who evaluates various private equity fund, who chooses among them and who distributes the funds which he gathered from investors to some of private equity funds he selects. Hereby fund of funds institution can provide the investor with consultancy service as well as he can directly orient the investments to the private equity funds. Investor has to pay for fund of funds manager and extra research expenses. This method considerably eases the burden of monitoring the enterprise constantly, recording report and managing the enterprise.

A private equity shareholder generally (NVCA Yearbook, 1999: 3):

- Provides funds for rapidly growing enterprises
- Buys bonds, stocks and such valuable documents belonging to these enterprises so helps provide value-added.
- Takes risk in order to obtain high income by having long-term expectations.
- Helps the improvement of new products and services.

While a private equity fund is examined, these questions generally have the emphasis (Pierce and Goldstein, 2000:1):

- What is it which makes the project or enterprise unique?
- What is the true intention of the enterprise? (In what fields did the enterprise worked in the past?)
- Considering the competition in market, how can the enterprise achieve profitability?
- How can we optimize the capital?
- Is there managerial skill enough to execute business plan?
- How will this plan work on the enterprise in the future?
- Is there a business strategy for the investors already?

Though it can vary from foundation to another, a private equity project can be examined in these aspects (Barlett, 1999: 43):

- Availability of the market
- Management quality
- Geographical situation
- Proximity to the market
- Financial force
- SWOT analysis

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- Efficiency of project owner
- Advantages over rivals
- Sharing of stocks
- Patent rights
- Legal infrastructure

If we are to consider technical aspect of private equity one of the most important issues may be business plan. It is not possible to convince capital providing investor without a business plan. Business plan emphasizes on project details (economical, social, legal etc). It is more important in a business plan to be intense than to be long. A content should contain the subtitles listed below (Şirvan, 2002: 25-26):

- Introduction
- Definition of project
- Aim of project
- Information about product or invention
- Technological choices about the product and explanatory information
- Market information regarding the product
- Finance structure, resources
- Feasibility time
- Corporation structure of the company that is to be established
- Strategies
- Corporation information about the product
- Information about management
- Organization structure
- Information about offering to the public

3. Advantages of Private Equity to Enterprises

In Turkey, financial system mainly depends on banking sector. Especially small or middle-scale companies cannot benefit from traditionally recognized banking system adequately. Recent researches indicate that the phenomenon of Mac Millan Gap largely exists in Turkey. Mac Millan Gap is the name of a research which succeeded in detecting the fact that traditional banking system is largely diverted to large well known corporations therefore hindering small or medium size enterprises to benefit from bank credits and which was run by Harald Mac Millan. Likewise, in a research which is applied to 4671 small enterprise by Istanbul Chamber of Commerce&Piar it has been found out that %78 of their capital is provided by their previous savings and %7 by bank credits. This research shows that the possibility of small enterprises benefiting from

bank credits is quite limited. Private equity is an alternative model enabling these enterprises to find a healthy resource.

It is detected that private equity considerably improves resource utilization productivity and it makes it easier for a new-established enterprises to become successful. According to a research, new-established enterprise has a 75 percentage of failure probability in the first 7 years whereas enterprises which are established with private equity have an 18 percentage of failure probability (Zacharakis et al., 1999: 23).

The table below demonstrates what kinds of benefits private equity provide to enterprises in the long run and in the short run.

Table–2 Advantages of Private Equity

	Short run	Long run
Learning		X
Positioning in the market		X
Finance	X	X
Competition and sustainability	X	X

Resource: Akkaya Göktuğ Cenk and M. Yılmaz İçerli, “KOBİ’lerin Finansal Problemlerinin Çözümünde Risk Sermayesi Finansman Modeli”, **Dokuz Eylül University Social Sciences Institution Review**, Volume: 3, Edition:3, 2001, p.68, Casseres Benjamin Gomes, “Strategy Before Structure”, The Alliance Analyst, 1998.

Researches indicate that private equity enterprises not only provide financial support but also serve in various managerial and technical issues. It has been noted that there has been a positive interaction as a result of harmony between private equity sides and invested companies develop in order to achieve perfection because of this reason (De Noble et al., 1994: 67-82). Besides the interaction between sides is mostly productive, it can also be not-contributing, and even destructive (Fried&Hisrich, 1995: 110). The two tables below demonstrate the reasons of failure of the companies which have used private equity in percentages. It includes the points of view of the enterprises and investors.

Table–3 The Failure Reasons Of Enterprises Which Has The Support Of Private Equity In The Perspective Of Entrepreneurs

Reason of Failure	Failing Investment Count	%
Inadequacy of market conditions	25	25.5
Incorrect management strategy	13	13.3
Financial Inadequacy	9	9.2
Inadequacy of supplier-seller relationship	9	9.2
Incompetency of the people in key-positions	9	9.2
Lack of management skills	7	7.1
Lack of management vision	5	5.1
Defectiveness of product design	5	5.1
Failure of applications	5	5.1
The uncongenially of equity owner and shareholder	4	4.1
Technical inadequacy	4	4.1
Lack of financial resources in the market	3	3
Total	98	100

Resource: A.L. Zacharaki, G.D. Meyer, J. DeCastro, “Differing Perceptions of New Venture Failure: A Matched Exploratory Study of Private equityists and Entrepreneurs”, **Journal of Small Business Management**, Vol:37, No:3, 1999, p.14.

Table–4 The Failure Reasons of Investments in the Perspective of Equity Owners

Reason of Failure	Failing Investment Count	%
Inadequacy of market conditions	40	65.6
Lack of management skills	9	14.7
Timing mistake in product	4	6.6
Incorrect management strategy	3	4.9
Lack of financial resources	3	4.9
Failure of applications	2	3.3
Total	61	100

Resource: A.L. Zacharaki, G.D. Meyer, J. DeCastro, “Differing Perceptions of New Venture Failure: A Matched Exploratory

Study of Venture Capitalists and Entrepreneurs”, **Journal of Small Business Management**, Vol:37, No:3, 1999, p.15.

4. Private Equity Companies

Private equity companies are professional financial transmitters which can transfer the resources they obtain from people/institutions who have the fund to be invested to innovative, inventing, young and dynamic entrepreneurs who are in need of fund (Parasız&Yıldırım, 1994: 370). Private equity companies form the basis of private equity model and they are experts in collecting funds and converting them into investments (Sarıaslan, 1997: 170).

In Turkey private equity companies were defined by CMB in 1993 under the name of Venture-Capital Trust (VCT) as; “they are public companies which are set dependent on recorded capital system and offered to the public, diverting their subtracted capital to the risk capitals mainly to yield interest income and capital” (CMB, 1993).

5. Differences Between Private Equity and Venture Capital

According to the definition of National Private Equity Association (NVCA) venture capital is the capital provided by investing professionals who have the potential to be a significant economic participant (www.nvca.com).

According to the definition of Turkish Capital Markets Board (CMB) venture capital is a form of investment which enables dynamic and creative entrepreneurs who don't have adequate financial power to fulfill their investment ideas (www.spk.gov.tr).

If we compare to definitions made by CMB and NVCA, it is possible to see the opinion differences between these two foundations. CMB sees this method only as a financial method and plans to make profit as a consequence of this investment. NVCA on the other hand, recognizes it as a partnership and considers it to be a method of improving and enlarging the investment in the perspective of both entrepreneur and equity owner.

Venture capital and private equity terms are largely used as a substituted for one another. However venture capital investors invest a company at earlier stages whereas private equity investors invest as a part of development capital. Investors of the private equity generally do not invest ideas or premature company. Before considering an investment, they require a background of 3-10 years including its operations. On the other hand investors of the venture capital can provide an initial capital to an idea or can invest in 1-3 years old companies in order to help them develop (Deloitte, 2007: 2). As

private equity provides fund to the companies in-progress, the risk in investment is lower compared to beginning stages (Çımat&Laçinci, 2002: 103).

Private equity is a term used as an investment company group and fund which is provided to private enterprises following the negotiations. The companies in this category, present financial techniques such as private equity, buy out, leveraged buy out-LBO, mezzanine financing and expansion funds (www.vcexperts.com). Private equity is providing capital to the companies which has the potential of growth yet not quoted. Venture capital is the sub branch of private equity besides it is the capital investment of a company in its early or expansion stages. Venture capital is mainly concerned with entrepreneurship rather than developed companies. Private equity not only includes the financial support in company's early stage but also includes the financing in the expansion stages of the enterprise following the life recycle. Although private equity and venture capital finances different stages of investment, they have the same idea in the end. Both of them provides capital following the negotiations between investment fund manager and entrepreneur aiming to improve the enterprise and create value (EVCA, 2007: 6).

Despite the difference in their investment stages, private equity and venture capital can be considered as same because they do not differ in investment philosophy.

6. Private Equity Practices in Turkey (1995-2007)

First studies regarding private equity was performed by the public in Turkey. Yet the first meeting of our country with private equity was the time when some private equity funds founded outside our nation began investing in our country.

First legal regulations were made by CMB. CMB enabled private equity to be established as a investment partnership by publishing announcement serried: VIII, numbered 21.

The table below demonstrates the applications from 1995 and on.

Table-5 Private Equity Investments in Turkey (1995-2007)

Year	Buyer	Target Company	Sector	Ownership	Estimated invested amount (USD mil.)	Exits
1995	Nomura (Sparx Group)	Ünal Tarım	Food	Minority	2	Yes
1995	Nomura (Sparx Group)	Arat Tekstil	Textile	Minority	2	Yes
1996	Vakıf Risk	Teknoplasma	Production	Minority	1	Yes

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	Sermayesi					
1996	Nomura (Sparx Group)	Eka Elektronik	Elektronics	Minority	2	Yes
1996	Nomura (Sparx Group)	Aba Ambalaj	Packaging	Minority	6	Yes
1997	Nomura (Sparx Group)	Rant Leasing	Leasing	Minority	2	Yes
1997	Nomura (Sparx Group)	GSD Holding	Textile	Minority	8	Yes
1997	Nomura (Sparx Group)	Biomar	Biotech	Minority	1	Yes
1997	Merrill Lynch Investment	Termoteknik	Radiator Panel producer	Minority	5	Yes
1998	FMO	Tüyap	Arts& Ent.& Recreation	Minority	7	Yes
1999	Vakıf Risk Sermayesi	Innova Biotechnology	Medical	Minority	2	Yes
1999	Merrill Lynch Investment	BIM	Retail	Minority	15	Yes
1999	Citicorp Inv. Services	Merko	Food	Minority	2	Yes
1999	Safron Advisors Ltd.	Alfa Menkul	Brokerage House	Minority	5	Yes
1999	Safron Advisors Ltd.	Jumbo	Kitchenware	Minority	6	Yes
2000	Commercial Capital	Işıklar Ambalaj	Paper & packaging	Minority	10	Yes
2000	Safron Advisors Ltd.	Net One	ISP	n/a	4	No
2000	AIG Blue Voyage Fund	Galatasaray Sportif	Soccer Marketing	Minority	21	Yes
2000	AIG Blue Voyage Fund	AFM	Arts& Ent.& Recreation	Minority	7	No
2000	Vakıf Risk Sermayesi	Ortadoğu Yazılım Hizmetleri	Internet, ISP	Minority	1	Yes
2000	EFG Hermes Group	Probil	System Integrator	Minority	21	No
2000	EFG Hermes Group	Gorbon İşıl	Tablewear	Minority	1	Yes
2000	Taurus/Bank of America	BIM	Retail	Minority	19	Yes
2002	İş Risk Sermayesi	Probil	System Integrator	Minority	6	No
2003	İş Risk Sermayesi	Nevotek	Information and IT	Minority	3	No
2003	Soros Investment	Unikom Gıda Sanayi	Food	Minority	13	No

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	Capital					
2003	İş Risk Sermayesi	Mars Sinema	Arts& Ent.& Recreation	Minority	5	No
2003	Turkven Private Equity/Advent	UNO	Food	Minority	13	Yes
2003	İş Risk Sermayesi	ITD	Information and IT	Minority	4	No
2004	İş Risk Sermayesi	Step Halıcılık	Furniture & Carpets	Minority	3	No
2004	MT Invest	Karyateks	Textile	Minority	1	No
2005	İş Risk Sermayesi & FMO	Tüyap Holding	Arts& Ent.& Recreation	Minority	36	Yes
2005	Turkven Private Equity & Pound Capital Inv.	Trendtech and Retomedia	Information and IT	Minority	25	No
2005	İş Risk Sermayesi	Tepe Cinemax	Motion Picture	Minority	14	No
2005	The International Investor K.C.S.C (Kuwait)	Docar Operasyonel Filo Kiralama A.Ş.	Real estate & Leasing	Minority	29	No
2005	Turkven Private Equity	Intercity	Real estate & Leasing	Minority	15	No
2006	Providence Equity Partners Ltd.	Digitürk	Broadcasting (except Internet)	Minority	150	No
2006	Texas Pacific Group	Mey İçki Sanayi ve Tic. A.Ş.	Beverage and Tobacco Product Manufacturing	Majority	810	No
2006	Partners in Life Sciences (PILS) & Citigroup Private equity International (CVCI)	Biofarma İlaç San.Tic. A.Ş.	Pharmaceuticals	Majority	240	No
2006	Turkven & Advent International	Roma Plastik	Plastics	Majority	76	No
2006	AIG Capital Parners Inc.	For You	Retail Trade	Minority	25	No
2006	Global Finance	TAV	Airport Operations	Minority	650	No

	House, IDB, Goldman Sachs, Babcock Brown					
2006	Turkven Private Equity and FMO	Pronet Güvenlik Hizmetleri	Administrative and Support and Waste Management and Remediation Services	50-50	10	No
2006	Bancroft Private Equity	Standart Profil	Automotive	Majority	90	No
2006	İş Risk Sermayesi	Beyaz Filo Oto Kiralama	Fleet Rental		10	No
2006	Ottoman Fund	Riva (GS)	Real Estate	n/a	110	No
2006	GEM Global Equities Management S.A (GEM)	Deva Holding	Pharmaceuticals	Majority	162	No
2007	Citicorp Private equity	Boyner	Retail	Minority	46	No
2007	Citicorp Private equity	Beymen	Retail	50-50	143	No
2007	İş Risk Sermayesi	Ode Yalıtım	Mineral Products	Minority	5	No
2007	National Bank of Kuwait	Yudum	Edible Oil Production	Majority	Unknown	No

Resource: Deloitte, “Private Equity in Turkey – A Practical Guide for Turkish Companies and Investors”, 2007, pp.16-17.

When table is examined it is possible to see that there has been investment in 15 enterprises worth 66 million dollars in period 1995-99, in 21 enterprises worth 251 million dollars in period 2000-2005, in 15 enterprises worth 2 billions 527 million dollars in period 2006-2007.

In 1996 first Turkish private equity company, Vakıf Risk Capital Investment Association was established. Vakıf Risk; invested in Teknoplazma which is active in METU-KOSGEB Technology Center in 1996 and Innova Biotechnology which began its activities in Aegean Free Zone in 1999 (www.vakifgirisim.com.tr). But these investments did not prove to be successful and ended in 2005.

London-based International investment fund of Merrill Lynch sold its shares belonging to Termo Teknik which it had invested in 1997 to an English company named Caradon, and yielded a

considerable profit. In 1999 it has invested in BIM chain markets. In 2006 it quited this investment by offering it to the public and yielded an income over expected. And then it invested in Safron Advisor Ltd. Jumbo and Alpha Stocks and Bonds.

If we examine the private equity investments in 1995-99 periods, there has been a few count of investment with small amounts of funds. Doubtlessly Turkey's political and economical inconsistency and the high risk of non-liquid investment such as private equity played a significant role in this result. In this period Sparx group's investments are striking. It could be appropriate to say that they made the first example of private equity. In this period 7 out of 15 investments were made by Sparx Group. %35 percent of 66 million dollar investment was performed by Sparx and the rest was shared by 6 companies. Sparx gained profit from Ünal Tarım and Arat Textile by offering to the public at the end of two years. However he had loss from investment to Aba Ambalaj and the enterprise went bankrupt. In 1999 it has invested in BIM chain markets. In 2006 it quited this investment by offering it to the public and yielded an income over expected. And then it invested in Safron Advisor Ltd. Jumbo and Alpha Stocks and Bonds.

Besides KOBİ investment Association was established on January 11th 1999, in order to provide financial needs for present and future small and middle scale enterprises with the partnership of 16 Industry Chambers, KOSGEB, Halk Bank, TESK and TOBB. KOBİ investment Association aims to improve the partnerships it has involved by providing finance, detecting new markets and forming new strategies through using its collective resources and through playing a leading role. Their present participations are Butek Machine Industry, Makim Machine Technologies and Intermak Machine Production (www.kobias.com.tr).

In 2004-2005 investments was made through minority participations. In this period 11 out of 21 investments worthy of 251 million dollars was made by Turkish private equity companies or through their partnership. Business Private Equity Capital Investment Association established by İş Bank in 2000, invested in 7 companies worthy of 71 million dollars. Prior target sectors for the company are; retail, branded fast-moving consumer goods, service(catering, security, building management, logistics) medicine and health, building tools, chemistry, education, tourism, energy, TMT (technology, media, Telecommunication) (www.isgirisim.com.tr).

Again in this period, first independent investment management company, Turkven Private Equity Capital was established and began investing. Turkven is the manager of a fund which is worth 44 million dollars and which is only composed of

institutional investors; among them IFC(World Bank), NBG, DEG(German Bank of Development), FMO(Dutch Bank of Development), TTGV) Turkish Technology Improvement Foundation) and EIB(European Investment Bank) and Turkven is authorized to decide on behalf of these participants. Turkven at the same time, is the partner of Boston-based Advent International Corporation which manages over 6 billions of dollars worldwide. Advent International and Turkven make their investments in Turkey associated. In 2002 Turkven, composed of institutional investors first and still unique and led by Turkish team, is the institutional private equity investor. In year 2003 it performed first leveraged-buy-out process by buying UNO Bread Company from Doğuş Holding. With its intercity investment in 2004 it showed that institutional capitals prestige and trust can turn into an attractive credit worthy of 60 million dollars by achieving a first (www.turkven.com).

AIG Blue Voyage Fund invested 21 million dollars to Galatasaray Sportive and for the first time in Turkey a private equity capital holder invested that much. After the management change in Galatasaray in 2002, their partnership broke down and Galatasaray was sued. This trial was the first trial which a private equity capital holder had in Turkey. In 2004 both sides had come to an agreement. AIG made a good profit by selling its shares to Galatasaray. Second investment of AIG was AFM Cinemas.

In years 2001 and 2002 due to crisis environment in Turkey, private equity investments were almost none. The policies after crisis helped private equity investments to increase.

In 2006-2007 period majority investment were observed and investment amounts began to be in 3 digit numbers for the first time. İş Girişim and Turkven Private Equity kept on investing in Turkey as well as the foreign private equity companies. In this period % 95 of the 2 billion 527 million dollars of investment was made by foreigners. This situation is the reflection of consistency and trust of economy for the foreign investors.

7. Conclusion and Suggestions

Traditional finance system in our country proves to be helpless in providing financial support to small and middle scale enterprises and Mac Millan Gap Phenomenia exists. %99 of enterprises in our country is small and middle scale enterprises yet they receive %5 of bank credits. This clearly demonstrates the table. Therefore KOBİ's which are supposed to vitalize economy and Industry life has to work out alternative financial methods and put

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these methods into application. Private equity is only one of these methods.

Private equity not only provides capital and long-term funds but also provides manager ship in time and management and information support. In our country where a conservative stance is performed in the issues like entrepreneurship and risk taking the nations political and economical consistency is a vital factor in attracting the foreign investor. Private equity should not only be considered in micro scale. As it provides support to technological innovations and improvements, its contribution in macro level is quite important. The abundance of entrepreneurship and innovation activities are the factors which affect one nation's competitive force.

To make private equity more common in Turkey, informative seminars should be held by academicians and finance experts, a cooperation between government, financial institutions and universities should be set, In order to make private equity more liquid means of investment a stock like NASDAQ should be established to abolish liquidity risk which is one of the greatest handicap of the method. Besides it is vital to adjust education system in order to create young mind which are capable of creating innovative ideas and projects, noticing the opportunities, taking risks which are the essence of private equity. It should not be omitted that it is meaningless to talk about private equity where there is no innovative projects.

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