The Venture Capital Financing Model in Turkey and The United Kingdom: A Comparative Study

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Abstract *Since venture capital financing model particularly promote new ideas and new corporations, it is very precious for the developing countries. In developing countries like Turkey, unemployment rate is very high related to the developed countries. Therefore, by the usage of this financing model of which one of the most important goals is to have people start their own business, the developing countries not only increase their economic development but also decrease their high unemployment rate. The purpose of this study is to search the condition of the venture capital financing model in Turkey by comparing with the United Kingdom. For this analysis, the situations of the constraints about the venture capital in these countries are examined. In addition, by using research and development expenditures, patent applications of residents and nonresidents, number of venture capital companies and funding sources of the venture capitals, a comparison between these countries are made. At the end of the study, it can be concluded that because of the insufficient protection of minority shareholder rights, lack of the government involment to the venture capital system, shortness of the maturity of the funds, few expert consulting firms and weak opennes to the innovation, the usage of venture capital financing model in Turkey is very inadequate.*

Key Words: *Turkey, United Kingdom, Venture Capital, Financing Model*

Türkiye'de ve İngiltere'de Girişim Sermayesi Finansman Modeli: Karşılaştırmalı Bir Analiz

Özet *Girişim sermayesi finansman modeli özellikle yeni fikirleri ve yeni ortaklıkları desteklediği için gelişmekte olan ülkeler için büyük bir önem arzetmektedir. Türkiye gibi gelişmekte olan ülkelerde, gelişmiş ülkeler göre işsizlik oranı çok daha yüksektir. Bu yüzden, en önemli amaçlarından birisi insanları kendi işinin sahibi yapmak olan bu finansman modelinin kullanımı ile gelişmekte olan ülkeler hem ülkelerinin kalkınmasını sağlayabilirler hem de yüksek olan işsizlik oranını düşürebilirler. Bu çalışmanın amacı, İngiltere ile karşılaştırarak girişim sermayesi finansman modelinin Türkiye'deki durumunu araştırmaktır. Bunun için, sözkonusu ülkelerdeki girişim sermayesi ile ilgili sınırlamaların durumları incelenmektedir. Bunun yanında, araştırma ve geliştirme harcamaları, yerleşik olan ve yerleşik olmayanların patent başvuruları, risk sermayesi şirketlerinin sayısı ve girişim sermayesi şirketlerinin fon kaynakları kullanılarak bu iki ülke arasında bir karşılaştırma yapılmaktadır. Çalışmanın sonucunda, azınlık hisse senedi haklarının korunmasındaki yetersizlik, devletin risk sermayesi sistemine müdahil olmaması, fon vadelerinin kısalığı, uzman danışmanlık şirketlerinin azlığı ve yeniliğe açık olmama nedenlerinden dolayı Türkiye'de risk sermayesi finansman modelinin kullanımının çok yetersiz olduğu sonucuna ulaşılmaktadır.*

Anahtar Kelimeler: *Türkiye, İngiltere, Girişim Sermayesi, Finansman Modeli*

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1. Introduction

After the World War II, United States, United Kingdom, Japan and many of the European countries effectively used venture capital finacing model. This model has important effect on the development of the advanced countries. Many gigantic wellknown companies such as Google, Apple, Microsoft, Cisco etc. have been financed by the venture capital funds. The number of employees who are working in these companies presents how this financing model is valuable for a country to grow up.

Since entrepreneurs who have new ideas but do not have enough fund to establish their own business are financed by the venture capital, this financing model contribute to the increase of the number of companies operating in the country. Besides, many strategic business thouths which are very crucial to the society can be implemented with the support of this financing model.

Venture capital is based on the profit-lose sharing. Therefore, systematik risks of countries are dispersed to the whole investors and fund suppliers. In addition, because fund suppliers will share loss of the investments, before the investment desicion, they will try to examine economic conditions of the investors more effectively and this situation will transfer the funds to the profitable investment areas.

In developing countries, maturity of the funds is very short and this impedes long term valuable strategic investments. Because venture capital is a long term fund in its nature, by improving the venture capital financing model in underdeveloped countries, the problem of long term fund shortages can be resolved.

According to the Beşkardeşler (2010), the following adavantages are expected from the venture capital financing model; Pozitive effects on the improvement of the capital markets and on the spread of the capital to the base, more rational allocation and use of the sources, providing long term but tax free and attractive return, improvement of science and technology, coming up with new business areas and entrepreneurs, attracting foreign capital to the country and preventing brain drain.

The results of the studies about the venture capital in Turkey show that despite there are some regulatory arrangements, tax incentives, exit options from the venture capitals, the industry is still in beginning stage. It has been almost 20 years since venture capital started in Turkey, but there are only 4 companies operating in this sector.

In this study, venture capital financing model is introduced and then situation of this model in Turkey are examined by comparing with the United Kingdom. For this analysis, conditions of the constraints about venture capital in these countries are examined. In addition, the indicators of research and development expenditures, patent applications of residents and nonresidents, number of venture capital companies and funding sources of venture capitals are compared.

2. Venture Capital Financing Model

According to the capital market board of Turkey, 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 (CMBT, 2012).

The concept of venture capital financin model is not new. Venture capitalists are often related to the story of Christopher Columbus. In the fifteenth century, he sought to travel westwards instead of eastwards from Europe planning to reach India. His idea of travel was not financially supported with the King of Portugal. But, King Ferdinand and Queen Isabella of Spain, decided to fund him. The decision by Spain's Ferdinand and Isabella to finance Christopher Columbus's voyage of exploration can be considered one of the history's most profitable and a very early example of venture capital investments (Özgüneş, 2006:14-17)

Venture capital is independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies. Typically, these invested funds are not primarily investors' own capital, they raise these funds from institutions and individuals. Large institutional investors, such as pension funds and university endowments have neither the staff nor the expertise to make investments themselves. Thus, they invest in partnerships sponsored by venture capital funds, which in turn provide the funds to young firms (Lerner and Watson, 2008:2).

It is seen form the venture capital applications in the world that supports of the governments are quite high in the all of the countries that their venture capitals improved. In these countries, at the begining of the venture capital, governments have been initiator and also put into practice incentives for the private sector. After venture capital investments increase to a definite level, involvement of the governments decreases, at the same time the proportion of the private sector increases (Beşkardeşler, 2010:2)

It is thought that venture capital specialized on the financing of young and small-sized firms is crucial for start-ups. In a typical venture capital fund, general partners pool resources from limited partners, who are institutional and individual investors, and invest in firms of high-growth potential. Venture capital funds are established for about 10 years. The general partners manage the fund and their compensation structure in most cases entails a management fee which is about an annual rate of 2% of the fund size and a carried interest which is about 20% of the capital gains after liquidation of the investments (Ussal, 2010:3)

At the beginings, the venture capital industry has had social as well as financial objectives. Much of the domestic venture capital industry has moved away from this perspective to one that focuses on value creation through financial returns. However, there are more developmental sectors of the industry for whom social objectives continue to be as important as financial ones. These social objectives include economic development of distressed urban and rural geographies; creation of high-quality jobs for low-income populations; and generation of products benefit society, such as those that lower poverty or contribute to a cleaner environment (Rubin, 2009:336).

According to the Vermeulen (2012), venture capital promote innovation, economic growth and job creation. It is therefore not surprising that venture capital is an important topic in the legal and regulatory reforms. Policymakers and regulators are convinced that regulatory interventions should aim at creating a virtuous venture capital cycle by (1) boosting venture capital fundraising (particularly from institutional investors), (2) promoting venture capital and other risk capital investments in promising, mostly early-stage growth companies, and (3) encouraging access to capital markets in order to improve liquidity and exit opportunities that enable venture capital funds to return capital to their investors.

Venture capital investments are consists of five stages. These are; Seed, start up, early stage, expansion and later stage. Not all venture capitalists invest in start ups. While venture firms will invest in companies that are in their initial start up modes, venture capitalists will also invest in companies at various stages of the business life cycle (Özgüneş, 2006:7).

Sometimes, venture capital and private equity are mixed up. Venture capital is the sub branch of private equity and 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. (Yardımcıoğlu and Demirel, 2008:11)

According to the Yardımcıoğlu and Demirel (2008), before considering an investment, private equity 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.

In the United States, venture capital is usually used for the early stage investments whereas private equity is generally used for late stage investments. In Europe however, venture capital is used for both early and late stage investments.

Özgüneş (2006) states that several steps have to be taken before a successful venture capital investment is booked in venture capitalists' deal list. These steps and their features can be listed as follow:

Identifying and Attracting New Deals*:* Before making an investment into the companies, a typical venture capitalist monitors the companies, industries and the potential competitors. After monitoring all these and the other economic factors, a venture capital company make a decision about weather the companies are good candidates to invest or not.

Reviewing the Business Plans: After deciding that the companies can be

good candidates to invest, venture capitalist start to review the business plans of the

companies and test weather the plans are applicable and realistic or not.

Preparing the Investment Report: If the venture capitalist finds the business plans of the companies attractive and applicable then it prepares an investment report to present their decision organs in order to convince them that these companies are worth to invest in.

Due Diligence Process: Right after the decision organs approve the investment decision, the venture capitalist starts immediately the due diligence process in order to double check the information provided by the companies.

Preparing Shareholders Agreement: At the same time of the due diligence process, venture capitalist and the companies assign lawyers to prepare a shareholders agreement to be signed before venture capital transfer the money. Shareholders agreement contains all the details about the investment, the role of the venture capitalist, the proceed of the invested money etc.

Monitoring: After signing the shareholders agreement and transferring the agreed amount of money to the companies, venture capitalist becomes the shareholder of the companies and starts monitoring the developments of the companies. Venture capitalist assigns some board members after the signing of the shareholders agreement in order to become active in the decision making process and monitor the development of the company closely.

Exit: The main focus of any venture capital company is to determine the most suitable timing in order to be able to exit from the invested companies. Therefore, venture capital monitors both the invested companies and the market. Exit channels and the variety of them is a very crucial point for a venture capitalist even before investing into a company. If a venture capitalist can not clearly determine the potential exit channels of an investment before investing the company, he may not invest at all.

Exit from the venture capital can be different ways. These are; initial public offerings, acquisitions and mergers, repurchase of the stocks by the company, re-organization of the company and liquiditaon of the company.

According to the Lerner (2008), venture capital has positive effects on technological innovation and technological innovation is linked to economic growth, since the 1950s, economists have understood that technological innovation is critical to economic growth. Therefore, venture capital also has positive effects on the economic growth.

The venture capital industry is replete with information asymmetries. There is a high degree of information asymmetry between the fund managers, who play a relatively active role in the development and growth of portfolio companies, and the passive investors, who are not able to closely monitor the prospects of each individual start-up. Legal practice, however, has developed contractual governance and incentive techniques that are widely considered to be effective in limiting opportunism and controlling the level of risk. For example, a fund's duration is usually ten years with a five years investment period, making it possible for investors to estimate with reasonable accuracy until when the venture capital firm can make fresh investments and, most importantly, when they ultimately will be able to recover their investments, including profits. In order to align the interests, the fund managers are also required to make a capital commitment. Typically the managers will invest 1% of the fund's total capital commitments (Vermeulen and Nunes, 2012:3).

Vermeulen and Nunes (2012), in their studies, discuss four strategies that may be deployed by venture capitalists. The first strategy relates to the "survival of the fittest" trend. It appears that the best performing venture capitalists are still able to attract sufficient interest from institutional investors. They may only have to slightly tweak the traditional venture capital fund agreement to offer more protection to the institutional investors. A second strategy, involving the introduction of "innovative" contractual provisions, aims to target more active investors. By offering customized separate accounts arrangements and deal-by-deal investment opportunities. The third strategy is moved by the idea that strategic, often corporate, investors will be able to improve and accelerate the fundraising process. Finally, venture capitalists can take a real partnership-type approach by setting up a new fund in which investors are selected on the basis of particular abilities and affinities.

3. Comparison Of Turkey And The United Kingdom In Terms Of Venture Capital

The resources of the information for this analysis are from various publications on the venture capital market. To obtain data for venture capital industries in the United Kingdom and Turkey, I used the European Private Equity and Venture Capital Association's (EVCA) Yearbook 2012, the BVCA Venture Capital Report on Investment activity 2011, the National Venture Capital Association (NVCA) Yearbook 2012, the Capital Markets Board of Turkey (CMBT) of Turkey and the web sites of the venture capital firms in Turkey.

In this analysis, each country are analzed sperately based on the theoretical conditionsof the venture capitals and then they are compared based on the yearly data of indicators.

3.1. Conditions of the Venture Capital in Turkey

Although venture capital financing model first started in 1993 in Turkey, at the end of 2011, there were just four venture capital investment trust in Turkey. Their names in order of their foundation dates are, IS venture capital trust, RHA venture capital trust, EGELI venture capital trust and GOZDE venture capital trust.

In Turkey, According to the Capital Markets Board of Turkey (CMBT), Venture Capital Investment Trusts (VCIT) are a form of collective investment institutions, directing issued capital toward venture capital investments which are defined as long-term fund transfers, through investing in capital market instruments issued in primary markets by the entrepreneur companies already established or to be established, with the aim of obtaining capital or interest gains (CMBT, 2012).

As stated by the CMBT (2012), some of the characterisrics of the VCIT in Turkey are follow:

Legal Structure

They are established in the form of joint-stock corporations and they have a legal personality. Their capital is registered and they issue shares. Their shares have to be issued in return for cash and quoted, traded and priced at a stock exchange.

Founders

There is no restriction on the founders accept for certifying that they have not been subjected to any legal prosecution due to bankruptcy or another disgraceful offence. Legal persons as well as real persons can be founders of a VCIT.

Portfolio Management

Venture capital investment trusts may; (1) Purchase stocks and borrowing instruments issued by the entrepreneur company, (2) Issue borrowing instruments, (3) Participate in the active management of the entrepreneur company and (4) Invest in other venture capital investment trusts.

Portfolio Restriction

Some of the restricton are related to; (1) Investing in the companies in which major shareholders or directors of the VCIT has a share of at least 10%, (2) Investing in securities of non-entrepreneur companies in the secondary market and (3) Investing in other VCITs.

Investors buy shares of a VCIT in the stock exchange. In return they are paid dividends at the end of the years. They may also sell their shares in the exchange and receive capital gains anytime they want.

Disclosure

Important developments about the VCITs and their monthly portfolio tables, including their assets and net asset value per share, are announced to the investors in the bulletin of the stock exchange. Besides, their annual and semiannual financial statements have to be audited by a certified external auditor.

Protection of Investors

The disclosure liabilities, portfolio restrictions and the listing requirements for the VCITs ensure the protection of the investors.

While Ussal (2008) states that venture capital investments in Turkey have been very limited, both in number of transactions and amount invested, Deloitte (2007) indicates that venture capital investments simply do not exist in Turkey. New ideas or early stage investments are usually self funded by the entrepreneur themself or through bank loans, which are usually short term borrowings. Funding the majority of capital investments by short term bank loans has caused considerable problems both for the companies and for the banks in the past.

According to the Beşkardeşler (2010), the problems of venture capital financing sector in Turkey are that; The funds in Turkey usually have short term maturity, there are few expert consulting firms and opennes to the innovation is very weak.

About the analysis of venture capital system, Çetindamar (2000) states that the determinants of the venture capital industry can be analysed under the three categories: access to savings, incentive structure and exit possibilities. Similarly, Ussal (2010) also indicates that the constraints on venture capital regarding regulatory / legal issues can be categorized into three categories: (1) issues regarding legal status and taxation of the venture capital funds, (2) limited exit options and (3) problems with protection of minority shareholders

According to the Ussal (2010), conditions of these constrains about the venture capital in Turkey as follow:

Legal Status And Taxation

While Turkey needs a modernization in the legal and regulatory infrastructure, the lack of it is not seem to be a binding constraint over the venture capital industry. The reforms in this area are not likely to foster the venture capital industry unless they are accompanied by other measures to address the market failures.

The all private equity and venture capital funds which are regulated under CMBT regulations, enjoy large tax advantages. They are exempt from corporate tax as well as personal income tax for the partners. Under CMBT regulations, all venture capital funds have to get an operating license from the CMBT, have independent audits every 6 months and file certain reporting requirements to CMBT. Up until 2009, there was an additional requirement for the funds to be quoted in the Istanbul Stock Exchange. This requirement resulted in not only new reporting burdens, but also created a distortion in the partnership structure of the venture capital firms. In 2009, this requirement was practically waived. Also, the current regulations only allow for open-ended funds, but not for fixed duration closed-end funds that is the common practice in the industry.

The Limited Exit Options

Another constraint on attracting investors to venture capital industry in Turkey is the limited exit options. There is no secondary dynamic public equity market for young technology companies with flexible Initial Public Offering (IPO) requirements, like NASDAQ. However, it is hard to argue that non-existence of a secondary market will be a binding constraint over venture capital. Cross-country evidence suggests that IPOs do not have significant effect in explaining variations in venture capital activity.

Protection of Minority Shareholders

Protection of minority shareholder rights is weak in Turkey. In an index to measure performance of countries in protection of minority shareholder rights in World Bank's Doing

Business indicators, Turkey currently ranks 60th among 160 countries, below emerging market countries like Poland, Mexico and India. Turkey requires reform in transparency of companies to their investors, rights of minority investors on director's conduct and enforcement of judicial decisions in this area

According to the Ussal (2010) regulation and taxation issues can not be binding constraint on the development of venture capital, limited exit oppotunities also may not be a biding constraint but protection of minority shareholders can be a binding constraint of venture capital in Turkey.

The results of the swot analysis made by Özdemir (2011) about the Venture Capital and Private Equity (VCPE) in Turkey as follow:

Strengths: (1) Following the rebound in Q2 2009, high and sustainable growth potential for nearly all industries, especially in consumer-related sectors, (2) Highly developed entrepreneurial skills, (3) Increasing understanding and acceptance of VCPE, high-quality professional management despite being an emerging market.

Weaknesses: (1) Lack of skilled workforce for certain industries, despite high unemployment rate, (2) Low protection of intellectual property rights, (3) Highly volatile market.

Opportunities: **(**1) A substantial young population, growing middle class and increasing per capita income will drive growth in the consumer products sector, (2) The level of institutionalization and transparency is expected to increase substantially with the enforcement of a new trade law, enacted in January 2011, (3) There is a growing appetite for acquisition finance, supported by a local banking system that is healthy and liquid, (4) IPO and Merger&Acquisition activity is increasing, as the economy grows; regulators are offering substantial incentives, such as lowering the minimum percentage float and profitability requirements, and the introduction of secondary markets for companies that cannot meet the listing requirements, (5) The majority of businesses are small- to medium-sized and family owned, with family members still active in daily management.

Outlook: (1) Turkey is a high potential growth market, (2) The legal and regulatory framework is still converging to the European system.

3.2. Conditions of the Venture Capital in The United Kingdom

The history of British venture capital starts in1929 where market failures in small firm financing were first recognized and reported by the Committee on Finance and Industry (the Macmillan Committee). In 1945, clearing banks and Scottish Banks were combined to finance the creation of the Industrial and Commercial Finance Corporation (ICFC). The Bank of England supported this formation from the beginning and the ICFC evolved to become one of the UK's top venture capital funds (Özgüneş, 2006:33).

The British Venture Capital Association (BVCA) has around 165 full member firms. This represents the vast majority of UK-based private equity and venture capital firms. There are 3 million people working in the companies that venture capital companies have invested. That is equivalent to around 18% of the private sector workforce. The UK accounts for about 40% of the whole of the European market and it is second in the world as a size after the United States (Jo, 2004:2)

As it is indicated in the Table 1, the focus of the venture capital investments in the UK is mainly later stage companies. High relative transaction costs for early stage investments such as financial due diligence and lawyer costs, make early stage venture capital investments unattractive and relatively small compared to later stage investments (Özgüneş, 2006:36-37).

Table 1: UK Venture Capital Investment by Financing Stage.

	Investment Amount (£m)			**Number of Companies**		
Stages	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
Seed	14	10	23	37	39	49
Start-up	125	46	47	57	65	62
Early Stage/Expansion	164	168	163	191	219	227
Later stage	151	89	115	80	74	67
Total Venture Capital	454	313	347	365	397	405

Source: BVCA Private Equity and Venture Capital Report on Investment Activity 2011

Related with the legal status-taxation and limited exit options of the venture capital, according to the Özgüneş (2006), the United Kingdom has taken some important actions as follow:

Legal Status and Taxation

Firstly, British government has taken some important actions to transfer more venture capital funds to start-up and early stage companies. Enterprise Investment Scheme (EIS) introduced in 1994, was designed to help overcome the problems faced by small companies in raising small amount of capital. The EIS is available for both small companies and established companies and provides a range of tax relieves for investors.

Secondly, The Venture Capital Trust (VCT) scheme came into force in April 1995. VCTs are quoted companies to attract investments from individuals and invest into qualified companies. VCTs are tax exempt institutions and individuals who invest in VCTs are entitled to tax incentives

Thirdly, The Corporate Venturing (CV) scheme, introduced in 2000, is intended to encourage corporations to make venture capital investments. Tax relieves and exemptions are major incentives of CV scheme. The corporations are eligible to tax incentives given by the CV scheme if and only if they hold more than 30% of the issuing company's ordinary share capitals and the gross assets of the issuing company does not exceed £15 million.

Along with these actions several tax incentive schemes were implemented to make small firms to be able to access capital sources.

The Limited Exit Options

The Biritish government realized that one of the most important reasons of small amount of money investing to start-up companies was the exit route problem. Since the major consideration of any venture capitalist is to exit form his investment after a certain period of time, the difficulty to find such a path could be a major problem for a venture capitalist to invest into a promising company. In order to establish an exit system for venture capitalist to exit from his relatively small investments, the London Stock Exchange introduced the Alternative Investment Market (AIM) in 1995 as a secondary stock market with less admission requirements and lower initial and continuing costs.

The results of the swot analysis made by Date (2011) about the venture capital and private equity (VCPE) in the United kingdom as follow:

Strengths: (1) Established global VCPE and financial centre, with large numbers of assets currently under VCPE ownership, (2) Private equity as an asset class is recognized as an important part of the economy, (3) Significant rebounding of private equity acquisition activity in 2010, with exit opportunities reappearing in Merger&Acquisition markets, (4) Leverage is returning and is much more accessible than in the last two years.

Weaknesses: (1) Caution created by continuing economic uncertainty, (2) Fierce competition for quality assets, (3) Difficult to establish the stability and growth prospects of individual target assets while emerging from the recession, (4) IPO markets not a widely accessible exit route for private equity assets in the past two years.

Opportunities: (1) Many attractive investment opportunities will come to market as the pent-up flow of exits continues, (3) Assets acquired by the banks during economic difficulties are expected to come to market, (4) While fund-raising still remains difficult, liquidity concerns are likely to recede and fundraising should recover.

Threats: (1) Macroeconomic uncertainty continues, (2) An increased regulatory burden may be placed upon private equity; the full impact of the regulatory changes are yet to become clear, (3) Refinancing challenges remain for private equity-backed assets, (4) The IPO market as an exit route for private equity remains uncertain

Outlook: (1) There is a large portfolio of private equity-backed UK assets expected to be exited, so the flow of assets to market is set to increase, (2) As credit becomes increasingly available by investors searching for yield in the current low-interest rate environment, transactions should continue to scale up in size; similarly, as investors search for yield, terms will shift in favour of borrowers, (3) Fund-raising conditions will remain challenging.

3.3. Comparison of Turkey and The United Kingdom

In this part of analysis, Turkey and the United kingdom are compared based on the some development indicators of venture capital. These are consist of research and development expenditures, patent applications of residents and nonresidents, number of venture capital companies and funding resource of venture capital companies.

In this comparison, since Turkey is an emerging country, it is not expected that the values of Turkey are close to the values of UK. But, with this comparison, improving trend of the venture capital in Turkey can be understood and it can give an opinion about the situation of the industry.

Research and development expenditure of Turkey and the United Kingdom between 2007-2009 are shown in the Table 2.

Tablo 2: Research and Development Expenditure

	% of GDP		
Country	**2007**	**2008**	**2009**
Turkey	0.72	0.73	0.85
United Kingdom	1.78	1.77	1.87

Source: (THE WORLD BANK, 2012), http://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS

It is seen from the Table 1 that although it is small in amount, there is an increasing trend of the venture capital rekated to the research and development expenditure in Turkey during the 2007-2009 term.

Patent applications of residents and nonresidents in Turkey and the United Kingdom between 2007-2009 are shown in the Table 3:

Table 3: Patent Applications of Residents and Nonresidents.

	Residents Patent Applications			Nonresidents Patent Applications		
Country	2007	2008	2009	2007	2008	2009
Turkey	1.180	2.221	2.555	211	176	177
United Kingdom	17.375	16.523	15.985	7.624	6.856	6.480

Source: (THE WORLD BANK, 2012), http://data.worldbank.org/indicator/IP.PAT.RESD

As it is seen from the Table 3, while residents patent applications more and increase, nonresidents patent applications small and decrease along the analysis term.

The number of venture capital investment trust and portfolio values of them in Turkey and the United Kingdom between 2000 and 2011 are shown in the Table 4.

Table 4: Number of Venture Capital Companies

	Number of Venture Capital Companies	
Year	Turkey	United Kingdom
2009	2	365
2010	2	397
2011/09	4	405

Source: (CMBT, 2012 and BVCA, 2011).

Although there are only 2 companies in Turkey before the year 2011, it doubles in 2011. This shows that there is an improvement in this industry as shown in the Table 4, even the number of companies is very small.

Funding resources of venture capital companies in Turkey and the United Kingdom are shown in the Tablo 5.

Table 5: Venture Capital Funding Resources in Turkey and UK

Turkey	United Kingdom
❖ Funds of Banks ❖ Funds of independent venture capital firms ❖ Funds of venture capital firms' parts ❖ Funds of private companies investing on the small and medium size companies ❖ Funds of R&D private corporations	❖ Funds of banks ❖ Investment institutions based funds ❖ Business expansions funds ❖ Funds of Corporations ❖ Funds of semiofficial instutions

Source: KUĞU, 2004:149)

As it is shown in the Table 5, the important difference concerning with the funding resources between Turkey and the UK is that Turkey does not use any public funds.

4. Conclusion

In this study, I have tried to search the conditions of venture capital financing model in Turkey and the United Kingdom and then compare between these countries. For this research, mainly I have looked into the legal status and taxation, limited exit options and problems with protection of minority shareholders. For the comparioson of these two countries, I have used the indicators of research and development expenditures, patent applications of residents and nonresidents, number of venture capital companies and funding sources of the venture capital companies.

The review of the literature about the venture capital indicates that venture capital financing model is very crucial for a country, especially for the emerging countries. Since this financing model includes both financial and social objectives, countries can accomplish economic development and also social projects such as job creation.

The results of the study show that although there are basic regulatory infrastructure, various taxation incentives, exit options and protection of minority shareholders rights, venture capital financing model in Turkey is quite insufficient. The reasons why venture capital in Turkey is so weak can be explained by the situtaions that protection of minority shareholder rights is not enough, the funds in Turkey usually have short term maturity, there are few expert consulting firms and opennes to the innovation is very weak.

In addition, the results of the comparison between Turkey and UK show that even it is inadequate there is an increasing trend of the venture capital about the research and development expenditure in Turkey, while patent applications of residents more and increase gradually, patent applications of nonresidents less and decrease during the 2009-2011 term, the number of venture capital companies doubled in recent years and as a disadvantage there is no public fund usage in Turkey.

The comparison results also indicate that all of the indicators have an increasing trend in Turkey like UK, but sources of funds are not same as UK. There is no public fund in the resources of venture capital in Turkey. Since the succes of venture capital financing model at the begining mostly depends on the government supports, insufficiency of the venture capital in Turkey can be also explained by the lack of government support as a fund.

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