

DEVELOPING SOCIAL IMPACT MARKETS IN TURKEY: FRAMEWORK FOR GOVERNMENT ENGAGEMENT AND REVIEW OF POLICY OPTIONS

ANJA NADINE KÖNIG

THOMSON REUTERS FOUNDATION

IIPC
IMPACT INVESTING POLICY COLLABORATIVE

IPC | ISTANBUL POLICY CENTER
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STIFTUNG MERCATOR INITIATIVE

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April 2014

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LIST OF ACRONYMS

CFFSE	COMMUNITY FINANCE FUND FOR SOCIAL ENTREPRENEURS
DFI	DEVELOPMENT FINANCE INSTITUTIONS
EBRD	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
EC	EUROPEAN COMMISSION
ESG	ENVIRONMENTAL SOCIAL GOVERNANCE
GIIRS	GLOBAL IMPACT INVESTING RATING SYSTEM
HDI	HUMAN DEVELOPMENT INDEX
IFC	INTERNATIONAL FINANCE COOPERATION
IIPC	IMPACT INVESTING POLICY COLLABORATIVE
IPC	ISTANBUL POLICY CENTER
KFW	KREDITANSTALT FUR WIEDERAUFBAU
KGF	KREDİ GARANTİ FONU
SEIF	SOCIAL ENTERPRISE AND INVESTMENT FUND
SIB	SOCIAL IMPACT BOND
TÜSEV	TÜRKİYE ÜÇÜNCÜ SEKTÖR VAKFI (TURKEY THIRD SECTOR FOUNDATION)
UK	UNITED KINGDOM
UNDP	UNITED NATIONS DEVELOPMENT PROGRAM
WEF	WORLD ECONOMIC FORUM

I ABOUT THIS RESEARCH

This report is one of the results of the Mercator-IPC Fellowship Project *Social Entrepreneurship and the Role of Government: Best Practices and Policy Options for Turkey in the Climate Change Sector* and the Impact Investing Policy Collaborative Fellowship Project *Building an Impact Investing Market Place in Turkey: Landscape and Policy Options*. The two fellowship projects have been combined under the umbrella of the *Social Impact Markets & Policies Turkey* Project and included:

- A review of framework conditions in which social enterprises operate including legal provisions that affect social entrepreneurs and social investment in Turkey;
- An analysis of the situation of social and green entrepreneurs based on a survey showing organizations' profiles, objectives and values, strategies with regard to innovation, growth, access to finance, expectation vis-à-vis government as well as interviews;[1]
- Market testing in Turkey to identify interest of financiers and intermediaries in supporting and investing in impact entrepreneurs;[2]
- Interviews with international impact investment organizations to identify the perception of and interest in Turkey as a social investment destination;[3]
- Development of options for policy interventions by the Turkish Government based on the review's findings.

1 König 2013.

2 See more information on the approach: http://www.socialimpactmarkets.org/talking-to-funders-how-appealing-do-you-find-this-particular-investment/.

3 König 2013b.

The insights in this publication are based on a number of sources. A **literature review** was conducted to understand the current debate on impact entrepreneurship, impact investing, and the role of public policy. There was a survey carried out regarding social and green enterprises between January and February 2013. This survey was the first of its kind in Turkey. In order to identify our target respondents we were guided by the following three criteria: social and/or environmental impact; innovativeness; (financial and managerial) sustainability.[4]

Between September and May 2014 the author carried out in-depth interviews with:

- **Entrepreneurs:** Twelve selected entrepreneurs were interviewed following the completion of the survey using an interview guideline to get an in-depth understanding of issues emerging from the survey.
- **Potential funders and investors in Turkey:** Fourteen representatives of different financing organizations (foundations, commercial banks, development financing institutions that may have an interest in social investments) were interviewed to identify their awareness of the social investment field and their interest in specific social investment opportunities presented to them.
- **International impact investors:** Reputable impact investors in the US, Switzerland, Germany, and the UK were interviewed to identify their perception of Turkey as a social investment destination and conditions for future engagement.

4 More details on the survey methodology in König 2013a.

- **Other stakeholders:** Meetings were held with government officials (Ministry of Development, KOSGEB, Regional Development Agencies) and intermediaries including TUSEV Ashoka, KAGIDER, Koç University, and Özyeğin University.

Beyond research, the work also included an outreach component including speaking engagements and the establishment of a social media platform to raise awareness of opportunities in impact investing and social entrepreneurship and to share research findings as well as the organization of the *Emerging Europe Impact Day,* an international conference held in Istanbul on 26 September 2013 in cooperation with the UNDP Black Sea Climate & Business Initiative (CLIMBIZ).

The work is based on the assumption that a holistic and systemic perspective is required to build newly emerging "social impact markets." It targets both policy makers in Turkey as well as foundations, support organizations, and other individual and organizations wishing to engage in building this field. However, it is hoped that the work may resonate with other stakeholders outside Turkey and provide insights that are relevant for decision makers in other countries around the world.

II ACKNOWLEDGEMENTS

This publication and the overall research carried out as part of the Social Impact Markets & Policies project would not have been possible without the financial and technical support by the **Istanbul Policy Center-Sabanci University-Stiftung Mercator Initiative**; the fellowship granted by the **Impact Investing Policy Collaborative (IIPC)** managed by Insight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University; and the pro-bono legal support provided by White & Case law firm in Istanbul through the **TrustLaw Connect program at the Thomson Reuters Foundation**.

The work benefited from input by numerous individuals. The author is grateful to everybody who provided his/her views, data, feedback, facilitated research and outreach activities in the background.

Special thanks to the Mercator-IPC Coordination Team at the Istanbul Policy Center, Daniel Grütjen and Çiğdem Tongal for their support during the entire fellowship period and to Çiğdem in particular for providing feedback on the final draft of the report; Türkan Yoşun and Professor Dilek Çetindamar of the School of Management at Sabanci University for their contribution to the social and green entrepreneurship survey on which important parts of the analysis of market constraints (Section 4.3) rely upon. Burçin Ergun from Akol White & Case Law office in Istanbul contributed with insights on the existing legal and regulatory framework in Turkey.

The author is also indebted to Aline Krämer of Endeva; Tonusree Basu of Insight at Pacific Community Venture for their feedback on the full draft; the whole team at Insight at Pacific Community Ventures as well as Sarah Ritter, Colby Dailey and Ben Thornley; David Wood at IRI Harvard University for making introductions to interview partners, supporting and promoting opportunities to share research findings with a wider audience under the IIPC and later the Global Learning Exchange for Social Impact Investing and in their network.

The author would also like to acknowledge the many enterprises in Turkey that participated in the social and green entrepreneurship survey and in particularly those who, in addition to their participation, also took the time for in-depth one-to-one interviews. Special thanks also to many representatives from foundations, financial institutions and development agencies, support organizations in Turkey, philanthropic advisors, entrepreneurship associations as well as Turkish government officials in particular at the Ministry of Development who provided insights into their work and shared their perspectives on social impact markets in Turkey.

Furthermore for the research on international impact investors' perception of Turkey, impact investment firms worldwide that gave generously of their time for interviews: Acumen Fund; Calvert Foundation; D-Capital; LGT Venture Philanthropy; NESsT; Omidiyar Network; Responsibility; SEAF; Social Venture Fund; Toniic; Village Capital; Willow Impact; and World Resources Institute-New Ventures.

Finally, the author would like to express her gratitude to Leyla Amur for final editing and proofreading.

Errors and omissions are the responsibility of the author alone.

III EXECUTIVE SUMMARY

The last decade has seen a rise in entrepreneurs aimed at resolving social and environmental challenges using entrepreneurial means. Furthermore, investment practices that either actively seek to create positive social and environmental impacts in addition to financial social returns, or philanthropy that applies venture capital approaches for generating public good are becoming more and more common. Governments have played a significant role in influencing and creating an enabling environment for these new markets, particularly in countries with pioneering policies such as the UK or the US.

In many countries however, including Turkey, such impact entrepreneurs as described in our report still fall through the cracks of existing support frameworks. The major impediments for the growth of individual organizations and the development of effective social impact markets include the lack of access to suitable forms of finance; capacity constraints; an inadequate policy, legal, and regulatory framework; and a general lack of awareness.

This publication aims to offer a framework for the Turkish government to explore policy options in order to promote impact entrepreneurship and to stimulate a dialogue between the Turkish government and key stakeholders. Furthermore, it is hoped that it may be used as a reference for government officials from other countries as well as other promoters such as development organizations, philanthropists, or academia.

The research approaches impact entrepreneurship by taking a close look at impact entrepreneurs both generally and the situation of impact entrepreneurs in Turkey. It develops a framework for government action and makes the argument for government involvement by outlining selected societal challenges in Turkey, highlighting specific opportunities in impact entrepreneurship, and presenting some market constraints faced by Turkish impact entrepreneurs before pointing to the potential risk of government failure. It provides an overview of selected tools applied in other countries to illustrate policy options available to the Turkish government before drawing conclusions on lessons learned, traces the next steps for the Turkish government, and suggestions for further research.

IMPACT ENTREPRENEURS

What sets impact entrepreneurs apart from traditional entrepreneurs is that the intention to achieve a measurable social and environmental impact is at the core of their business model. Impact entrepreneurs address these challenges through different business model pathways. They also have different ways of impacting the markets in which they operate (or which they have set out to create). Those that have a sector level or market-building impact beyond the direct impact on their beneficiaries may be defined as market infrastructure providers, market innovators and market scalers.

A social and green entrepreneurship survey conducted in 2013 by Social Impact Markets & Policies at Istanbul Policy Center/ Sabanci University in Istanbul somewhat indicated the profile, strategies, and effects of impact entrepreneurs in Turkey.

Table 1: Profile of impact entrepreneurs in Turkey

	Social	Green	All
Respondents (number/in %)	43 (75%)	14 (25%)	57 (100%)
Location of in Marmara region of:			
Headquarters	79%	79%	79%
Products & services provided	51%	57%	53%
Beneficiaries	36%	43%	38%
Age			
Less than 2 years	18%	7%	16%
More than 10 years	30%	21%	28%
1st Founder			
Age	43	45	44
Women founder	40%	57%	44%
Masters degree or PhD	41%	57%	44%
Staff			
Paid staff full time (means)	20	6	16
Volunteers/interns (means)	337	11	259

Source: König 2013.

A FRAMEWORK FOR GOVERNMENT ENGAGEMENT

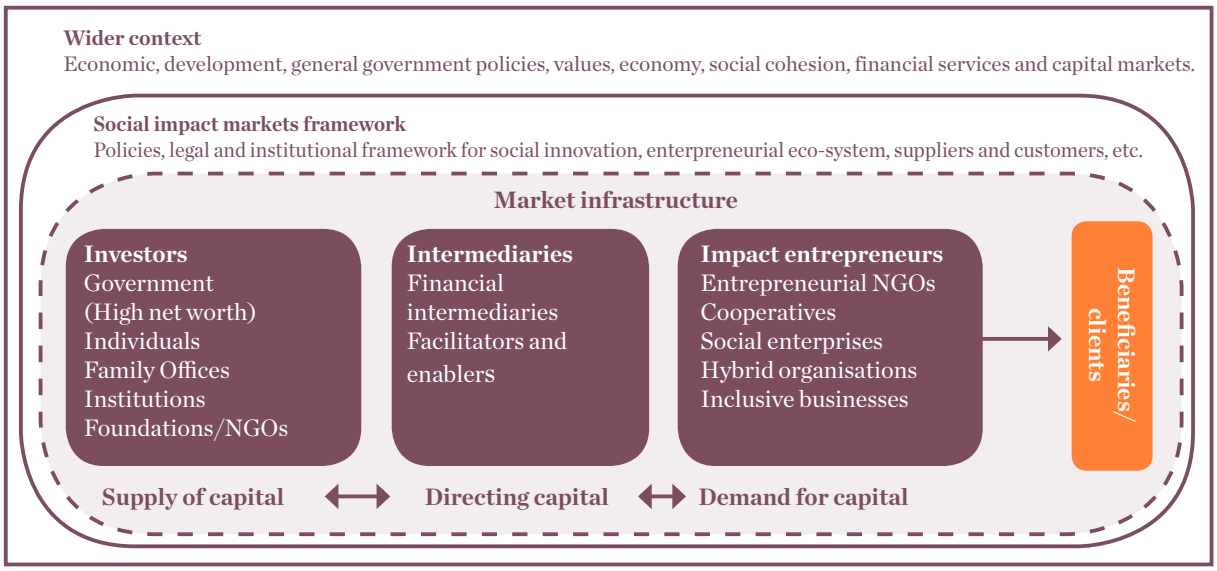
The framework for government engagement in social impact markets proposed in this publication is based on the following considerations:[5] First, it emphasizes the fact that impact entrepreneurs are part of a wider, holistic system of institutions, procedures, and social relations in which parties engage in a monetary and non-monetary exchange of goods, services, and information for social impact (social impact markets). In this document we focus on:

- The demand side as those organizations that deliver products and services for social impact and have a demand for capital and non-financial resources (impact entrepreneurs);
- The supply side of capital as those who supply finance (investors); as well as
- Intermediaries, who facilitate the flow of capital and resources.

These core relationships are embedded in the social impact markets framework that directly influences and shapes these players, as well as the wider country specific context.

5 Other frameworks that influenced the framework proposed here are described in Annex 2.

Figure 1: Social impact markets (I)



Source: Based on Weber and Scheck 2012 and Thornley et al. 2011.

The second consideration touches upon the dynamic perspective of markets: as entrepreneurs go through different stages of their life cycle, markets may be at different stages of maturity ranking from uncoordinated innovation (phase 1) to market building (phase 2), growth (phase 3), and maturity (phase 4). Policy measures will need to be in line with an agreed vision in which direction currently nascent social impact markets in Turkey should develop in the long term and how they should be designed to fit specific characteristics of each of these market phases.

The third consideration for a framework for government action introduces the following elements of government action: principles, strategy, institutions, and tools. We use these elements to review international experience and to develop recommendations for the Turkish government.

THE CASE FOR GOVERNMENT ENGAGEMENT

We identified the following arguments for the Turkish government to support impact entrepreneurship and social innovation:

First, despite unprecedented economic growth in the past decade, Turkey continues to face significant and persistent social and environmental challenges in the area of education, (gender) equality, and unemployment among the youth and women. There are also more fundamental challenges in the area of social cohesion, general life satisfaction, and happiness. It is not possible to resolve many of these issues by conventional interventions alone but instead call for new ideas and new approaches.

Second, experience in many countries around the world shows that impact entrepreneurship has been proven effective in addressing some of these

challenges. Furthermore, it was also successful in mobilizing new sources of financial and non-financial support and their interventions resulted in a positive impact on related sectors and the economy.

As data from Turkey demonstrate, impact entrepreneurs face various 'market constraints or failures' as they seek to develop an idea and take it to scale. Some of these market constraints should be addressed by the government (or other market promoters acting in the public interest). The market constraints we discuss in this report include finance, rules and regulation, market capacity, and information.

Finance

Available grant-funding mechanisms in Turkey are directed towards traditional charities and do not target impact entrepreneurs or, more generally, do not encourage social innovation. Despite a strong tradition of corporate philanthropy in Turkey, only few foundations make grants to non-profit organizations. The focus of capital deployed remains the creation and operation of 'hardware' such as the building of schools, universities, hospitals, or museums. Research also found that much of the philanthropic support in Turkey lacked a long-term strategy but instead was delivered on a project and short-term basis.

While survey data confirms that a considerable part of impact entrepreneurs are interested in debt or equity financing, few have successfully accessed such kind of finance. This is for several reasons:

As a result of credit lines by development financing institutions (DFIs), commercial banks increasingly offer credit to women entrepreneurs, farmers, and small entrepreneurs as well as for energy efficiency. However, many of the social ventures, in particular those early stage entrepreneurs, do not fall into any of these categories and are too risky for these banks.

Risk capital on the other hand, focuses almost exclusively on technology entrepreneurship and venture capital still flows in more mature, larger-sized industrial companies. The mainstream investor community in Turkey has so far shown little interest in sustainability concerns let alone placing impact at the core of their strategies.

Local social investors still do not exist due to lack of data, awareness, and even skepticism as well as specific challenges posed by early stage market development: the small size of organization, low absorption capacity, and the lack of market intermediaries. In contrary to other countries, Turkish philanthropic organizations are yet to engage and support market building. International impact investors that could bridge this gap stated in interviews that Turkey was not on their radar screen or they lacked suitable partners, market data, and a sufficient deal pipeline (see also section on market capacity further below).

Policy infrastructure

The regulatory framework affecting social impact markets in Turkey is at the same time both insufficient and excessive. Non-profit enterprises (47% of impact entrepreneurs in our survey) suffer from a number of legal hurdles. For example, the economic activities of impact entrepreneurs generally do not benefit from tax exemptions; access to a public interest status is both insufficiently transparent and when attained, provides insufficient additional benefits; and volunteering is not defined under Turkish law resulting in difficulties for many organizations that rely on contributions from volunteers. Impact entrepreneurs that are set up under a corporate structure (i.e. 40% of respondents in the green and social entrepreneurship survey) struggle to include social objectives in the goals of the company statutes.

Furthermore, Turkey has yet to develop a socially responsible public procurement law which considers social value created that would increase chances of social organizations accessing government procurement markets for goods and services.

Overall, while individual government entities such as the regional development agencies or some municipalities and individuals in government have shown interest in this field, Turkey lacks an overarching policy framework that would set the path for a more conducive policy and legal infrastructure.

Market capacity

Human resource constraints and organizational capacity are important limitations for the growth of impact entrepreneurship in Turkey. The social impact field in Turkey also lacks professionals in the private sector, foundations, and financing institutions that are able to navigate comfortably across the corporate, financial, and social sector.

Moreover, according to various observers and statistics, the low capacity for cooperation, collective action, and trust in Turkey limits the ability of social impact markets to flourish.

Information

Only limited information and data is available and publicly accessible regarding the profile and needs of beneficiaries, individual players, and the results of social programs. The majority of start-ups do not engage in in-depth market research prior to launching their business. Furthermore, existing impact entrepreneurs, do not collect and share much information about their activities and program impact beyond reporting the requirements of their main donors. The number of research centers, other organizations, and available funding for research in this field is limited to a few individual initiatives, with one or two exceptions.

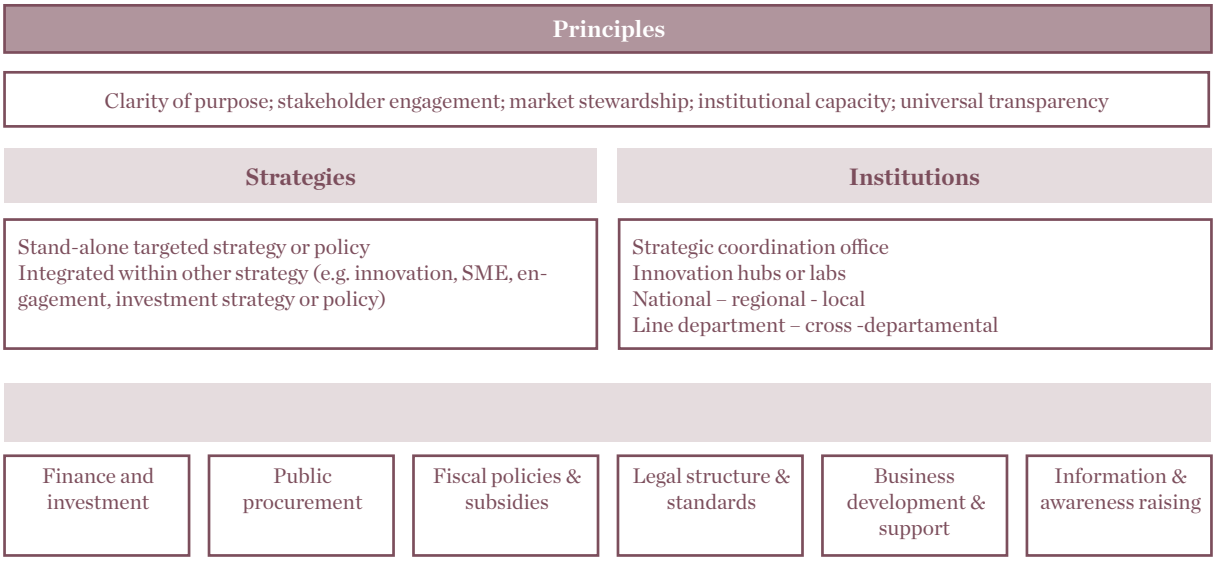
The lack of information and data may discourage potential funders, investors, and other impact entrepreneurs to engage. Furthermore, the lack of data and analysis also negatively affects the quality of policy decisions.

Beyond data and information, the key challenge for social impact markets in Turkey relates to a lack of awareness and embracement of new concepts of doing business and of using innovation in addressing social challenges in society. Our research found a deep-rooted skepticism in relation to addressing a social issue through entrepreneurial means or using investing for social impact. Furthermore, impact entrepreneurs are still perceived negatively due to the role of social organizations and civil society activism in Turkish history.

INTERNATIONAL EXPERIENCE

We identified policy options based on choices made by governments around the world in relation to policy principles, strategies, institutions, and tools they employed to promote impact entrepreneurship as well as to attract direct capital for social and environmental impact. Figure 2 provides an overview of the areas for which international experience was identified in this publication.

Figure 2: Elements of government engagement (I)



Source: Author.

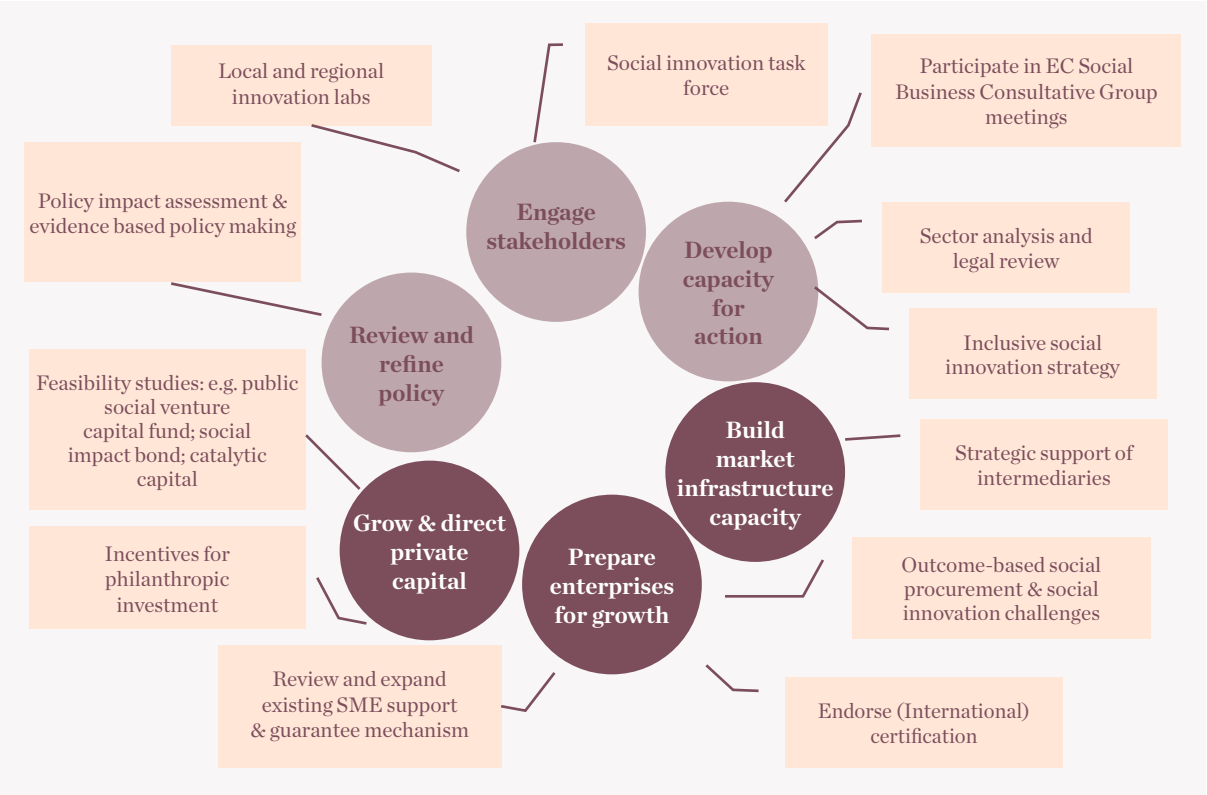
POLICY RECOMMENDATIONS

Since most of the government interventions described in this document have only been introduced recently, it is too early to evaluate their effectiveness. However, some initial lessons learned may be drawn:

- Rather than isolated interventions, a holistic approach to market development is important.
- "Reform champions" inside the government (and within government partners) are crucial for initiating new ideas and promoting them within government structures.
- While planning and the development of strategies are essential, the government also needs to implement pilot projects, investments, and provide evidence of social impact to attract interest, resources, and support to this newly emerging field.
- Any impact achieved need to be measured and demonstrated.
- The government cannot and should not act alone, but should regard itself as a mobilizer of a variety of sources to complement government support.
- Any government agencies or investment vehicles need to be set up at an arm's length and independent from government.
- Policy interventions need to reflect the needs of the entrepreneurs in their different stages of development.

Furthermore, the Turkish government could start stimulating and shaping social impact markets by taking some concrete and immediate actions as set out in Figure 3 below.

Figure 3: Options for immediate government action



Source: Structure based on framework used in Schwab Foundation/World Economic Forum 2013.

Finally, we recommend the following areas for further research, discussion, and development both in Turkey as well as at the international level:

- The refinement of a framework for ex-ante or ex-post policy impact assessment to assess existing policy interventions in the field of impact entrepreneurship and impact investing;
- The division of roles and responsibilities and opportunities for collaboration between government and other promoters such as development institutions, foundations, or investment advisory organizations in building social impact markets;
- The specific challenges and opportunities that governments in emerging markets face in building their social impact markets.

1 INTRODUCTION

"Any development of social impact markets must include government; otherwise efforts will only have a marginal effect."

Wolk, A., Founder and CEO of Root Cause (2012).[6]

"Turkey has all the ingredients ready to incentivize social enterprise, which is all the more reason for Turkish Government officials to be looking more comprehensively at the innovations in civil society and to create an enabling environment and incentives that allow them to thrive."

Bikmen, F. Philanthropic and Social Investment Advisor (2013).[7]

"Give a man a fish and he can eat for a day. Teach a man to fish and he can eat for a lifetime. Teach a man to fish and take a cut out of his expanded production and you can teach the next man how to fish."

Adjusted from a Chinese Proverb.

The last decade has seen a rise of social innovators and hybrid organizations that use entrepreneurial means to address social or environmental challenges. With their roots in civil society, corporate, or even the government sector, they blur traditional roles and functions for the public good. These social entrepreneurs, or 'impact entrepreneurs' as referred to in this document, have proven to be effective in generating new ideas and resolving complex social and environmental problems. In the past, these problems have been ignored by players in the conventional private sector and have not been solved by governments and charities. In recent years, the diffusion of successful social impact models, and the celebration of exceptional entrepreneurs has risen to the top of the international agenda at the World Economic Forum, the World Entrepreneurship Forum, G20 meetings, and other high level meetings.

At the same time, spurred by the global financial crisis in 2008, the restructuring of the welfare state and the call for greater resource efficiency, individuals and organizations have started to look for ways on how financial markets can be shaped to operate in the greater public interest. Over the past decade impact investing emerged as an investment practice that:

> *"[...] intentionally seeks to create both financial return and positive social or environmental impact that is actively measured."*[8]

In 2010, investment firm JP Morgan Chase estimated the market size for impact investment at USD 400 billion to 1 trillion in assets in the next decade.[9] Venture philanthropists and social investors have shaped this field for more than a decade by extending their giving to impact entrepreneurs applying techniques akin to traditional investment methods and supporting the development of this field through research, networking, or piloting social innovations.[10] And mainstream investors

6 Wolk 2012.

7 Bikmen 2013, 108.

8 This definition has been provided by the Economic Forum Mainstreaming Impact Investing Working Group. Impact investing is different from socially responsible investing which refers to the screening of investments that may have some sort of negative impact to society or to the environment (negative screen). These activities are not "impact investing" as defined here in that they do not intentionally and explicitly set out to deliver the dual objective of social/environmental outcomes and financial returns (which may be below market, at market or above market). (World Economic Forum 2013, 7).

9 JP Morgan Chase 2010, 6.

10 Mulgan 2012 describes social innovation as a field that "covers new ideas (products, services and models) that simultaneously meet socially recognised social needs (more effectively than alternatives) and create new social relationships or collaborations, that are both good for society and enhance society's capacity to act." (Mulgan 2012, 35).

are starting to be included in the diverse of mix of capital for social impact.

Governments have played a significant role in influencing and creating an enabling environment for these new markets, particularly in pioneering countries such as the UK or the US. They have successfully experimented with policies that nurture social innovation. They have also helped impact entrepreneurs to attract private capital for social and environmental impact and increase the supply of impact capital.[11]

Government development (finance) institutions have often successfully designed and implemented public sector-led innovations that only recently appear to be more and more noticed by players outside the development community.

In many countries, however, including in Turkey, the small but growing community of impact entrepreneurs that place the achievement of social and environmental impact objectives at the core of their business model still falls through the cracks of existing policy frameworks, support systems, and financing strategies. Such entrepreneurs are often misunderstood by the general public and policy makers, who either view them as traditional charities or extended corporate social responsibility projects. They struggle with legal provisions and have difficulties to find and retain suitable staff. While traditional donations and grants constrain them in their entrepreneurial methods, they have trouble accessing capital markets and non-financial support that is accessible to traditional entrepreneurs.

To date, little research and practical information is available to policy makers and other promoters of the policy options available to promote impact entrepreneurship and develop what is defined in this document as "social impact markets." This document offers a framework for government action to facilitate the exploration of policy options in this emerging field.

The objective is to provide a basis for stimulating dialogue between the Turkish government and key stakeholders both in Turkey and internationally. Furthermore, it is hoped that this work may be useful as a reference for other government officials who wish to strengthen this emerging policy field in their own countries as well as other promoters such as development organizations, philanthropy, or academia.

The research approaches impact entrepreneurship by taking a close look at impact entrepreneurs both globally and in Turkey (Section 2). Section 3 develops a framework for government engagement. Section 4 makes the case for government involvement by outlining selected societal challenges in Turkey, highlighting specific opportunities in impact entrepreneurship and presenting some market constraints Turkish impact entrepreneurs face before pointing to the potential risk of government failure. We then outline selected tools used in other countries to illustrate policy options available to the Turkish government (Section 5) before drawing conclusions on lessons learned, next steps for the Turkish government and suggestions for further research (Section 6).

11 For example, the UK Government put social investment on the agenda of its G8 presidency in 2013 and the European Commission is actively advancing its EC Social Business Initiative culminating in the establishment of the Social Impact Accelerator in May 2013, a fund-of fund investing in and supporting social enterprises.

2 IMPACT ENTREPRENEURS

2.1. ILLUSTRATING IMPACT

In this document we interpret *impact* as the sum of outcomes defined as the changes in people's lives and the environment resulting from the organizations' services or products.[12] Impact can only be measured in reference to counterfactual (what would have happened if a particular investment or activity had not occurred?) and a normative element (what should happen?). Such norms are inherently subjective and may change according to individual or institutional preferences and the interpretation of societal values.[13]

As a result, a single 'correct' definition of impact or impact entrepreneurship does not and should not exist. It should rather depend on the purpose for which the definition is made and the selected methodology applied. A policy maker would probably have different criteria for the eligibility of tax relief than an impact investor for criteria for its investment or a support investor for defining eligibility for a grant scheme– let alone the entrepreneur who may have his/her own definition formulated as part of his/her own strategy and objectives.

As the field grows and the number and variety of players engaged increases, it is important to set boundaries and work on a generally-accepted framework. Most would agree that what differentiates impact entrepreneurs from traditional enterprises and businesses is the intention to achieve a measurable social and environmental impact that is at the core their business model.

Impact enterprises typically operate across many sectors in an economy such as agriculture, energy, financial services, education, and healthcare. They also work in the area of human rights, gender equality, or economic empowerment.[14] Impact entrepreneurs can be set up as non-profit organizations, cooperatives, social enterprises, for-profit social, and/or inclusive businesses.

Impact pathways

Typical impact entrepreneurs tackle social and environmental challenges through one or – in most cases – a combination of the following paths:[15]

1. **Inclusive and sustainable value chain management (path 1):** Such enterprises include vulnerable communities in the value chain as producers and service providers and ensure environmental protection and sustainability along the value chain. For example, they source through certified suppliers or contract suppliers from the local community only and provide training support to build their capacity.

2. **Sustainable creation of training, jobs, and economic opportunities for marginalized groups (path 2)**. Such enterprises apply franchising or distribution models or directly employ underemployed groups such as youth, handicapped people, or individuals with a criminal record.

12 In this document we will shorten 'social and environmental impact' to 'impact'. In the traditional impact chain, organizational activities lead to direct outputs (e.g. services supplied, products distributed) and become outcomes only as they are made use of and absorbed into the lives of beneficiaries. See Hornsby 2012, 29.

13 See discussion in Brest and Born 2013.

14 The Global Impact Investing Network's (GIIN) Impact Reporting and Investment Standards (IRIS) lists eight key impact sectors: agriculture, housing and community facilities, financial services, education, health, energy, environment and water. See Thornley et al. 2011, 22.

15 The pathway approach applied here is based on the business models identified by the Global Impact Investing Rating (GIIRS) as well as Dahlberg (2012, 19-21) and adjusted for the purpose of this document.

3. **Provision of goods and services to vulnerable communities (path 3):** Such enterprises design and develop specific products and services that meet the demand of low-income consumers and other vulnerable groups at an affordable price often combined with tailor-made financing and payment mechanisms. This includes access to basic services such as health, education, or water as well as access to financial services or access to markets for farmers.

4. **Provision of products and services that lead to the preservation of the environment and sustainable management of resources (path 4)**. Such enterprises develop and/or promote technologies that reduce water or energy use, activities that promote bio-diversity, or raise awareness and engage in solutions.

5. **Provision of intermediary products and services (path 5).** Such enterprises facilitate collaboration between different groups, matchmaking of interests and resources, as well as data gathering.

Impact levels

Impact enterprises generate impact at different levels:[16]

- **Operational impact** as the impact of the enterprise's management practices on employees' health, labor standards as well as other aspects of the local community's well-being, or environmental impact of its supply chain and operations.
- **Product impact** as the impact of the goods or services provided by the enterprise that benefit vulnerable communities, conserve the environment or address climate change.[17]
- **Collaborative impact** as the impact of the entrepreneur multiplied by working together with other organizations to tackle a complex problem that cannot be resolved by one single organization.[18]
- **Market level impact** as an enterprise's impact, beyond its particular impact on beneficiaries, on the sector or the development of social impact markets (see Section Market development). A social innovator, for example, that establishes a new partnership agreement with a government agency lowers the barriers for other social ventures to work in a similar arrangement in the future. Many impact entrepreneurs first educate the market and raise awareness before they are able to offer their goods and services. Thus, they help prepare the ground for their followers as set out in Figure 1 (see Figure 5 on market level impact of different type of impact entrepreneurs).

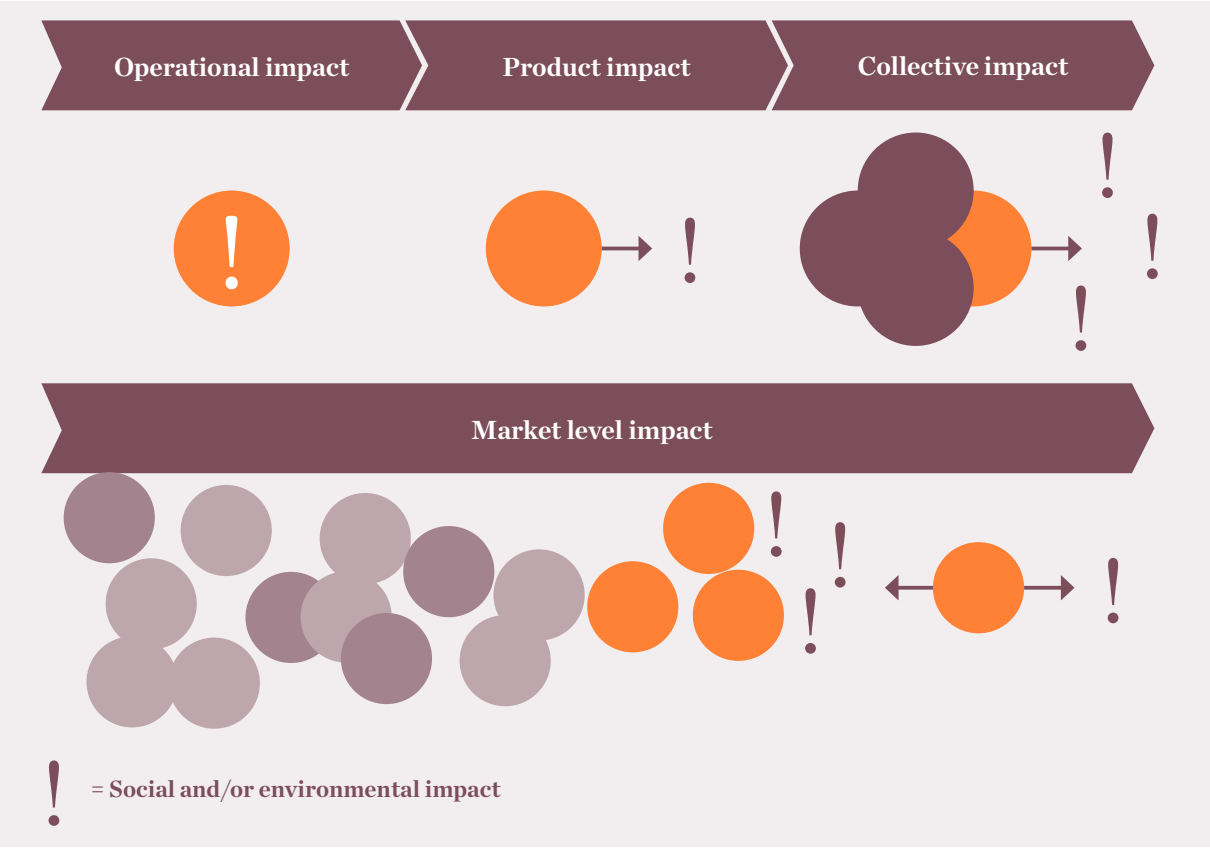
Figure 4 below illustrates the effect of different impact dimensions.

16 Brest and Born 2013. In contrast, Hornsby differentiates *mission fulfilment* (to what extent has the mission been fulfilled?), *beneficiary perspective* (To what extent are beneficiaries experiencing positive change in their lives as a result of the organization's activities?) and *wider impact* ("How is the change playing out in wider contexts and environments, and what are the implications for local and societal benefits?"). (Hornsby 2012, 75).

17 Support organizations such as Ashoka have made significant efforts to demonstrate and communicate the benefits of social enterprises in their portfolio. E.g. Ashoka 2010 The Global Impact Investing Network supported the development of Impact Reporting and Investing Standards (IRIS) as well as the Global Impact Investing Rating Standards (GIIRS) (see www http://iris.thegiin.org/about-iris and www.giirs.org). These are standardized metrics for assessing the performance of the enterprises in impact investors' portfolios. However, few efforts have been made (outside of microfinance sector) to assess outcomes rather than outputs, let alone their impact.

18 Kania and Kramer 2011.

Figure 4: Impact levels



Source: based on Bannick and Goldman 2012.

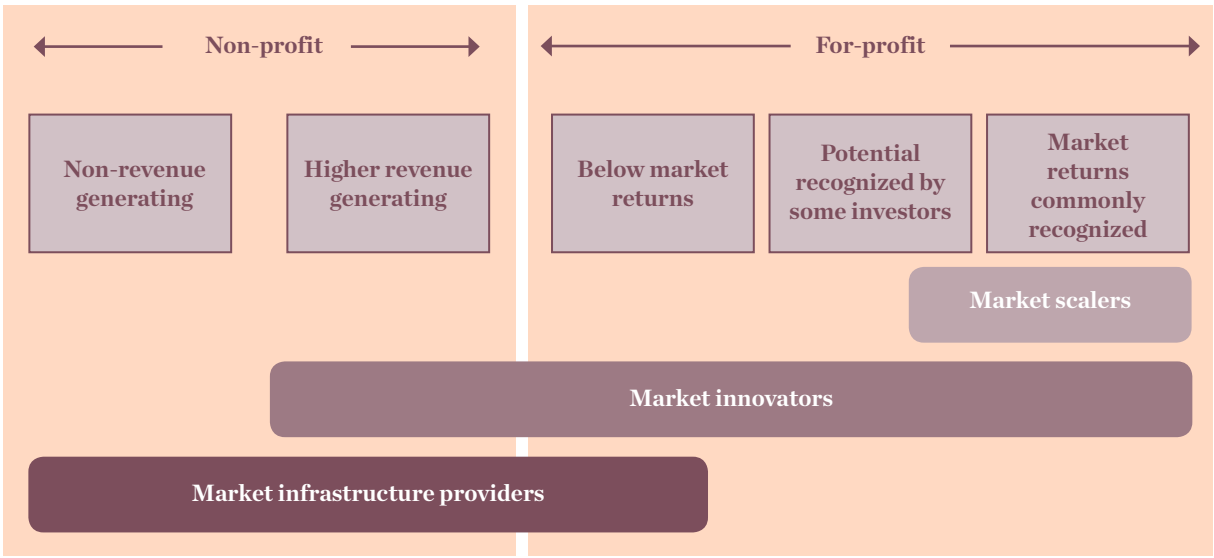
Market impact of main actors

Different impact entrepreneurs reach market level impact in different ways. Bannick and Goldman (2012) differentiate three categories of impact entrepreneurs (Figure 5):

- **Market infrastructure providers** are those that advance social impact markets by providing for collective needs thus creating a strong eco-system for the benefit of other market players (e.g. industry associations, information exchange, rating system developers). Charging for services is possible and necessary to test their value proposition and be self-sustaining but not all services can be monetized.
- **Market innovators** pioneer new business and investment models and thus advance the sector by de-risking the innovation (e.g. Grameen Bank for microfinance institutions, Bridge International Academies). They range from non-profit to full profitability, but it may take years to achieve financial sustainability and scale; until then, they inhibit a high risk of failure.

- **Market scalers** enter into a market after the initial model has been de-risked. They contribute to market development by attracting significant levels of resources and reaching scale.

Figure 5: Categories of impact entrepreneurs in terms of market development impact



Source: Author.

Market infrastructure providers and market innovators are essential in the early stages of market development such as in Turkey, whereas market scalers drive the growth of the market towards maturity (see Section 3.2 on market development).

Considerations regarding impact dimensions and impact paths have important implications for policy making (as well as for funders, investors and support organizations engaged in market building): they help define the target group and the design of policy interventions depending on the stage of market development.

2.2. IMPACT ENTREPRENEURS IN TURKEY

In 2013, *Social Impact Markets & Policies* implemented the first social and green entrepreneurship survey in Turkey to be able to understand the situation, strategies, and needs of local impact entrepreneurs.[19] For this purposes, we defined three criteria that we set as proxies for impact entrepreneurship: we looked for organizations that **intentionally pursued; a social and/or environmental objective**; were **innovative**; and organizations that were **committed to the financial and managerial sustainability** of their organization.[20]

We found that entrepreneurs that satisfied those criteria targeted mostly youth and children (71%), women (65%), the environment (65%), and people with disabilities (58%). **Green entrepreneurs**

19 We identified 159 entrepreneurs that appeared to match the set of three criteria. Out of the 159, 57 entrepreneurs provided responses AND still met the set criteria after a careful review of their responses. More information on the methodology, the data set and survey results in König 2013a.

20 See Jansen 2013 for a comprehensive review of social enterprise terminology and concepts in academic literature.

made up approximately one third of our sample. They included businesses in the field of smart agriculture, organic textile sustainable consumption, ecological tourism, and marketing activities to promote green products and organizations. **Social entrepreneurs** are active in, for example, the field of crowd funding for social organizations, the creation of income generating opportunities for women or the disadvantaged groups, working with youth and children, they developed a time banking system or set up a women-only work out and franchise company.

Applying the pathway classification applied in Section 2.1, many of the green entrepreneurs follow a path 4 business model (products and services that lead to the preservation of the environment and sustainable management of resources), whereas social entrepreneurs create training, job, and economic opportunities to marginalized and vulnerable groups - often women (path 2) or provide goods and services that benefit vulnerable communities (path 3). Most recently the sector witnessed a significant increase of entrepreneurs providing intermediary services (path 5) in particular in the area of crowd-funding and applying principles of the 'sharing economy.'

Considering the legal set ups, (financing) strategies, core values and methods, respondents can be broadly divided in two groups:

- Established and often rather large organizations that have roots in the non-profit civil society sector; and
- Young entrepreneurs (in the age of both the founder and the organization) that make use of information technology and social media to reach beneficiaries and clients.

In fact, almost one-third of organizations in our sample are older than 10 years and only 16% are younger than 2 years (with green entrepreneurs being significantly younger than social entrepreneurs). However, even amongst the more established organizations few can be considered 'market scalers,' i.e. organizations that are able to attract a significant level of resources and reach scale (see Section 2.1).

Furthermore, the typical founder in our sample is mid-age, well-educated, more likely to be male, and has considerable work experience.[21] Most of the survey respondents have their headquarters in Marmara Region (which includes Istanbul), but almost half of respondent organizations produce goods and provide services all around Turkey, and a quarter of them operate internationally. On average, respondents employ 8 staff permanently and have 24 volunteers.[22] Green entrepreneurs have a considerably less number of employees (6 permanent paid and 11 unpaid staff/volunteers).

Table 2 provides an overview of the profile of impact entrepreneurs in our sample.

21 With 56% the percentage of male founder, however, is much less than amongst traditional enterprises with 72 %. (RACCP/TTGV 2012, 19).

22 This is after elimination of 'out layers' among social enterprises. Otherwise the figure would have been 16 permanent staff and 259 volunteers.

Table 2: Profile of impact entrepreneurs in Turkey

	Social	Green	All
Respondents (number/in %)	43 (75%)	14 (25%)	57 (100%)
Location of in Marmara region of:			
Headquarters	79%	79%	79%
Products & services provided	51%	57%	53%
Beneficiaries	36%	43%	38%
Age			
Less than 2 years	18%	7%	16%
More than 10 years	30%	21%	28%
1st Founder			
Age	43	45	44
Women founder	40%	57%	44%
Masters degree or PhD	41%	57%	44%
Staff			
Paid staff full time (means)	20	6	16
Volunteers/interns (means)	337	11	259

Source: König 2013.

3 A FRAMEWORK FOR GOVERNMENT ENGAGEMENT

With an increased debate on effective policies in this new field, a variety of useful frameworks have been suggested to analyze and develop government policies on impact investing[23], social innovation[24], or inclusive business[25] (see Annex 2 for more details on these frameworks).

The framework for government action proposed here takes these into account and emphasizes two perspectives. First, the need for a holistic perspective of social impact markets (Section 3.1) and second, the importance of a dynamic perspective emphasizing the need to develop these markets from early stage towards maturity (Section 3.2). Section 3.3 introduces key elements of the framework for government action that will guide the review of policy options and international experience in Section 5.

3.1. SOCIAL IMPACT MARKETS

Impact entrepreneurs and other players do not act in isolation but are part of a wider system of institutions, procedures, and social relations in which parties engage in monetary and non-monetary exchange of goods, services, and information for social impact. This is what we call **social impact markets**.[26]

Social impact markets consists of a **plurality of demand-supply relations and networks** that form social impact markets including those between beneficiaries and impact entrepreneurs, impact enterprises, and their suppliers of capital, goods and services, industry associations as well as government agencies.[27] In this document, we focus on the **demand side as those who demand for capital and other non-financial resources (impact entrepreneurs)** and **the supply side of capital as those who supply finance (investors)** as well as **intermediaries.**[28]

Potential **investors** include the government, foundations, non-governmental organizations, and institutional investors (e.g. pension funds, insurance companies). Furthermore, family offices, high net worth individuals, and increasingly "normal" individuals contributing through crowd-funding platforms or investment vehicles such as bonds are also potential investors.[29] **Intermediaries** include

- Financial intermediaries offering their own products and services such as social venture capital firms or value banks;
- Facilitators (e.g. investment advisors, platforms, brokers);
- Enablers (e.g. research centers, platforms).

Intermediaries play a crucial role in social impact markets by contributing to a (increased) flow of capital for social impact, strengthening demand and reducing costs, matching supply and demand, and providing information and professional services (e.g. payment services, legal services). Mulgan (2008) emphasized the critical role played by "connectors,"

23 Thornley et al. 2011, 8.

24 Schwab Foundation for Social Entrepreneurship/World Economic Forum 2013, 8.

25 Tewes-Gradl et al. 2013, 22.

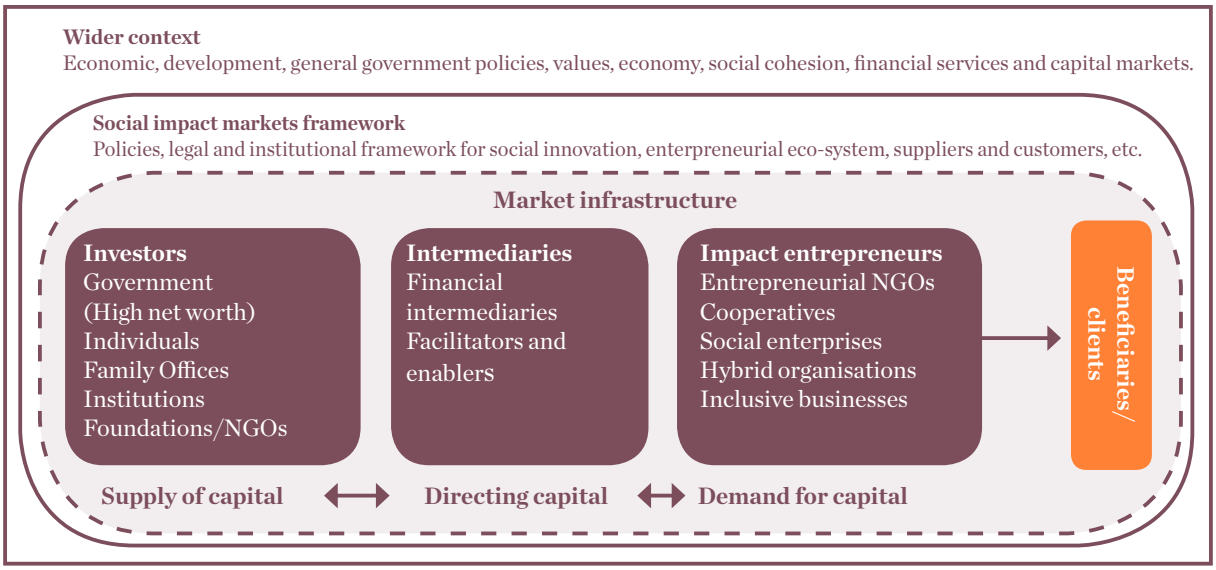
26 Based on a definition on social impact markets introduced by Wolk 2012. We support the notion of social impact markets rather than social investment markets emphasizing the argument that the supply of finance and investment is only one of various means of achieving social impact and highlighting social impact as the focus of market development efforts.

27 Mulgan (2008) argued that the creation of social relationships between previously separate groups was at the core of social innovation. (Mulgan 2008, 35).

28 Actors in social impact markets can be delineated in various ways e. g. see on recent definitions Hoechstaedter 2013 and Weber and Scheck 2013.

29 For example, www.kiva.org or the community investment note offered by Calvert Foundation which allows individuals to make a small loans or philanthropic platform www.sosense.org.

Figure 6: Social impact markets (II)



Source: based on Weber and Scheck 2012 and Thornley et al. 2011.

i.e. intermediaries which link together different people, ideas and capital flows:

> *"If we stand back and look at the whole system of innovation and change it's clear that they [the connectors] often play more important roles than the individual entrepreneurs, thinkers, creators, designers, activists and community groups, even if they are often less visible."*[30]

Market infrastructure supports economic activity and development, often through networks, which facilitates the delivery of goods and services and the connection of market actors (e.g. social stock exchanges, platforms, clearing houses). Market infrastructure often exhibits public goods characteristics calling for government or philanthropic intervention.[31]

The core relationship between investors, intermediaries, and investees is embedded in the **social impact markets framework**, i.e. policies, the legal, regulatory and institutional framework that were designed to develop social impact markets and influence the behavior of key market actors. This may include specific legislation providing specific legal structures for impact entrepreneurs, social investment rules or relevant tax incentives or investment vehicles, some of which will be discussed in this document (section 5.4).

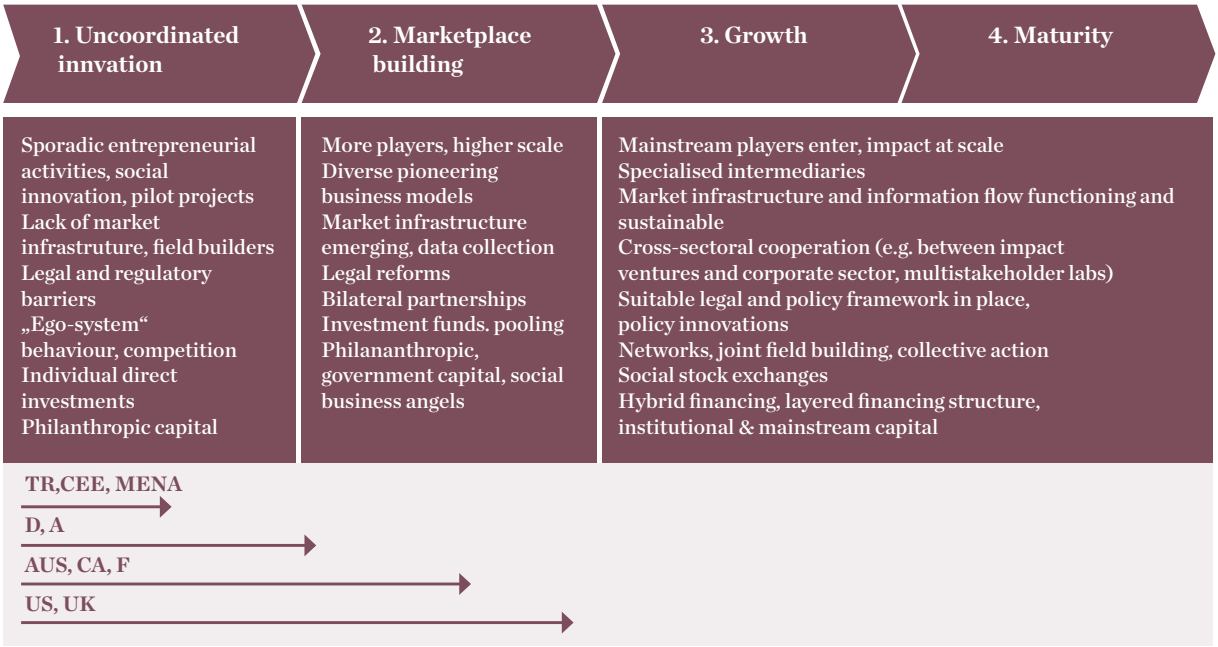
These are embedded in the **wider country-specific context,** which includes general policies with an indirect effect on social impact markets such as entrepreneurship policies, investment/banking regulations, or aid legislation. It also includes the wider country context: the level of economic development, predominant values and attitudes, the level of social cohesion in society, the welfare system, or the role of government (see Figure 6).[32]

30 Mulgan 2008, 36.

31 Examples of government intervention to provide such market infrastructure are the social innovation exchange set up by the European Commission, the London Social Stock Exchanges supported by the Rockefeller Foundation or many of the matchmaking programmes run by development agencies.

32 Kerlin 2012; Mendell and Nogales 2009.

Figure 7: Phases of market development



Source: adapted from Monitor Institute 2009, 12.

A holistic market perspective has implications for policy makers and other promoters. Antony Bugg-Levine, the CEO of the Non-profit Finance Fund and previous Managing Director at the Rockefeller Foundation observed in a recent debate the 'impact in impact investing' on the Stanford Social Innovation Review blog:

> *"We increasingly find in our work that intervening at the level of the enterprise is no longer adequate. Even with the right investment, great management, and a high-impact product or service, many of our clients will not succeed unless the systems in which they operate fundamentally adapt to new realities."*[33]

3.2. MARKET DEVELOPMENT

The second consideration touches upon the **dynamic perspective of markets** as markets develop over time and in cycles. As a result, social impact markets can therefore be at different stages of maturity ranging from uncoordinated innovation (phase 1) to market building (phase 2), to growth (phase 3) and maturity (phase 4) (see Figure 7).

33 Bugg-Levine 2013.

However, what are **key elements of social impact markets** that allow us to distinguish different stages and assess the level of market maturity? What kind of organizations, market infrastructure, policy frameworks, networks, behavior and relationships, financial products and mechanisms should governments work towards and what should officials expect to see in place after 10 or 15 years? Internationally, not much debate has yet taken place on these important questions.

For emerging social impact markets such as Turkey, the answer to these questions is crucial and has practical implications impacting the design of strategies, tools, and activities. Policy makers and government officials need to develop a joint vision around these questions, to mobilize support within and outside the government, align resources, and measure progress over time.

Other markets that moved from niche to mainstream such as microfinance, clean tech, housing, or venture capital markets may provide valuable lessons for the Turkish government in this regard.[34] Engaged Investment, an intermediary who aims at developing impact capital markets based in the UK, states:

> *"The impact investment market should be recognized as an emerging market, and compared with other now-emerged financial markets at similar early stages of their development. [...] All provide valuable lessons in how they evolved from being a relatively untested emerging market to now being part of the portfolios of many fund managers."*[35]

In Turkey (as well as other markets in the region), social impact markets are still at a very early stage. Social innovators are few, and even more established organizations have remained small despite a longer period of time. The sector lacks market infrastructure and intermediaries. Beyond traditional development financing institutions, DFIs, social investors do not yet exist. Most foundations engage in traditional forms of giving (scholarships, support of art and cultural festivals, the building of schools and the setting up of museums, hospitals or universities). Only seven out of the 4,600 foundations in Turkey engage in grant making to charities.[36]

At the government level, a social entrepreneurship working group has been formed as early as 2008, but it is yet to engage with market players and to produce tangible results.

With a younger generation are taking over in family businesses (as well as the attached foundations) along with businessmen and -women who are now selling their successful businesses, however, a new cadre of potential social investors is likely to emerge in the coming years. Furthermore, market infrastructure is slowly emerging with the re-launch of the international social entrepreneurship network Ashoka, as well as the spread of co-creation and shared office and innovation spaces including the future establishment of an Impact Hub Istanbul.[37] Moreover, there is an increasing level of activity centered around (mostly private) universities such as social entrepreneurship courses, investment ready and social finance trainings, social entrepreneurship competitions and the organization of events. The Third Sector Foundation (TUSEV) contributed to field building with research, organization of seminars, sector meetings, raising awareness at the policy level as well as the piloting and promotion of the concept of a community development foundation in Turkey.[38]

34 Some argue that we are witnessing the emergence of a new market comparable to the venture capital industry in the 1960s and 1970s. See Cohen and Sahlman 2013.

35 Engaged Investment.

36 TUSEV 2013, 11.

37 http://turkey.ashoka.org/# and http://www.impacthub.net/.

38 TUSEV receives support in social entrepreneurship, social investment, and philanthropy by Mott Foundation and the Turkish Philanthropy Fund.

Over the past years, a significant level of interest in activity of social entrepreneurship can be observed amongst university students but also experienced professionals both in Turkey and working outside Turkey looking for career opportunities in this emerging field. Figure 8 provides a map of social impact market players in Turkey in the social enterprise.

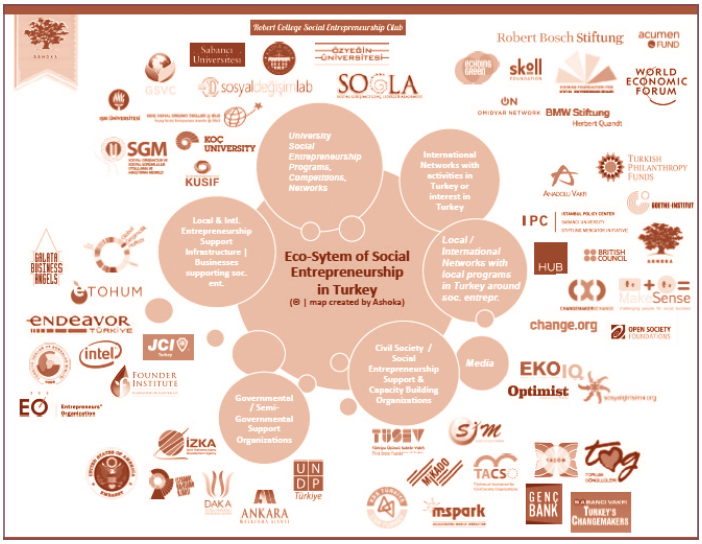
3.3. ELEMENTS OF GOVERNMENT ENGAGEMENT

Effective government policy in any field consists of a number of elements that ideally complement each other and that should be well anchored in national development policies.

For the purpose of a review of international experience in Section 5, we propose the following framework (Figure 9):

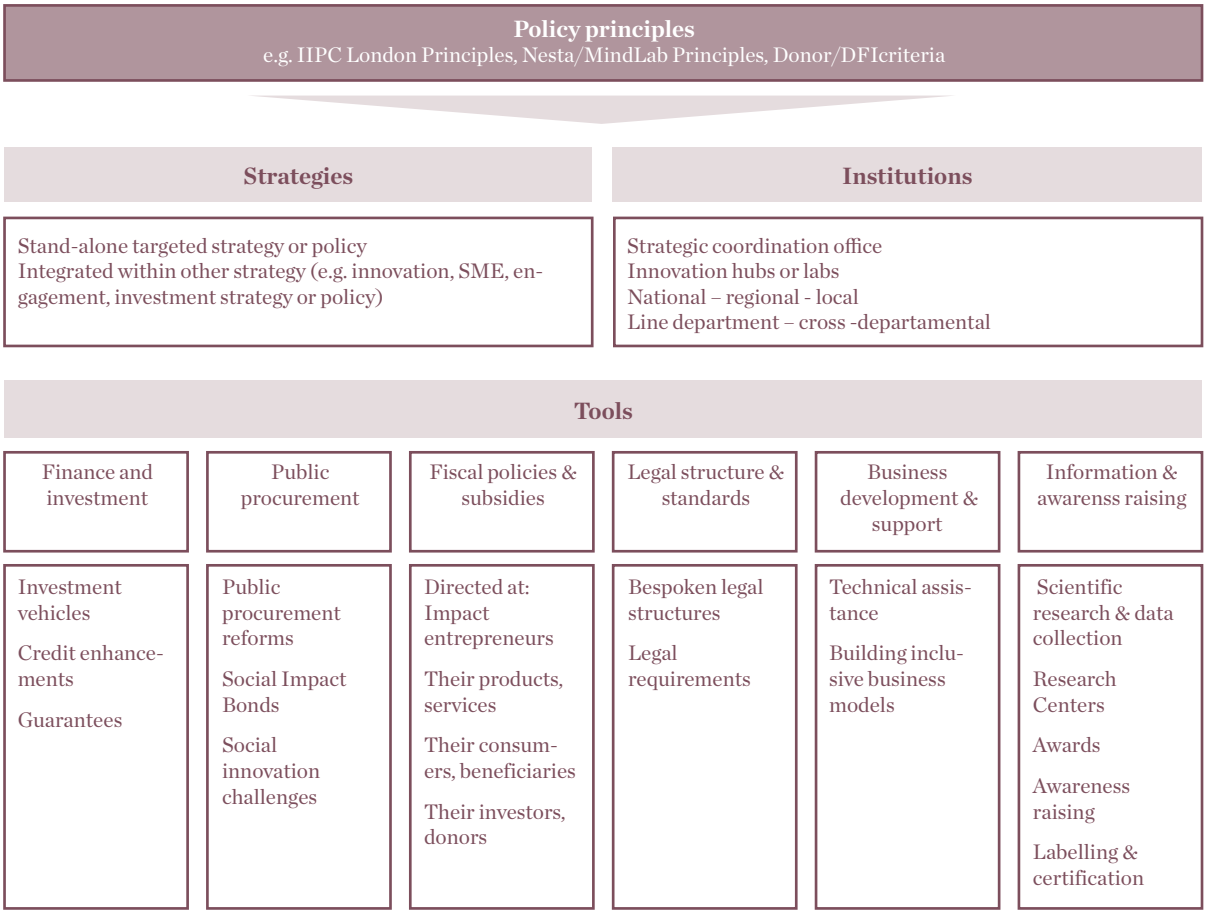
- **Principles:** Underlying understanding on how policies are designed, implemented, and revised;
- **Strategy:** A vision on how this market should develop combined with more specific lines of intervention and actions;
- **Institutions:** The allocation and alignment of institutional (and individual) responsibility and capacity to drive the government's agenda forward;
- **Tools:** The design and set up of specific interventions.

Figure 8: Map of social impact market players in Turkey



Source: adjusted from map created by Ashoka Turkey 2014.

Figure 9: Elements of government engagement (II)



Source: Author.

4 THE CASE FOR GOVERNMENT ENGAGEMENT

There is a strong case for government involvement to promote social innovation, impact entrepreneurship and social investment: First, impact entrepreneurship offers new opportunities to tackle complex and persistent challenges in society (Section 4.2 and Section 4.1). Furthermore, these impact entrepreneurs face severe market constraints. Often it is only the government that should be in the position to address these constraints and develop functioning social impact markets (Section 4.3).

However, the public policy rationale for government intervention has to be balanced with the risk of government failure (Section 4.4).

4.1. COMPLEX SOCIETAL CHALLENGES

In the past years, the Turkish economy has been one of the fastest growing economies worldwide[39] and is expected to continue its growth in the foreseeable future.[40] Furthermore, between 2005 and 2011 Turkey's human development index (HDI) increased sufficiently for the country to move from the medium to the high development group within HDI's classification of its 187 countries.[41] Much progress has been made for example, in the area of health services, housing, or access to higher education.[42]

However, the country continues to face significant social and environmental challenges. These include regional discrepancies in opportunities and economic development between the wealthier west and the poorer east and southeast of the country; environmental degradation; high unemployment rates especially amongst women and youth, low quality education, and inequality in society.

For example, Turkey's inequality adjusted HDI – adjusting for inequalities in health, education, and income measures – is 23% lower than its nominal HDI and is largely explained by factors outside of the individuals' control such as the place of birth or parental education.[43] The average 15 year-old in Turkey is still one full year behind the OECD average, and an OECD report referred to by the World Bank in 2013 considered 25% of students "functionally illiterate."[44] In addition, Turkey has the highest infant mortality in the OECD, more than three times higher than the OECD average.[45] Furthermore, Turkey also has by far the highest percentage of employees amongst OECD countries working more than 50 hours a week.[46]

In relation to the environmental field, Turks are found to be more dissatisfied with poor quality of water and high level of air pollution than many of their peers in other OECD countries, according to the OECD Better Life Initiative. Both also disproportionally affect population with poorer educational levels and socio-economic backgrounds.[47]

Looking at other indicators for 'societal success' beyond material growth, satisfaction of basic needs, and environmental performance, it becomes obvious that social challenges are more deeply

39 International Monetary Fund 2013.

40 Moody's, a global investment rating company predicted that it will be the 5th among the 20 fastest growing economies in the world at a rate of 3-4% in 2013 and 3.5-4.5% in 2014. (Moody's Investor Service 2013).

41 UNDP 2013.

42 E.g. compare http://www.socialprogressimperative.org/data/spi/countries/TUR.

43 UNDP 2013, 140.

44 The World Bank 2013.

45 OECD 2011, 1.

46 OECD 2013, 51.

47 OECD 2013, 63.

Table 3: Social and environmental performance rankings for Turkey

Issue	Rank
UN development Index 2012	90/186
Legatum Prosperity Index 2013	87/140
Year of school attendance 2009 (ERI data)	115/173
Adult literacy rate 2009 (ERI data)	73/141
Legatum Freedom of press index 2011-12	148/179
Yale University Environmental Performance Index	109/132
World Economic Forum Gender Equality Gap Index 2012	120/136

Source: Legatum Institute 2013; UNDP 2013; Education and Reform Initiative 2011; Yale University 2012.

rooted than what traditional social-economic and environmental indicators may suggest. Surveys confirm, for example, that social cohesion in Turkish society is weak in comparison with societies in other countries. Fewer Turks reported volunteering time (5% compared to 20% globally), donating money (13% compared to 28% globally) or helping a stranger (35% compared 49%globally) in the previous month.[48] The percentage of Turks who report having reliable social connections is also the lowest among all OECD countries.[49] Overall, Turks are least satisfied with their lives amongst OECD countries, with 68% of people saying they have more positive experiences in an average day (feelings of rest, pride in accomplishment, enjoyment, etc.) than negative ones (pain, worry, sadness, boredom, etc.) compared to the 80% on average in the OECD.[50]

Table 3 shows additional social and environmental rankings for Turkey in international comparison.

4.2. OPPORTUNITIES FOR IMPACT ENTREPRENEURSHIP

Impact entrepreneurship is not a panacea to resolve the range of social and environmental problems in a country. However, studies from other countries confirm that impact enterprises have contributed to sustainable livelihood and well-being, social cohesion, the accumulation of social capital, sustainable development at the local and national levels, and poverty reduction.[51]

What makes impact entrepreneurship unique compared to traditional charity or government intervention? First, impact entrepreneurship models have the potential to **tap into new types of financial and non-financial resources and support**– if the eco-system is conducive to this kind of entrepreneurship**.** This enhances the entrepreneur's ability to address social and environmental needs at a wider scale than traditional charities. It has also been argued that impact entrepreneurship shifts some costs from public budgets to private

48 Legatum Institute 2013.

49 These figures are also influenced by economic status and education: low income and less educated people being less likely to be able to count on a strong social support network. (OECD 2013, 57).

50 OECD 2013, 51.

51 See, for example, Borzaga, Galera and Nogales 2008 and Aiken 2007. Social entrepreneurship support organizations such as Ashoka are documenting the impact of entrepreneurs in their portfolio. It has to be noted however that much of the metrics and evaluations undertaken are still output rather than outcome or impact focused given mostly methodological or financial constraints. E.g. Ashoka 2010.

Box 1: Economic impact of impact enterprises

The social entrepreneurship survey by the Global Entrepreneurship Monitor carried out in 2009 in Western European countries found that (enterprising NGOs, hybrids and for profit) social enterprises employ over 3%, in Finland and Iceland even 5 and 6% respectively of the active workforce. On average, social enterprises constitute 1 out of 4 new enterprises set up every year in the European Union. They also support the labour market by operating in disadvantaged areas and offering employment opportunities to groups that have traditionally been excluded.

The UK Government estimated as early as 2006 that social enterprises SMEs make an annual contribution of £24 billion annual to the UK economy, i.e. an equivalent to 1.5% of GDP and employ more than 800,000 people often of disadvantaged communities. In 2012, social enterprise SMEs contribution to the UK economy increased to £162.8 billion and employment to 2.1 million employees. In fact, UK data is suggesting that social businesses are surpassing SMEs in terms of growth with 58% of social businesses reporting in the UK that they grew last year compared to 28% of SMEs and in innovation, with 55% of social business launching new products and services as opposed to 47% of SMEs.

Source: Global Entrepreneurship Monitor 2009; BERR 2007; Cabinet Office 2013.

resources, thus **freeing up government resources** for other important areas.

Furthermore, many structural features of government and traditional welfare agencies prevent risk taking and social innovation, whereas decentralized, small units of enterprises are **closer to the needs of beneficiaries** and are able **to act in more flexible and innovative ways.**[52] Moreover, globally this field appears to **attract extraordinary talent** with both young and entrepreneurial graduates as well as experienced professionals looking for challenging new careers with meaning.

In addition, from an economic perspective, impact entrepreneurs create new products and services and thus **increase customer choice**. It is also noteworthy that in those countries where conditions for this industry are favorable the dynamic development in this field has already **spilled over** and led to the rise of related businesses and specialized services. Beyond the direct impact of impact entrepreneurs, recent data seem to confirm a significant **economic impact** of an expanded social economy in terms of the establishment of new enterprises, employment, and contribution to GDP (Box 1).

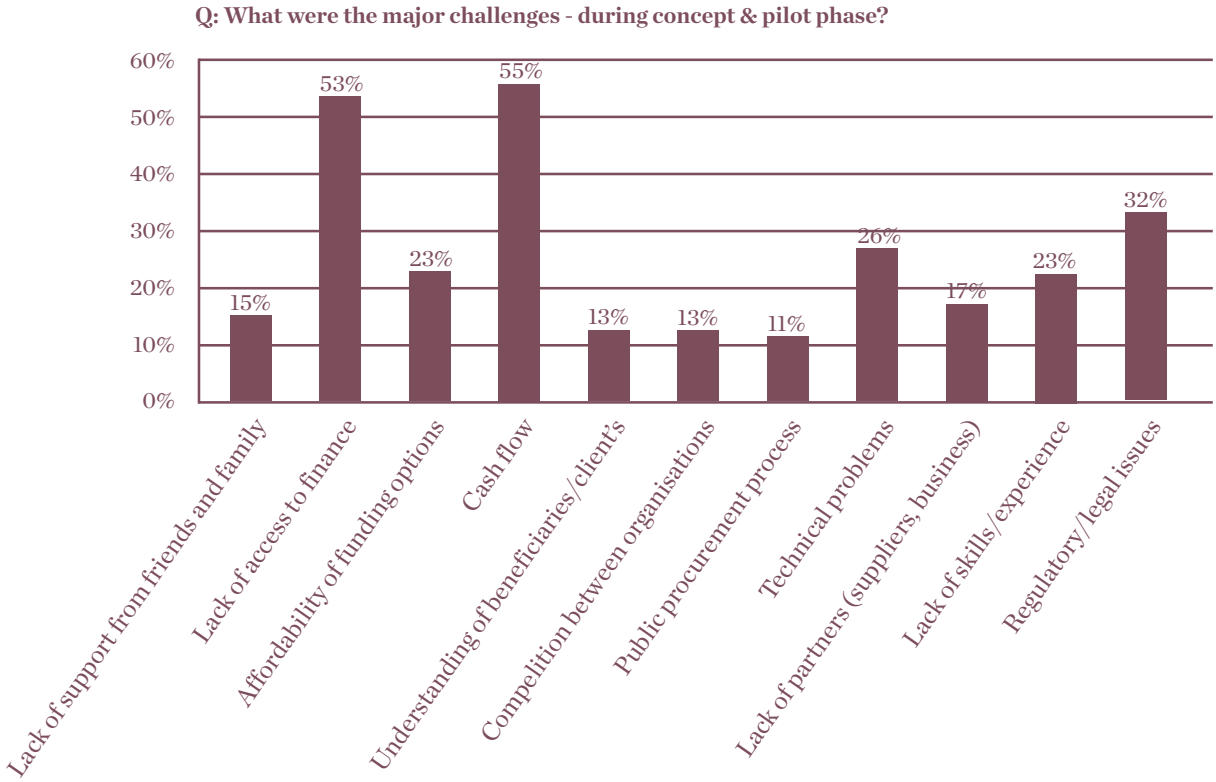
4.3. MARKET CONSTRAINTS

Impact enterprises in Turkey face many challenges as they seek to develop an idea and take it to scale. In fact, many of the challenges faced by impact enterprises in Turkey are related to underlying market failures. Market failures occur where individuals' pursuit of self-interest leads to results that are inefficient and that should be improved from a societal point-of-view – one of the main arguments for government interventions.

Market constraints as identified in Turkey do not only constitute constraints for impact entrepreneurs, but hinder the general development of social impact markets in Turkey. The government has the ability to address these market constraints and take this field to the next level as will be discussed in Section 5.

52 Wolk 2008, 27.

Figure 10: Challenges facing early stage impact entrepreneurs in Turkey



Source: König 2013, 30.

4.3.1. Finance

The social and green entrepreneurship survey revealed that impact entrepreneurs in Turkey consider lack of access to finance and cash flow their single major constraint for developing and piloting an idea and – to a slightly lesser extent – for growing the organization.[53] Figure 10 shows the constraints for early stage impact entrepreneurs.

53 König 2013, 30-31. Other surveys confirm that access to finance is also amongst the most significant constraint for social enterprises in other countries: Social Enterprise UK 2012 and International Finance Corporation 2012.

Grant funding

According to survey results, on average, 18% of annual income of respondents is generated from grants (see Table 4).

Impact entrepreneurs' access to grant funding in Turkey depends on the legal set up of the organizations i.e. whether they are set up as a non-profit legal entity (associations or foundations) or as a corporation under the Turkish Commercial Code (see Section 4.3.2).

The most common source of funding for associations and foundations are **international development**

Table 4: Internal financing sources of impact entrepreneurs in Turkey

Q: What % of your annual income (2011/12) did you generate from the following:	Soc Ents	Green Ents	Social and Green Ents
Revenues from goods/services	39%	55%	43%
Grants from donors	20%	10%	18%
Donations	20%	13%	18%
Membership fees	8%	7%	7%
Other	13%	16%	14%

Source: König 2013, 41.

organizations such as European Aid agencies, European bilateral donors as well as international NGOs from Sweden or the Netherlands.

Only a very small number of associations or foundations currently receive resources from the **Turkish government**. Grants are reportedly provided by means of ad hoc project partnerships, rather than grant allocations or publicly tendered service contracts. Government grants provided to civil society organizations have been criticized that the process lacked formal provisions and transparency on selection criteria and selected organizations.[54]

Impact entrepreneurs with a corporate legal structure have access to the same kind of incentives and financial support more so than other start-ups and SMEs in Turkey provided by government agencies KOSGEB or TUBITAK. Furthermore, some programs are explicitly promoting green (technology) business initiatives or carbon trading.[55]

In fact, a majority of respondents in the survey sample (58%) would seek to apply to government agencies for funding if they needed external finance, with about the same percentage (53%) to international development agencies and NGOs.

Turkey has a strong tradition of **(corporate) philanthropy** and most of the large family holdings have established foundations to support social causes. Historically, foundations in Turkey took on a role to support the government in service delivery and public services. Up to today, foundations with significant assets are 'operating' foundations, i.e. they construct and operate modern schools, universities, hospitals, and museums rather than supporting the work of social organizations through grants.

Only seven foundations have started to engage in grant making after changes to the new Foundation Law in 2008. In addition, philanthropic support tends to be channeled to individuals in the form of student fellowships, much of it with limited socio-economic targeting. With a few exceptions, the majority of foundations in Turkey operate in a basic charitable framework. Reportedly, foundation leadership has yet to engage more actively with external social organizations or impact entrepreneurs that reach communities, realize development objec-

54 TACSO 2010, 10 and König 2013, 49 on limiting factors to obtain grants irrespective from the source of funding.

55 The Turkish Government is currently considering strengthening the Voluntary Carbon Market, a mechanism used by sectors and countries that were excluded under the Kyoto Protocol.

tives, and strengthen the dialogue between civil society and government in important policy fields.

Furthermore, the **corporate sector** has been increasingly donating funds to social organizations under their **corporate social responsibility (CSR)** scheme and some successful long term partnerships have been established between companies and social organizations including social enterprises.[56] However, as was noted in an EC civil society technical assistance report:

> *"Corporate giving is usually in the form of one-off gifts, confusing "charity" with clearly defined strategic support."*[57]

Most recently, a number of **crowd-funding and volunteering platforms** have been established to offer opportunities for making donations to individuals or social organizations. Some of those currently targeting individuals and social projects are considering expansion of their focus to impact entrepreneurs.[58] However, crowd-funding for social impact is still a recent phenomenon and crowd funding businesses face a number of legal, tax, and administrative hurdles in Turkey.

In summary, much of the grant funding as practiced in Turkey does not appear to have been strategically directed towards organizations that are building up activities or purchasing assets that will ultimately generate income and contribute to the organization's financial sustainability. While useful in many areas of civil society, impact entrepreneurs find traditional grant funding unsuitable in many ways:

- **Restrictions on use:** Grants are normally restricted to specific projects and have strict conditions as to how they should be used. As a result, organizations do not have the entrepreneurial flexibility to adjust to changing circumstances.
- **Time horizon:** Grants are short term, which make it difficult to plan for the longer term. As a result, the organization will continue to devote its scarce resources to regular fundraising.
- **Cash-flow:** Grants are often paid in arrears making cash flow management difficult.
- **Bureaucracy:** Managing and reporting on grants is often bureaucratic, time-consuming, and expensive specifically if the organization receives donations from several donors.
- **Charity mindset:** Grant management can require very specific skills and approach. This may potentially divert staff away from an entrepreneurial approach.
- **Mission drift:** Organizations have also been reported to having gradually altered their aims or their beneficiaries to qualify for public grant funding.[59]
- **Eligibility:** In the existing Turkish eco-system, grant funding is not accessible to entrepreneurs with a corporate structure.

Debt and equity funding

Survey data confirms that impact entrepreneurs in Turkey are interested in external 'repayable' finance. One-third of organizations interviewed

56 These include Vodafone Foundation with long term support to Dreams Academy or Unilever supporting CöpMadam.

57 TACSO 2010, 11.

58 E.g. www.fongogo.com; www.biayda.com; and volunteering platform http://www.4carma.com. An early crowdfunding platform Ben Varim established in 2010 closed operations in 2013 http://benvarim.com/. Another large Turkish crowdfunding platform, FonlaBeni focuses on projects outside the social sector www.FonlaBeni.com.

59 A researcher focusing on civil society in Turkey stated, for example, that the high number of environmental NGO resulted from relatively high amount of grant funding available in the environmental sector provided by international aid agencies. Interview (intermediaries) No. 11, 2 February 2013. The mission drift argument, however, should not be underestimated for impact entrepreneurs accessing more commercial forms of finance.

are actively looking for debt or equity finance, almost 40% would be interested to learn more and 11% tried but failed to secure external finance.[60]

Why does access to 'repayable' financing for impact entrepreneurs in Turkey then constitute such a challenge? Environmental, social and governance criteria have become a consideration in investment and lending decisions of major financial institutions in Turkey. A number of initiatives in the Turkish capital markets have been (re-)launched recently such as the Sustainability Index project at the Istanbul Stock Exchange or the formation of a Sustainable Banking and Finance Working Group.

However, the **mainstream financial institutions and investor community** in Turkey has so far shown little interest in an investment strategy that puts impact at its core.[61]

With high margins in consumer lending, **commercial banks** have limited incentives to develop and offer products to risky impact entrepreneurs who – in the majority of cases – would apply for loans as startups without sufficient collateral, credit history, and an unproven business model.[62]

Risk capital is increasingly available in Turkey but focuses almost exclusively on technology entrepreneurs. Both angel investors and venture capitalists expect to maximize their financial returns and, as numerous interviews revealed, very few have ever considered integrating social and environmental concerns in their investment decisions.

Furthermore, venture capitalists in Turkey still prefer to invest in more mature industrial companies due to a lack of pipeline of suitable early stage companies. As a result, with demand for investment sizes below 500,000 TL (EUR 250,000) for almost half of survey respondents, the needs of impact entrepreneurs is significantly smaller than what traditional venture capital firms in Turkey would be ready to invest. In addition, angel investors in Turkey reportedly often take a hands-off approach that may not be suitable for the needs of most impact entrepreneurs.[63]

Social investors still do not exist in Turkey due to data, lack of awareness and/or interest, and skepticism about the underlying philosophies of social investing and the early stage of social impact market development in Turkey. Even if a potential social investor was to engage in this field, he would face challenges in recovering costs due to the small size of organizations, the low number of investees that are ready to absorb capital, and the lack of market intermediaries making any due diligence and investment prohibitively expensive.

In more advanced social impact markets, early stage market development and pioneering entrepreneurship models have often been supported by **philanthropists and later the government** (e.g. Esmee Fairbain Foundation, Rockefeller Foundation or the Big Lottery Fund in the UK). In contrast, Turkey still lacks similar promoters who are willing to invest in the early stage of field building and engage with below market return ventures until the impact investing market becomes self-sustaining.

Local social investors, **international impact investors** were often the first to emerge in responding to

60 König 2013, 44.

61 This is in contrast to the corporate sector, which has become active in reporting on ESG criteria that the two main vehicles that considered ESG criteria were private equity funds with DFI partners as well as bank loans funded by DFI credit lines to commercial banks. (International Finance Corporation 2010, 8) According to a report by Ecosystem Carbon Finance, the voluntary carbon market has developed significantly in the past years with Turkey becoming third in size after China and India. However, there is little demand for credits domestically as yet and most credits are sold to the European market. (Ecosystem Market Place 2012).

62 Credit programs offered by commercial banks that have some form of development impact are financed through credit-lines and guarantee programs (e.g. the Credit Guarantee Fund KGF) provided by DFIs and the government target women entrepreneurs, energy efficiency or entrepreneurs in disadvantaged provinces in Eastern Turkey.

63 Interview (supply side) No 2, 12 March 2013.

the specific needs of local impact entrepreneurs. In fact, these investors often brought in experience and knowledge to pilot the first deals that then encouraged other local investors to establish their own impact investment and social finance vehicles. However, international impact investors are absent in Turkey despite a significant increase of impact capital into countries outside of the US and Switzerland, the domestic base of the largest impact investment firms and funds with international portfolios.

Interviews with major international impact investment firms and fund managers conducted in early 2013 revealed that Turkey was *"not on my radar screen"* followed by *"lack of suitable partners and market data"* as the main reasons as to why impact investors have not yet engaged in Turkey.[64] In fact, many argued that they did not know a reliable partner in Turkey who could help to navigate in unknown territory, identify suitable organizations, and – possibly – co-invest. For example, one interviewee argued:

> *"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."*[65]

One of the impact entrepreneurs who had won various awards and scholarships for her business model expressed her frustration with finding an investor in Turkey that would share her values as follows:

> *"I spent 2 years talking to people having the same conversation over and over again about my idea and everyone has turned their back. [...] I can't tell you how many aid organizations did not want to support us because we were not a non-profit and how many investors did not want to finance us because we were too socially oriented."*[66]

4.3.2. Policy infrastructure

Impact entrepreneurs are affected by policies and rules governing their legal structures as well as provisions that relate to financing, investments, or procurement of public services. While policies do not yet exists, the legal and regulatory framework affecting social impact markets in Turkey is at the same time both insufficient and excessive.

Legal structure

In response to the question regarding what the government's role should be in promoting social and green entrepreneurship in a survey in 2013, 56% requested the government provide a specific **legal arrangement** for social enterprises, followed by requests for direct subsidies and tax exemptions (see Figure 11).

In the survey sample, most impact entrepreneurs chose to set up an economic entity under an association (33%), under a foundation (14%), or establish a corporate structure such as a limited liability company (40%).[67]

However, each of the legal structures bears specific challenges in their practical application that hamper the activities of impact entrepreneurs. Impact entrepreneurs set up as **non-profit struc-**

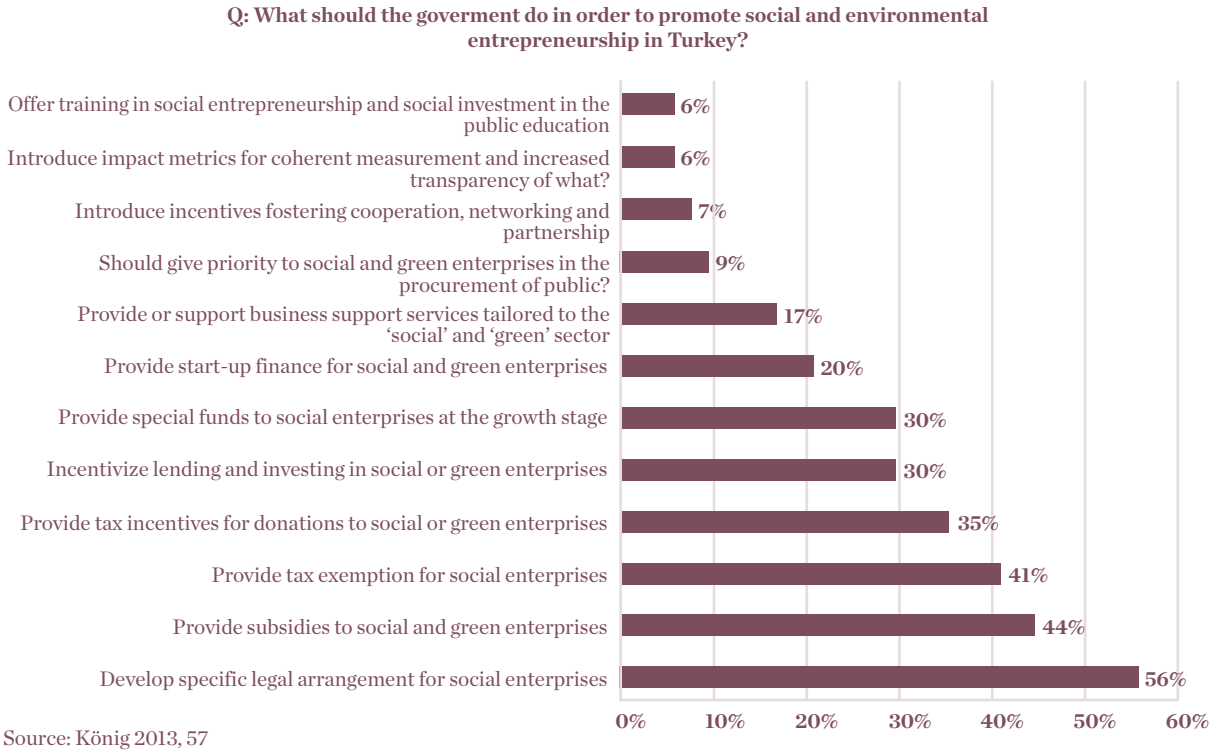
64 König 2013b, 4.

65 König 2013b, 3.

66 Interview No 4, 15 March 2013.

67 Reportedly, a member of Turkish parliament, Tanaz Titiz, brought a motion on Social Venture Development before the Parliament as early 1992 which reportedly 'died' around 1994 and no other action was taken on this draft. The motion foresaw tax benefits to social ventures, capital contributions from the Industrial Development Bank of Turkey as well as low cost of real estate rental. More recently, KOSGEB had a draft law prepared on the establishment of a social business company to facilitate the establishment of their own incubators. However, the proposal did not attract the required political support.

Figure 11: Impact entrepreneurs' expectations vis-à-vis government policies



Source: König 2013, 57

tures such as associations and foundations face the following challenges:

- Economic entities of associations and foundations, which must be established in order to carry out any kind of economic activity, are liable to all taxes.
- Public benefit status, granted by the Council of Ministers, exempts the organization from donation tax (up to 30% of the donation) and provides for 5% tax exemptions on taxable income to donors of associations and foundations. However, public interest status is only granted to 0.5% of foundations and 0.04% of associations. Furthermore, tax exemptions are only granted to donors set up as legal entities and individuals who are not subject to 'pay as you work' tax on the workplace i.e. individual donors do not benefit. Moreover, the amount of tax exemptions granted to donors is well below the European average of 10%.[68]
- Volunteering is not defined legally in the Turkish law. In a recent case, an association was fined for being supported by volunteers, who the inspectors of the Ministry of Labor and Social Security defined as "uninsured staff."

68 TUSEV 2013a, 11.

- Associations and foundations, particularly those active in the area of human rights or democracy, must be prepared to accept disproportionate audits and inspections and "a restrictive interpretation of the law."[69]
- The Law on Aid Collection, which is currently being revised, states that associations or foundations cannot carry out fundraising without first getting the permission of the local (provincial) authorities. If fundraising is conducted outside the jurisdiction of the local authority, the CSO must seek permission from the relevant authority where they intend to collect money. In 2012, only 19 organizations had been allowed to fundraise without permission.
- Impact entrepreneurs set up as associations and foundations do not have access to entrepreneurship support programs.

According to the survey results, a majority of green entrepreneurs prefer **a corporate legal structure** (64%) compared to 32% among social entrepreneurs. While administrative burden for companies is significantly less than for foundations and associations as all other enterprises are still affected by the general challenging environment for doing business in Turkey.[70]

Furthermore, the current legal regime makes it difficult to include any social objectives in the goals of the company set up under the Turkish Commercial Code. Most legal experts agree that can only be the distribution of profits to its shareholders. An "asset lock" provision, i.e. a provision that would limit the distribution of profit and allow for reinvestment for the social objectives of the organization is only possible for reasons related to the future growth of the company such as future liquidity, planned investments, or to better its financial position [71], and not for social objectives.[72]

Other legal provisions

Beyond the legal form for business, there are other provisions that constitute legal barriers to the development of green and social impact entrepreneurship in Turkey.

For example, Turkey is yet to develop a public procurement law that encourages the consideration of social or environmental criteria in the investment decision. To the contrary, the existing Public Procurement Law reportedly bars government institutions from purchasing more environmental products if their price is not the lowest price in the tender results.[73]

4.3.3. Market capacity

Market capacity is determined by the **individual and organizational capacity of market players** as well as the way market players relate to each other and **cooperate** with one another.

Organizational capacity

Social impact markets can only function effectively if each of the main actors, i.e. entrepreneurs, intermediaries, investors, and the government have the necessary capacity, skills, and knowledge that are required to assume their respective roles.

In Turkey, limitations of human resource and organizational capacity constitute one of the most important constraints in this field. Many of the organizations are unable to employ expert professionals and salaried managers but instead rely on

69 TUSEV 2013a, 10.

70 In the 2014 data set, Turkey ranks 69 among 183 countries in the World Bank "Ease of Doing Business" ranking http://www.doingbusiness.org/data/exploreeconomies/turkey/.

71 Ateşağaoğlu 2012.

72 However, the Turkish Company Code, Article 522 provides for a small exception in that a company may decide to reserve a certain percentage of its profits for funds or companies set up for the benefit of its managers or employees.

73 RACCP/TTGV 2011, 43.

volunteers even for senior managerial positions in the organization:[74]

> *"In Turkey, we expect people to volunteer when working for the social good or the environment. There is no such thing as a professional career in this field. I would love to devote the next two years to bringing my social enterprise up to speed and grow it. But then I would be out [of the corporate sector]!"*[75]

According to the findings of the social and green survey, specific weaknesses identified by entrepreneurs include strategic planning, communications, social media, financial management and financing.[76]

The reason one impact investor gave for not engaging in Turkey despite earlier contacts and interest in the region also related to the capacity of social ventures:

> *"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 then also did not show up for an arranged conference call with us, we stopped the discussions with them."*[77]

However, it is not only the entrepreneurs that lack the required skills and capacity. The social impact field in Turkey also lack professionals in the private sector, in foundations, and financing institutions that are able to navigate comfortably across traditional sector boundaries.

Cooperation and collective action

The capacity of markets is also determined by the way specialized organizations connect, reach synergies, share information, develop interventions together, and act collectively each contributing their respective strengths.[78] For example, investment proposition in early stage markets often only become financially sustainable by pooling resources as well as co-investing and developing cooperation models across traditional sector boundaries. Similarly, complex social challenge for example, in the area of education or urban traffic can only be resolved if impact entrepreneurs collaborate with other market actors such as other impact entrepreneurs, local government agencies, civil society organizations, or the corporate sector.

However, in practice cooperation and collective action in Turkey has often been challenging. Without the intervention of trustworthy intermediaries and pioneering 'first movers,' it may not happen at all. In recent research on barriers to green entrepreneurship in Turkey, the (Turkish) authors argue that:

> *"Turkish people are not really inclined towards communication, sharing and open innovation. [...] Turkish stakeholders are not used to cooperating [...]."*[79]

Similarly, reports and studies confirm the lack of cooperation even amongst civil society organizations (CSOs):

> *"It is not the technical capacity, but a lack of communication and cooperation in the sector which creates the greatest handicap for organizations. In terms of level of connectedness, CSOs report very low levels of communication, cooperation and linkages."*[80]

74 König 2013, 25.

75 Interview, No 11, 22 April 2013.

76 König 2013, 51.

77 König 2013b, 3.

78 Kania and Kramer 2012.

79 RACCP/TTGV 2011, 43.

80 Bikmen 2006, 26.

On the relationship between government and actors in society, Özler and İnanç argue that in Turkey:

> *"Unawareness and pragmatic rationality of state and societal actors about their mutual dependence and need for cooperation, collaboration, and correspondence for effective information-gathering, policymaking, and implementation inhibits the attempts to solve collective action problems and socioeconomic dilemmas."*[81]

In fact, the use of mechanisms for engagement and consultation between government and key stakeholders is still insufficiently developed.[82] TÜSEV found in their civil society Monitoring Report 2012 that:

> *"CSO-Public Sector relationships are maintained unilaterally and principally through invitation from a public institution. No feedback is provided to CSOs regarding how much their opinions are taken into account with regards to public policies."*[83]

An important element in cooperation is **trust**. Only 8.24% of respondents in Turkey agreed that most people can be trusted when asked in a 2009 survey. This is compared to a 24% global average (16% in Serbia, 21% in Bulgaria, 31% in Germany, 36% in the UK).[84] This affects not only the relationship between social organizations and government but cuts across all relationships in society. In one interview, an entrepreneur from Istanbul reported:

> *"I wanted to discuss my business model with other entrepreneurs for advice and see where we can collaborate but they think I only want to steal their ideas. There is a huge mistrust even amongst us and everybody works alone."*[85]

Individuals across various organizations interviewed as part of this research noted a strong sense of competition between individuals and organizations (in particular some of the intermediaries), lack of information, knowledge sharing, mutual support, and a tendency to act in isolation rather than in partnerships. In fact, these behaviors are not only limited to Turkey but appear common in the early stage of social impact market development (Figure 12).

4.3.4. Information

In Turkey, only **limited information and data** is available and easily accessible on the profile and needs of individual players, beneficiaries, or the results of social development programs. It is not easy for any interested stakeholder or researcher to gather information and collect data particularly in relation to the state of the environment, poverty, or social sectors and often it is conflicting or outdated. A researcher on environmental issues at a reputable university in Istanbul stated:

> *"In Turkey, we mistrust everybody who asks for data and information. Why would he want to know this? What will he do with the data? Even if you come from a well-known university, you will find it tricky to get data and if you do, it conflicts with other sources – even when you get it from government."*[86]

The lack of reliable data affects entrepreneurs and other players alike. Impact entrepreneurs first would need to make significant effort for the collection of data if they wanted to analyze their target group and potential market size. Interviews reveal however, that only few impact entrepreneurs have

81 Özler and İnanç 2007, 1.

82 On the state of stakeholder engagement in Turkey see TEPAV/Involve 2011 and König 2013c.

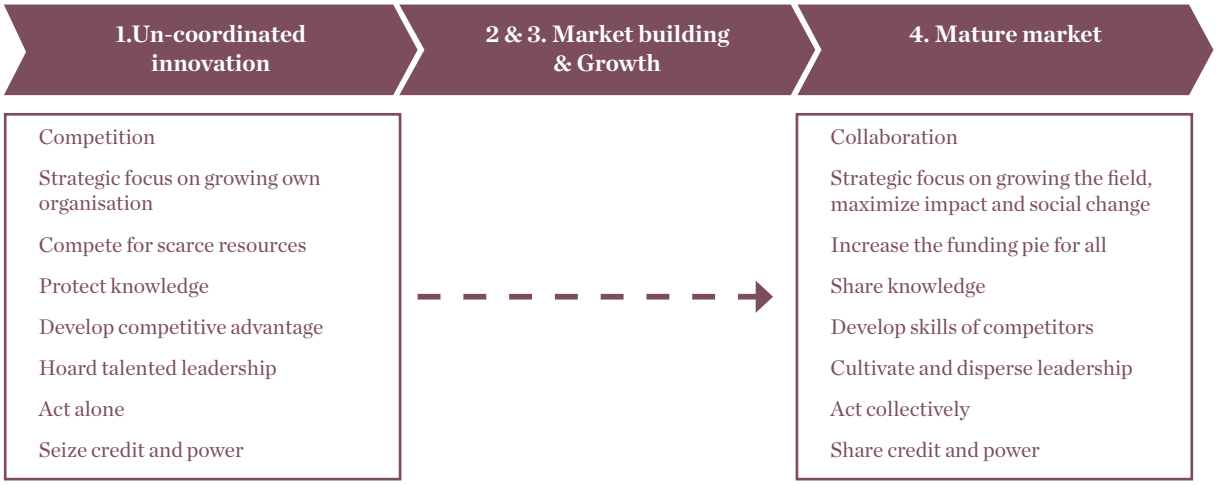
83 TÜSEV 2013a, 11.

84 Legatum Institute 2013.

85 Interview No 7, 25 May 2012.

86 Interview No 15, October 2012.

Figure 12: From ego-system to eco-system



Source: Based on Bernhold and Wang 2010, 7.

engaged deeply in market research before establishing their business or adjusted their business plans based on changes in the market environment or a thorough evaluation on the outcomes of their programs.

In fact, impact entrepreneurs do not contribute much themselves to generating and sharing information on their activities and the impact of their programs. In the social and green entrepreneurship survey it was found, for example, that only less than half of respondents measure outcomes regularly and only few make their impact performance and financial data publicly available.[87]

The lack of information about and by entrepreneurs also makes it difficult for any potential funders to identify suitable investees interested in accessing investment finance. It is also likely that given the lack of track record with similar investments in Turkey, potential funders might overestimate the risk and underestimate returns. Finally, lack of information and data negatively affects the quality of government decisions and policies.

However, the challenge appears to lie beyond the availability of data and the flow of information. It also relates to the **awareness about new concepts of doing business and addressing social challenges in society**. Entrepreneurship itself is still a relatively new concept in Turkey and until recently, most individuals preferred the security and reputation of paid employment in one of the large Turkish family holdings or international companies as opposed to the risk of starting their own firms.[88] Furthermore, only a handful of potential funders and other stakeholders in Turkey are aware of the fundamental idea of applying entrepreneurial methods to address a social and environmental challenge or investing for social and environmental impact. The topic has hardly been covered in the media or in the public debate, and little research

87 König 2013, 25; Only 22 out of 57 respondents reported to publish reports but out of these, only 5 could be accessed from the organizations' websites.

88 RACCP/TTGV 2011, 27.

has been carried out in academic institutions across Turkey.[89] This is despite an increasing number of events on social entrepreneurship and more recently on impact investing that has taken place in the past two to three years in Turkey.

Our own research confirms that there is not only a lack of awareness or interest, but there may even be a **deep-rooted skepticism** in relation to social investing or for-profit social entrepreneurship. Most of potential funders, supporters, and some of the social organizations we spoke to as part of this research are indeed concerned about *"making money from a social cause."*[90] For example, 31% of respondents in the green and social enterprise survey agree or strongly agree with the statement that *"as value driven organizations, we should not charge for the services and goods we provide,"* another 26% neither agrees nor disagrees.[91]

Furthermore, due to historic reasons, organizations operating in the social field in Turkey have been viewed with suspicion by a large percentage of society, while activists have been (and continue to be) intimidated and persecuted by the Turkish government. As a result, despite recent changes in Turkish society, social organizations still fight negative perceptions about their roles and activities.[92]

Finally, many see social issues still within the responsibility of the government. In a major public opinion study 38% of respondents perceive the state as responsible for helping the poor while recognizing that civil society organizations (53%) and foundations (39%) can make a positive contribution to the social and economic development of Turkey.[93]

4.4. RISK OF GOVERNMENT FAILURE

Government interventions may help to address some of the above market frictions. However, government interventions to address market failures may also result in **government failures**. What Josh Lerner of Harvard Business School wrote on public support to entrepreneurship and venture capital is likely to be true for public interventions in the field of impact entrepreneurship:

> *"When we look at the regions of the world that are, or are emerging as, the great hubs of entrepreneurial activity – places like Silicon Valley, Singapore, Tel Aviv, Bangalore, and Guangdong and Zhejiang provinces – the stamp of the public sector are unmistakable. [...]. But for each effective government intervention, there have been dozens, even hundreds, of disappointments, where substantial public expenditures bore no fruits."*[94]

Government failures may include for example, the "capture" of policy makers by lobby groups, vested interests, or government policies that protect inefficiencies rather than address market failures. In the case of grant-making social ventures, if government programs are not well designed, demand of capital by organizations could be skewed towards fundraising and seeking funds from providers of 'free' capital thus crowding out private capital.

89 A case study publication on social entrepreneurship was published at Bilgi University with support by the Istanbul International Center for Private Sector in Development in 2012. TUSEV carried out a needs assessment of social entrepreneurs in 2010 supported by the British Council as well as research on the role of foundations in 2013, supported by the Mott Foundation and Turkish Philanthropy Fund. All publications can be accessed on www.tusev.org (both are available in Turkish only).

90 Investor Interview, No 5, 2 February 2013.

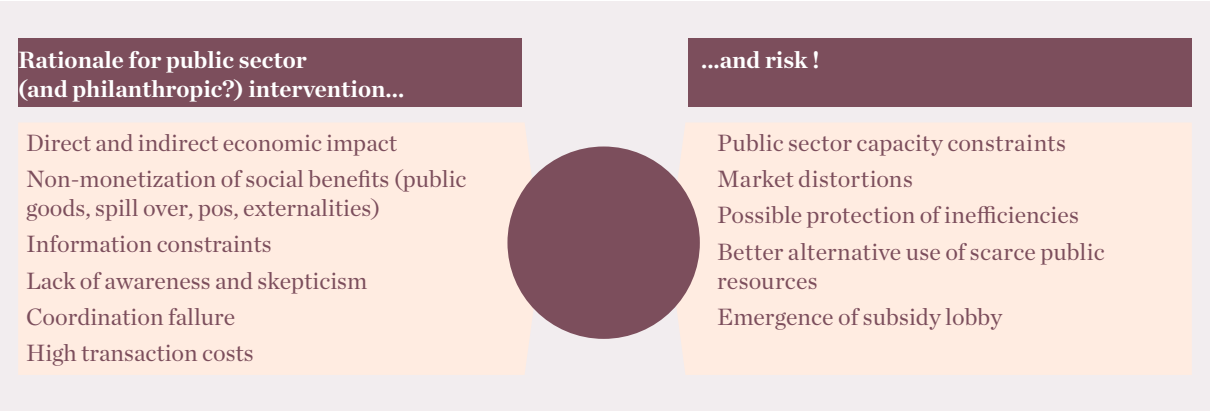
91 König 2013, 25.

92 TACSO 2010, 14.

93 Çarkoğlu, 2006.

94 Lerner 2009, 5.

Figure 13: Rationale and risks of public sector interventions



Source: Author.

Furthermore, many of our interview partners in Turkey expressed a low level of trust in government as well as a strong reluctance to partner with government institutions – a situation that is likely to have been exacerbated by political events in Turkey in 2013.[95]

These risk factors, however, do not provide an argument that the government should not get involved but rather raise the question as to how policies and interventions should be designed to minimize the risk of government failure.

95 This includes month long unrests in relation to Gezi Park, i.e. the events following the attempts by municipal authorities in Istanbul to turn a small green part in the center of Istanbul in a shopping mall as well as the political crisis that started with the arrest and prosecution of important political players and businessman linked to the ruling party mid December 2013.

5 INTERNATIONAL EXPERIENCE

In many countries around the world governments have started to engage more actively in shaping and supporting the development of social impact markets. Certainly, the policy design and the speed in which countries have taken up the social innovation agenda varies and reflects the diversity of country-specific contexts.[96]

It is interesting to note that public sector development (finance) institutions have actively applied concepts and interventions in their work in the global South that are now being (re-)discovered in their home countries. In the future, development organizations and the international community of social investment organizations are likely to bring these experiences to the attention of policy makers in the global North.

This section highlights examples of government policies and practices from around the globe based on the framework for government action outlined above:

- Policy principles (Section 5.1);
- Strategies (Section 5.2);
- Institutions (Section 5.3);
- Tools (Section 5.4).

These experiences may serve as a basis for discussion in the Turkish government when defining their own policy interventions.

5.1. POLICY PRINCIPLES

The development and adherence to a set of policy principles is important for all areas of government intervention but it is essential for social impact markets given the lack of maturity of this newly emerging field and the significant need for cross-boundary collaboration.

The Impact Investing Policy Collaborative (IIPC), a US based initiative initially supported by the Rockefeller Foundation, developed a range of principles for smart regulatory, investment and other policy interventions in the field of impact investing and impact entrepreneurship in consultation with policy makers, academics, and practitioners (Box 2).[97]

In addition to IIPC, MindLab, the cross ministerial Danish government innovation unit, and Nesta, the UK innovation foundation identified principles of decision making that 'allow for creativity, social complexity and uncertainty in public governance.'[98]

- **No solutions, but outcomes:** Plan and create systems for unpredictable outcomes without pre-defined values rather than expect 'silver bullet' solutions;
- **Experimentation and co-production:** Create legitimate space for experimentation (and failure), create beta versions of projects for continuous feedback and improvement, co-produce and facilitate the co-production of outcomes with beneficiaries, civil society, the private sector and other parties involved;
- **New types of authority:** Use the authority of the state to leverage the collective capacity of stakeholders for better public outcomes (the government as convener).

96 On contextual factors in social innovation and social entrepreneurship see Kerlin 2012; Defourny and Nyssens 2010; Mendell and Nogales 2009.

97 Unpublished document. For more information see http://iipcollaborative.org/article/an-impact-investing-milestone-the-london-principles/ (accessed July 23, 2013).

98 Christiansen and Bunt 2012.

Box 2: The IIPC London Principles

1. Clarity of purpose – the importance of vision, leadership and perspective on what impact investing can realistically accomplish.
2. Stakeholder engagement – designed to surface ideas, engender public support, and ensure policy is well targeted to expressed needs.
3. Market stewardship – recognizing that policies that increase the supply of impact investing capital must be balanced by those that strengthen social enterprises and other capital recipients, together with intermediary infrastructure.
4. Institutional capacity – providing for the appropriate expertise, resources, and durability within government to ensure successful policy implementation.
5. Universal transparency – locking in accountability and supporting a culture of continuous, open learning and improvement among all actors in impact investing.

Source: Impact Investing Policy Collaborative 2013: The London Principles

Furthermore, government development agencies have employed the following criteria to guide their interventions in emerging and developing countries:[99]

- **Additionality:** The government to intervene only where government intervention encourages a desirable activity that would otherwise not have occurred or leads to higher scale, better quality, quicker implementation or better alignment with public policy goals than what would otherwise have occurred.
- **Non-distortionary:** Government intervention should not distort markets and crowd out private sector players.
- **Risk sharing:** Partnership with private actors means that each party takes on the risk the respective party is best positioned to bear rather than the public sector organization taking on all of the (downside) risk.

99 See International Finance Corporation 2013 and Sida 2013, 2.

5.2. STRATEGIES

The success of any government in achieving its social innovation policy objectives is closely tied to the setting of clear goals and the development of a strategy. Such a strategy should be:

- Based on an overall national development strategy ;
- Coherent with other policy areas;
- Equipped with sufficient financial and other resources.[100]

Strategies differ in relation to their scope and target group, but also with regard to their set-up and anchoring in other areas other than their 'home' policy area. In the past, strategies and policies in social investing, social entrepreneurship, or social innovation have often been **linked to existing poli-**

100 Furthermore, the way budgets are prepared and accounted for has different effects on the way space is created for innovation within the public services and staff is encouraged and motivated to support innovation internally and externally. For examples of innovative tools in government budgeting see Young Foundation 2010, 149.

Box 3: Examples of government strategies

1. **Austria**: Strategy on research, technology and innovation (2010).
2. **Germany**: Social entrepreneurship anchored in the National Engagement Strategy setting out the government's strategy with regard to civic engagement.
3. **European Commission**: Europe 2020 Strategy (2010), EC Social Business Initiative.
4. **Spain**: Strategic plan for social innovation by the Basque Innovation Agency (2011).
5. **South Korea**: Basic plan for social enterprises support developed every 5 years by the Korean Social Enterprise Agency.
6. **Sweden**: The Swedish innovation strategy which has an explicit objective of developing innovation to meet societal challenges including, health education or climate change (2012).
7. **United Kingdom**: The Social Enterprise Action Plan by the UK Cabinet Office (2006) , the strategic work by the UK Social Investment Task Force led by Sir Ronald Cohen between 2000 and 2010 ; more recent strategies on Growing the Social Investment Market.
8. **Poland**: Draft social economy pact (2013) and draft law on social entrepreneurship (2013).

Source: The Young Foundation 2012, 15.

cies and strategies in related fields. The latter has been, in many cases, a reflection of the set-up of the institution or composition of the unit in charge of drafting and developing the strategy (see section 5.3 below).

One recent important trend in the design of policies in Europe, for example, has been to broaden the concept of innovation to include social innovation in addition to business and technological innovation to encourage 'traditional' innovation agents to focus on resolving societal challenges. In other countries, social innovation is strategically linked to the development of social economy (e.g. Poland) or the strengthening of civic engagement (e.g. Germany).

Only few governments have developed a **stand-alone strategy** on impact entrepreneurship, impact investment, and social innovation. One of the exceptions is the UK government which had an early social enterprise strategy in 2004 and various strategies to promote the social investment market since the establishment of the Social Investment Task Force in 2000.[101]

South Korea passed a **law** on promoting social entrepreneurship providing for the preparation of a five-year plan for social enterprise support.[102] Similarly, Poland is expected to pass the draft social enterprise law in parliament and issue the National Programme of Social Economy Development this year.[103] Box 3 sets out examples of stand-alone strategies, integrated strategies as well as specific legislation.

Fundamental questions that guided the development of these strategies include:

- Where are the boundaries of the market in question?
- What is the main market friction that should be addressed?

101 UK Cabinet Office 2006; UK Cabinet Office 2013.

102 The South Korean Social Enterprise Promotion Act 2004; Poland: Draft social enterprise law (expected to be passed in 2013).

103 The Young Foundation 2012, 15.

- What policy options are best suited to address the identified market frictions and support impact?
- What is the additionality of government interventions compared to that of other actors (philanthropy, development organizations, private sector) and which actor is best positioned to take the lead amongst all organizations seeking to have an impact?
- Who will be responsible for implementation and within which time frame?
- What are key milestones and how will progress be evaluated?

In practice, however, government interventions in this field have often been implemented without a strong strategic concept. As Josh Lerner of Harvard University observed on government interventions to promote venture capital and entrepreneurship:

> *"In their eagerness to jump-start entrepreneurial activity, governments frequently race to hand out capital. This is equivalent to serving the main course before setting the table."*[104]

5.3. INSTITUTIONS

In some countries, governments have developed **specific units, departments, or independent centers** to build internal capacity in the field of social innovation, to develop government strategies, to consolidate dispersed government activities, or to reach out across traditional boundaries and work with other government departments, the private sector, civil society, and citizens.

These institutional structures vary in terms of their objective, scope, responsibility, set up, and the level of independence from government.

Coordinating and strategic institutions

Coordination offices, such as the Centre of Excellence of Social Investment within the UK Cabinet Office or the Office for Social Innovation and Civic Participation at the White House in the US, coordinate social innovation activities within the government as well as provide new impulses and guidance to policy makers at the highest level.

The Council for Systemic Solutions in Social Economy in Poland is a coordination and consultation body consisting of government officials from various government departments, academics, social economy representatives, and other players to develop strategies to promote the social economy and to mainstream government policies. The group was mainly responsible for the draft of the National Programme for Social Economy Development, the draft of the Social Enterprises Act, the design of a pilot loan fund for social enterprises, and the development of an accreditation mechanism of social economy support centers.[105]

Innovation labs

An interesting development is the creation of **innovation units or labs** (see Table 5 below). These are dedicated "safe" spaces and opportunities for collaboration on innovation across government units and sectors to encourage risk taking, experimentation, innovation as well as the co-production of ideas and interventions to persistent social and environmental challenges. MindLab in Denmark, for example, is part of three ministries and one municipality and involves both staff from the public sector, businesses and citizens in the creation of new solutions for society. It also has a physical office space that provides a platform for the joint development of ideas.[106]La 27e Région in France, which considers itself a "do-tank," is an example of

104 Lerner 2009, 109.

105 Network for Better Future of Social Economy 2013, 44.

106 See http://www.mind-lab.dk/en and Carstensen and Bason 2012.

Table 5: Examples for government social innovation institutions

Institutional set up	Examples
Coordinating and strategic government entities	Office for Civil Society in the Cabinet Office with a Centre of Excellence of Social Investment in England; Office for Social Innovation and Civic Participation at the White House in the US; National Innovation Council India
Innovation labs	MindLab in Denmark: MindLab; Helsinki Design Lab in Finland; La 27e Region in France; the Kent County Councils Social Innovation Lab Kent (SILK)[110]
Independent (social) innovation agencies	Australian Centre for Social Innovation (TACSI); the New Zealand Centre for Social Innovation; Nestain the UK
Traditional innovation agencies with new focus on social innovation	Sweden's innovation agency Vinnova or Finland's innovation agency Tekes.

Source: The Young Foundation 2012, 18.

a partnership with regional government agencies to improve the implementation of public services and address social challenges through research, co-creation, and joint action.[107]

Independent innovation agencies

The Australian Centre for Social Innovation (TACSI) is a "practically oriented laboratory for experimenting with solutions for social change." The government initially provided seed funding, but TACSI now operates as an independent center for piloting new approaches to addressing social challenges.[108] The UK innovation agency NESTA was originally set up as an executive non-departmental public body by an Act of Parliament with an endowment by the UK National Lottery in 1998 and became an independent charity in 2010. Its mission is simply "to help people and organizations bring great ideas to life."[109]

Broadened mandate of innovation agencies

In recent years, some governments have requested **traditional innovation agencies to broaden their mandate** to integrate solutions to social and/or environmental challenges (e.g. Tekes in Finland or Vinnova in Sweden).

The **culture of innovation** within these government institutions, however, is as important as the creation of new bodies and the institutional set up. A new institutional culture in the public sector has been fostered through a number of interventions such as incentives, appraisal, and awards mechanism or inside-outside collaboration.[111]

5.4. TOOLS

Governments have a range of tools at their disposal to either influence the development of social impact markets or to directly participate in those markets.[112] This section highlights examples in the area of finance and investment; public procurement; legal structures; taxes and subsidies; business

107 http://blog.la27eregion.fr/-A-propos-.

108 http://www.tacsi.org.au/.

109 www.nesta.org.uk.

110 This is an example of an innovation lab at local government level.

111 See for various public sector reform initiatives aiming at creating a more conducive environment for social innovation in the public sector The Young Foundation (2012, 164); Murray, Caulier-Grice and Mulgan 2010, 146 and www.socialinnovator.info.

112 Thornley et al. 2011, 8.

development and support; provision of market information; and awareness raising.

5.4.1. Investment and finance

Government social impact investment vehicles

One of the most important government tools for stimulating the supply of capital is the creation of investment and financing vehicles for social impact. Impact entrepreneurs need financing as working capital to help with cash flow management; as development capital to grow and expand; and as reserve to protect against uncertainty.

Most impact entrepreneurs however, consider lack of finance their single major constraint for growing the organization. In fact, there is a typical 'chicken-and-egg' problem in many social investment markets which results in an undersupply of social investment capital. Potential social investors often justify their reluctance to engage in social investment with the lack of "investment ready" organizations. Intermediaries that could help accelerate the flow of capital between social investors and entrepreneurs argue with low transaction volumes that without philanthropic support or public subsidies would not allow them to offer financially sustainable services. As a result, social pioneers are unable to grow their ideas due to lack of suitable funding and support. This again makes the emergence of suitable social investors and intermediaries less and less likely.

Some governments have sought to break out of this cycle by channeling capital for social impact into the industry to support the creation of social finance intermediaries, attract new investors, and to help build sustainable market infrastructure.[113] Sir Ronald Cohen, the "father of social investment" in the UK argued:

> *"It is true that in the case of social investment as it has proved to be true in the case of venture capital and private equity that the supply of money creates its own demand and an increased flow of capital is therefore the starting point."*[114]

In recent years, the industry witnessed the creation of government initiated and (co) financed funds and financial instruments to invest in social impact organizations. Table 8 in Annex 4 provides selected examples of government (co) investment schemes for social impact. While design differs across geographies, there are some interesting common trends and features of such public sector investment vehicles:

- **Focus on measurable social impact:** Investment strategies emphasize the need for investees and investment fund managers to demonstrate measurable social impact.
- **Variety of financing instruments:** Government finance in social entrepreneurship is not limited to grant finance but increasingly involves a mix of financial instruments including guarantees, debt, and equity finance.
- **Market driven:** Investment strategies make use of market forces and seek to align public and private sector interests (e.g. matching funds or smart incentives in the remuneration of fund managers).[115]
- **Growth capital:** Many investment interventions are still focused on providing capital to growth organizations with early stage impact entrepreneurs relying on the availablity of philanthropic support.
- **De-risking capital:** Government funding is increasingly playing a catalyst role for attracting additional more risk-averse sources of capital rather than acting as the sole provider of finance. This leads to pooled, multilayered funding struc-

113 Monitor Institute 2012.

114 Cohen and Sahlman 2012.

115 Global Impact Investing Network 2011.

ture in such investment funds, with a different risk/return profile for each layer (see related discussion on catalytic first loss capital below).[116]

- In an increasing number of countries, social or impact investment funds are part of a **holistic** government strategy rather than stand-alone intervention which aims to create market infrastructure and intermediaries and to strengthen capacity.

Credit enhancements

Some investment opportunities in funds, enterprises or financial products may bring significant social and environmental benefits, but a high financial risk may prevent the flow of capital to these opportunities. Governments (as well as development financing and philanthropic organizations) have used credit enhancements such as **catalytic first loss capital** to improve the risk-return profile of these opportunities and thus incentivize others to invest with the objective of:

- Attracting additional capital for a specific impact opportunity;
- Encourage the exploration of unexplored markets;
- Reduce costs for investees.

In the case of the Community Finance Fund for Social Entrepreneurs (CFFSE), a fund that would provide financial services to low income populations in Australia, the Australian Government's Social Enterprise Development and Investment Fund (SEDIF) provided a grant of 4.5 AUD (or 37.5% of total fund size) to Christian Super, a non-profit pension fund that invested equity in the CFFSE. While initially the CFLC will cover both interest and principal payments on any loan losses, after one year SEIF would cover only the principal component in any losses. Given Christian Super's fiduciary duties as a pension fund, this guarantee was needed for the approval of its investment committee.[117]

Government backed credit guarantee schemes are instruments used by governments worldwide to encourage lending to small and medium-sized entrepreneurs, startups, or entrepreneurs in disadvantaged regions. These entrepreneurs are typically limited in their capacity to access credit because of insufficient collateral, limited credit history, or lack of expertise needed to produce sophisticated financial statements. Should the entrepreneur default, the Credit Guarantee Scheme will reimburse a predefined share of the outstanding loan thus reducing the credit risk of the lenders.

The success of such guarantee programs should be evaluated in terms of extra loans that have been issued that would not have come about without the credit guarantee scheme (credit additionality), contribution to innovation, job creation, investment, spill over (economic additionality), success in satisfying demand (outreach) and the financial sustainability of the fund. However, thorough impact measurements are rarely available in practice.

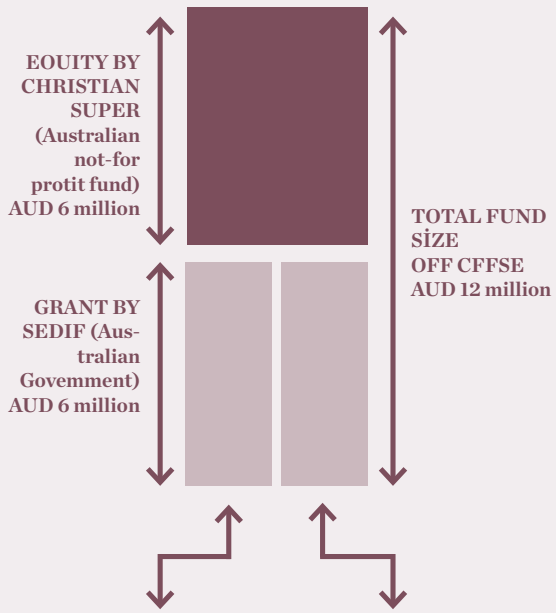
In Turkey, the Kredi Garanti Fonu (KGF), a public-private partnership established in 1991, focuses on supporting young and woman entrepreneurs, to promote innovative investments, to promote high-tech SME's, to support exports, to increase the rate of employment, and to contribute to regional development. [118]

116 Co-investors consist of a variety of institutions with different risk-return profiles ranging from foundations, development financing institutions, value banks to mainstream commercial financial institutions (see section on catalytic first loss capital below). An overview of catalytic first-loss capital as a credit enhancement tool is provided in Global Impact Investing Network (2013) and further de-risking strategies are presented in Bridges Ventures/Bank of America (2014).

117 Global Impact Investing Network 2013, 11.

118 For a review of the Turkish KGF see Tunahan and Dizkiriçi 2012.

Figure 14: Catalytic first loss capital - (Australian CCFSE)



Source: Global Impact Investing Network 2013, 12.

Despite the relative success of guarantee schemes and its widespread use worldwide, government guarantees have not yet been designed specifically for impact entrepreneurs. Furthermore, equity guarantee schemes to encourage innovation are still an unproven policy instrument.[119]

Raising finance

Most governments would argue that they lack the capital required to kick-start the new industry. One of the most compelling examples of a response to this challenge is the decision made by the UK government to use **unclaimed assets from dormant accounts** in banks and building societies to establish the UK wholesale bank, Big Society Capital.

Furthermore, governments and development financing institutions have issued **bonds** to raise finance for mostly environmental and climate change projects including the World Bank Climate Bonds, IFC Green Bonds or the Sustainability Bonds issued by three French Municipalities in 2012.[120] The Social Impact Bonds (SIB) or Development Impact Bonds (DIB) raise up-front finance from (social) investors based on expected public sector savings based on improved social outcomes (more details on SIB in 5.4.2 below).

Similarly, governments of countries as diverse as Israel, India, Nepal, Ethiopia, and Greece reached out to their **diaspora community** to raise finance for development and infrastructure projects.[121] In the environmental field, charges levied on polluters are used to encourage innovation and incentivizing to innovators (e.g. the UK Landfill Allowance Trading Scheme). In the case of **community pledge banks,** citizens commit modest amounts of money to a social challenge only with the condition that others do so as well for a minimum amount. This amount is then matched by local government and other government authorities. Similarly, **joint project financing** leverages public money with voluntary contributions, sponsorships, or community investments.[122]

5.4.2. Public procurement

Work with the public sector can help impact entrepreneurs generate reliable income streams and

119 Non-government loan guarantee programmes for social enterprises are offered by a number of credit unions and cooperative in Canada (e.g. the Nova Scotia Cooperative Council in Canada).

120 Climate Bond Initiative 2013.

121 On diaspora bonds see König 2013d and http://blogs.worldbank.org/category/tags/diaspora-bond (Accessed January, 21 2014).

122 The Young Foundation 2012, 158.

build their capacity to deliver high quality goods and services at scale. In the UK, for 23% of social enterprises, trade with the public sector is their main source of income.[123] In Germany, social enterprises earn on average 36.2% of their income from government sources, in some areas such as social services this income is as high as 47%.[124]

In fact, effective public demand for the entrepreneurs' goods and services can support social innovation throughout the innovation cycle: in the concept phase (where markets do not yet exist for a particular good or service), in the market introduction (where demonstration of goods' or services' feasibility is needed), or in the market maturity phase (where a critical mass is important to bring a social innovation to scale).

Public procurement reforms

In recent years, reforms in public procurement and commissioning worldwide have aimed at **removing barriers for social impact organizations** (e.g. size or capital adequacy), at **including social and environmental criteria** alongside price and technical criteria in the tender documents or **at specifically designing tenders targeting social organizations or small businesses.**

For example, the Public Service (Social Value) Act 2012 in England and Wales requires all public bodies to consider the social value created when commissioning services.[125] The European Commission included social clauses in their 2004 Directive on Public Procurement, issued a Buying Social and Buying Green Guide and is currently discussing proposals to clarify and to elevate social criteria to the same level as more advanced green criteria.[126] Outside Europe, the 2003 Black Economic Empowerment Act in South Africa is a prominent example of actively promoting the inclusion of disadvantaged groups, the country's black population through targeted government procurement.[127]

Another important improvement in public procurement has been the introduction of **performance-based contracts** between the government and external organizations. The government identifies desired social results and commits to pay the external organization an agreed upon amount of money once these results are achieved.

Social Impact Bonds

One of the most significant innovations in the area of public procurement (and raising public finance for social impact, see above) are **Social Impact Bonds (SIB).** SIBs were originally developed in the UK and have been adopted in the US as *Pay for Success Bond* as well as Australia as *Social Benefit Bond.*[128] In developing countries; the concept of SIB has been expanded to include interventions by government official development aid agencies (*Development Impact Bonds*).[129] Currently, countries as diverse as Germany (State of Bavaria), Israel, Pakistan, or Mozambique are exploring the feasibility of SIBs within their country-specific context.[130]

123 Social Enterprise UK 2013, 25.

124 Spiess-Knaff, Schües, Richter, Scheuerle and Schmitz 2013, 29.

125 Social Enterprise UK 2012.

126 European Commission 2004; Network for Better Future of the Social Economy 2012, 81.

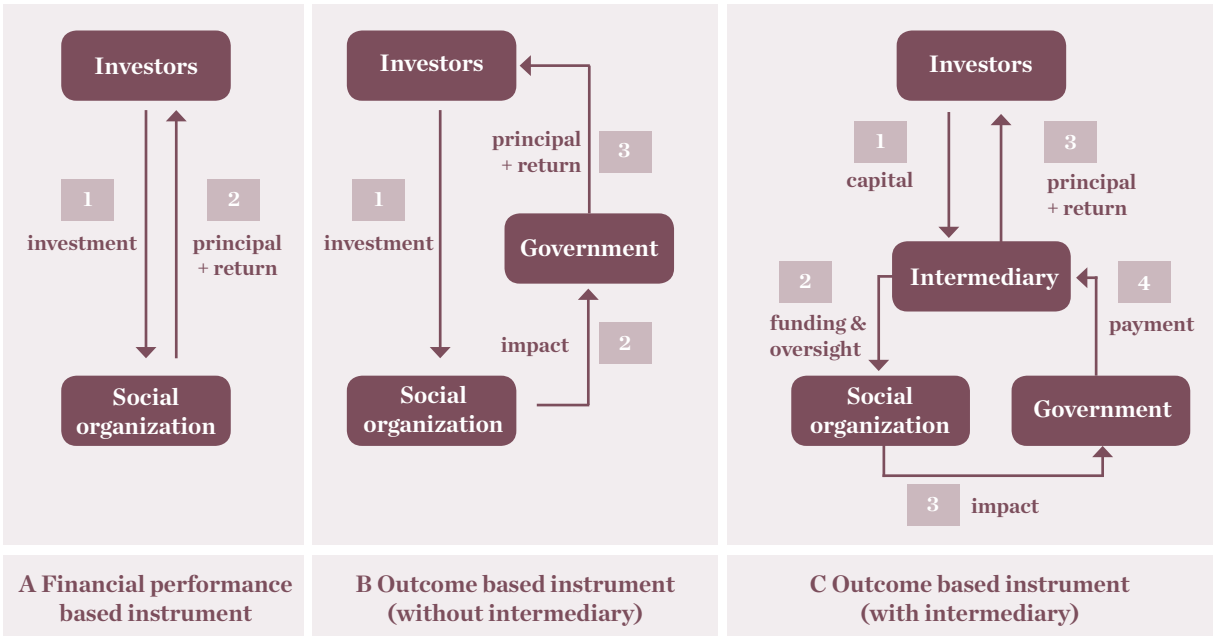
127 Under the BEE Scheme companies wishing to do business with the government obtain a BEE certified rating which reflects their empowerment score. This score is evaluated alongside price and technical adequacy. See Thornley et al. 2011, 70.

128 Social Finance 2012; The Australian design of Social Benefit Bonds provides for a more flexible approach: in case of low performance the investor will still be compensated where is case of high performance, the public sector still retains some of the savings.

129 Impact Development Working Group 2013.

130 Development Impact Bonds are a variation of Social Impact Bonds applied in the international development context, see Development Impact Bond Working Group 2013.

Figure 15: Main structure of a social impact bond



A Financial performance based instrument	B Outcome based instrument (without intermediary)	C Outcome based instrument (with intermediary)

Source: Based on Social Finance 2012, 12 and Impact in Motion 2012, 5.

While under a traditional impact investment, the investor's return is dependent of the financial performance of the investee; under a SIB arrangement, the return depends on the outcome achieved. How does it work?

- An intermediary issues a bond to a (social) investor (step 1);
- The intermediary transfers the money to one or several social organizations (step 2);
- Social organizations use the funds as working capital to scale and improve the outcome of a preventive program. The work can be coordinated and monitored by an intermediary (step 3);
- At the end of the contract period (3-10 years), an independent evaluator determines whether the agreed outcomes have been achieved based on the government contract. In this case, the intermediary is paid a previously agreed percentage of government savings. If not, the government does not owe anything (step 4).
- Only in the case of success would the intermediary then pay the investor the equivalent of the principal and a return of investment, which may vary depending on the service providers' performance (step 5).[131]

Figure 15 illustrates the process for an outcome-based instrument such as a SIB (with and without intermediary) compared to traditional investment based on the financial performance of an organization.

131 The capital is expected to yield anywhere between 2.5% and 13%, but the investor may loose their full principal (e.g. UK Petersburg Prison) or part of it (Australia Public benefit bond) should the agreed outcome not be achieved.

Elements that set SIB apart from conventional procurement and go beyond (result-) or performance-based contrasts include:

- **Focus:** Funding for upstream prevention or early intervention programs that significantly reduce the need for subsequent and more costly remediation.
- **Outcome orientation:** Success is measured by outcomes rather than outputs in a performance contract or the financial performance in a typical investment, thus focusing on the intervention towards results that ultimately matter for beneficiaries and the government.
- **Risk capital:** SIBs are expected to raise capital for innovative programs which involve risks that governments are not able (or willing) to assume and budget for.
- **Innovation:** Government agencies do not specify required inputs, thus leaving room for innovation and creativity in addressing social challenges.
- **Up front working capital:** Social organizations are provided with up-front working capital.
- **Long-term predictability:** Funding is predictable and available over a longer period of time reducing the need for costly fundraising.

With the first bonds being launched only recently, it is still early to draw conclusions on the success of this program. However, for SIBs to work well the following conditions should be met:

- **Target group definition:** The target group has to be well defined;
- **Measurable outcomes:** Outcomes have to be measurable and have to translate in government savings that are big enough to pay for the work of the organization and intermediary as well as the investors return;
- **Capacity:** Social organizations have to have the capacity to be able to attract investors and deliver the promised outcomes;
- **Risk-taking:** Investors need to be ready to face uncertainty and assume a high level of risk most of which is outside of their control after their social partner organizations started work.

In fact, critics have therefore warned that investors may unduly interfere in the work of social organizations or push for well-trusted approaches rather than innovation to reduce implementation risk.[132]

Social innovation challenge

Other promising instruments are **social innovation challenges,** i.e. competitions for ideas, products, or outcomes used by governments, civil society, and development organizations.[133] If well designed and implemented, they could be an effective way to draw attention to and to create visibility of a social problem, to attract new talents and ideas, and to tackle even complex social issues**.** They also contribute to creating and strengthening a community around a social problem and sources ideas for solutions from "unusual suspects."

Box 4 provides information on the Naples 2.0 challenge initiated by the civil society network EUCLID.

132 Social Market Foundation 2013, 27.

133 Sida 2013.

Box 4: Naples 2.0 – The EUCLID Social Innovation Competition

In 2011 the civil society network EUCLID in cooperation with the UniCredit Foundation launched the Naples social challenge competition as a pilot to generate new ideas to resolve social problems in the Italian city of Naples. The six social challenges presented to participants included: first, to transform a villa confiscated from the Italian mafia, into a company to generate income for the local community; second, to sustain and conserve historical and artistic heritage of a Roman bath, while promoting its accessibility to the public; third, to tackle high school drop-outs rates; fourth, to develop a strategy for ensuring the financial sustainability of a selected charity organization threatened by government budget cuts; fifth, to integrate Romani minority into Italian society.

The challenge was organized by a professional service provider organizing awards based competition for the American and British Government (Omnicompete) and funded by UniCredit Foundation and various sponsors supporting individual challenges. In the meantime five winners have been identified and supported in turning their ideas into practice. The experiences of this pilot social innovation challenge, which inspired the creation of the European Commission Prize for Social Innovation, have been documented providing deep insights into the benefits and challenges of running such a challenge.

Source: EC 2012; EUCLID and UniCredit Foundation 2013; Addarii 2013.

5.4.3. Fiscal incentives and subsidies

Fiscal incentives (tax reliefs, exemptions) and **subsidies (including grant payments)** are a common mean to incentivize innovation and the provision of goods and services that are in the public interest. Such incentives lower the cost of innovation and make social engagement by organizations and individuals financially more attractive. Fiscal incentives and subsidies may be directed to:

- Eligible **social organizations**;
- Their **products and services**;
- Their **consumers and beneficiaries**; and/or
- Their **investors and funders**.

Table 6 provides examples for each type of fiscal target.

While various fiscal measures and subsidies for charities or organizations with public interest status exist, few governments provide fiscal incentives or directly subsidize impact entrepreneurs as a separate group, let alone provide direction subsidies to individual impact entrepreneurs (even if selected after a competitive procedure).

Table 6: Examples for fiscal incentives

Focus of intervention	Examples
Social organizations	Tax relief or exemption for small businesses[134] traditional charities, or organizations with an accredited status as "public utility" (e.g. Austria), "common utility" (Germany) or 'public benefit' (e.g. in the UK or Australia)
Products and services, consumers and beneficiaries	Voucher programs beneficiaries/consumers purchase vouchers for services at reduced rate (or receive vouchers for free) to obtain services from registered providers, who in turn will be reimbursed for the cost of treatment (e.g out-based aid health fund and voucher scheme in Kenya or the government childcare voucher scheme in the UK).[135]
Investors	Green Fund Scheme/Netherlands: offsets a lower interest rate offered to investors by a tax credit and waivers taxes on dividens and interest payments to make the scheme financially attractive to mainstream investors.[136] Community Investment TaxRelief (UK): tax relief for individuals and companies that invest in accredited Community Development Finance Institutions (CDFIs) that invest in low-in come communities.[137] Proposed Social Investment Tax Incentive (UK) : tax relief for investors in regulated social sector organizations including charities, community benefit societies and community interest companies (investors to claim 30% of their investment against their income tax or capital gains tax liabilities.) [138] Program-Related Investment PRI Policy/US: allows tax-exempted foundations the flexibility to make investment for social benefit in L3C companies rather than donation only. The community Economic Development ınvestment Fund (Canada) offers local population of Nova Scotia a tax credit of up to 35% on investments in their communities. [139]

Source: Various.

In fact, market advocates who believe that capital and resources will flow towards those organizations that provide the best value to society, would see a risk of market distortion and protection of potential inefficiencies if providing grants to (for-profit) impact entrepreneurs. Furthermore, only financially sustainable businesses will be able to deliver social impact at scale and therefore subsidizing low profit or non-profit entrepreneurs in the long term would be an ineffective use of public resources.[140]

On the other hand, however, it could be argued that many impact entrepreneurs may operate in new areas where so far nobody else has been willing to go and as a result, there was no market (yet) to be distorted. Furthermore organizations, while not particularly profitable, may provide critical industry infrastructure or pioneer a new model based on

134 Thomson Reuters Foundation/TrustLaw 2011.

135 Voucher schemes are an example of a form of market-based, smart subsidy directed at consumer of goods and services provided by impact entrepreneurs.

136 Thornley et al. 2011, 58.

137 The UK government is currently considering a more comprehensive system of tax incentives for social investments, see Big Society Capital, City of London 2013.

138 See http://www.pioneerspost.com/news/20130904/social-investment-tax-relief-who-will-qualify.

139 http://www.gov.ns.ca/econ/cedif/ (accessed July, 24 2013).

140 Bannick and Goldman 2012, 17.

which followers may create stronger returns. In fact, many firms that transformed sectors and created new markets were initially subsidized by public funding such as mobile banking platform M-Pesa in Kenya by the British Department for International Development (DFID), or the microfinance industry that benefited from significant levels of subsidies by development agencies before it became as self-sustaining and even profitable as it is today.[141]

As a result, some form of fiscal support and direct subsidy may be justified if the entrepreneur creates a significant demonstration effect, thereby spurring market development; or provides an important public good for the industry as a whole.

5.4.4. Rules and regulation

Legal structures

The organization's **legal structure** may greatly influence the way an organization operates and scales. The legal form determines:

- How the organization makes decisions and is governed;
- Its ability to be involved in economic activities, to generate revenues and profits;
- The kind of finance and investment it has access to;
- The kind of staff it may attract;
- The eligibility for fiscal advantages, its access to public procurement and public support schemes.[142]

Moreover, the legal form often influences how an organization is generally perceived – consciously or unconsciously –amongst its stakeholders and the wider public. Organizations with a social mission are commonly set up as limited liability companies, non-profit associations, foundations, or cooperatives.

Impact entrepreneurs however, typically face a dilemma in choosing the 'right' legal structure. In a corporate structure, they often forego eligibility for grant funding by traditional aid agencies or foundations and risk a 'mission drift' when accepting investment by traditional investors. In a non-profit structure, however, their economic activities and their ability to attract funding and investment (e.g. from business angels) is restricted. In the past decade, governments mainly in the US but also in the UK and some European countries (e.g. Belgium, Italy, Spain and Poland) developed **bespoken legal structures** to reflect the hybrid character of these organizations.

In contrary to expectations by many lobby groups, however, specific tax exemptions and preferential access to government subsidies have only rarely been the main objectives for government in creating such specific legal structures.[143]Instead, they have aimed at helping impact enterprises operate in a business-like manner, attract commercial or philanthropic capital while safeguarding their social mission (e.g. through an asset lock).[144] Table 7 lists bespoken legal structures for impact enterprises in the UK and the US.

141 Bannick and Goldman 2012, 17.

142 Many countries separate regulations governing eligibility for tax, access to public procurement or public support schemes.

143 For example in the Philippines a 'Magna Carta' is being developed that would grant tax incentives and put in place support mechanism to eligible organizations. See Tewes-Gradl et al. 2013, 56.

144 An ' asset lock' is a legal clause that prevents the assets of a company (income or capital) being used for private gain rather than the stated (social) purposes of the organization, e.g. applied in the Community Interest Company in the UK.

Table 7: Bespoken legal structures for impact enterprises

Legal structure/country	Description
L3C (Low-Profit Limited Liability Company)/US	A for-profit organization with a stated goal of pursuing a socially benefical purpose, not maximizing income.Designed primarily to enable foundations in the US to invest in L3Cs and to receive a return while as program related.
Flexible Purpose Corporation (California/Washington in USA)	Requires boards and management to agree on one or more social and environmental purposes with shareholders, while providing additional protection against liability for directors and management
Benefit Corporation/US	Corporate form that allows the pursuit of general benefits for society objectives. Based on the B Corp Certification awarded non-profit organization, B Lab in the US, to ethical, socially aware and eco-conscious applicants in the US as well as globally (e.g Mikado Consulting Turkey).
Community Interest Company (CIC) (UK)	Companies limited by guarantees or by shares that operate for the benefit of the community. It allows investors to claim income tax credits.ınvested assets are "frezon" and designated for general community benefits ('asset lock').Dividends payable to shareholders, performance based interest on debt are capped.

Source: Milken Institute 2012, 5; Thornley et al. 2011, 54.

Legal requirements

In addition to designing a legal structure to fit the purpose and needs of impact entrepreneurs, governments have implemented legal changes to remove barriers but also to direct more capital for social impact. For example, new regulatory framework was created to accommodate new business models (e.g. mobile banking regulations in Kenya, South Africa or Pakistan), or governments have passed legislation to require financial institutions to invest in underserved markets (e.g. priority lending in India).[145]

Furthermore, under the Companies Act 2013 in India, companies are required to spend at least 2% of their profits on corporate social responsibility activities (mandatory CSR spending).[146]In the US, as early as 1969, a law introduced Program-Related Investments, a category that allowed foundations to make patient, low-cost, and/or higher-risk investments in support of their mission without risking their preferential tax status. In 2012, the US government expanded the base of investment that would qualify as Program-Related Investments to encourage more investing for social impact by foundations.[147]

Given the size of assets under their control, **Institutional investors**, such as pension funds or insurance firms, have the potential to play an important role in social investing. However, for many institutional investors investing in an impact enterprise with objectives other than maximizing returns on investment can make it difficult to meet their fiduciary duty requirements – that is, the legal obligation to act in the best interests of their clients.[148]

145 Schwab Foundation 2013; Annex 1.

146 Karnani 2013.

147 World Economic Forum 2013, 20.

148 Thornley et al. 2012.

Box 5: The Investment and Contract Readiness Fund (UK)

The ICRF is a three year £10 million (USD 15.2 million) fund, administered by an independent professional fund manager selected in a public tender, to provide grant support to social ventures (social enterprises, charities, community interest corporations and mutual) to help them access new forms of finance and compete more successfully for public service contracts. Part of the grant funding may be turned into repayable finance in 2013.

Applications to ICRF are to be made in competitive process and are reviewed by an investor panel to align todays ICRF support to their ability to raise investment tomorrow (the government only has a non-voting representation on the panel). Grant amounts range from £ 50,000 to £ 150,000 and are to be used to purchase advice from 'investment and contract readiness providers'. This advice is to result in either raising substantial private capital or participation in a government tender.

Source: Schwab Foundation for Social Entrepreneurship/World Economic Forum 2013, 31-32.

To address such concerns, the revised regulation 28 of the Pension Fund Act in South Africa in 2011 supports the incorporation of an explicit analysis of environmental, social, and governance (ESG) information into pension fund investment decision making, allows for investment into alternative asset classes including private equity which is most commonly used for social investing in South Africa, and provides for appropriate trustee education on responsible investing.[149]

5.4.5. Business development and support

Many impact enterprises around the world do not have the capacity to absorb capital beyond traditional grant funding. While many governments and development agencies initiated some form of technical assistance program to the SME sector, most programs do not provide for the special needs of impact entrepreneurs. As one interviewee with intimate knowledge of the social impact market in the UK stated:

> *"If there is one thing that we could have done better here in the UK is to focus earlier on how to nurture social enterprises. We focused so much on social investment and how to attract capital that we were almost surprised to find that we did not have enough companies ready to take up the money we mobilized".*[150]

The Korean Social Enterprise Promotion Agency provides **targeted technical assistance** to social enterprises in areas such as pay roll management, accounting, taxes, or business planning. The Investment and Contract Readiness Fund in the UK launched in 2012 is a recent example of a fund that has been set up with the explicit objective to build social ventures' capacity to **enable beneficiaries to secure new forms of investment and compete for public service contracts** (Box 5).

The German Government Agency for International Cooperation (GIZ) supports the Responsible & Inclusive Business Hub in various regions around the world that aim at **promoting inclusive business models** and provide **capacity building support** to business aiming at including poor communities in their value chain.[151] Similarly, the Business Innovation Facility funded by the British Department for International Development (DFID) provides support and technical advice to selected companies with a development impact in five selected countries to unblock bottlenecks and barriers.[152]

149 World Economic Forum 2013; Annex 3, 1.

150 Interview No 14, January 2013.

151 www.giz.de.

152 www.businessinnovationfacility.org.

Governments have so far rarely supported incubation and acceleration programs for impact entrepreneurs and even less the work of investment advisors that play an important role in structuring the investment and bringing investors and impact entrepreneurs together.

5.4.6. Information and awareness raising

There are various options for governments to support the generation and flow of information. Supporting high quality **research** and the production of **data** for public use helps not only lower the barriers for entry for potential funders, investors, and other players but also contributes for governments make better decisions and increases transparency of the public sector decision making processes. Market information also helps entrepreneurs better understand the needs of their target groups and other stakeholders.

Furthermore, documentation of best practice business models and lessons learned as well as "story telling" contribute to peer learning amongst entrepreneurs, policy makers, or investors. The UK Cabinet Office in collaboration with partners from the public, private, and third sector launched the Social Investment Research Council to advance the social investment market and provide data for social organizations and investors.[153] Similarly, the Ghana Venture Capital Fund established the Impact Investing Centre in Accra this year to support data collection and research on impact investing.

Awards for social innovators and impact entrepreneurs not only attract attention to individual organizations or entrepreneurs but also help raise awareness about the emerging field more generally. For example, the Australian government supports the Social Enterprise Award Scheme run by Social Traders, an eco-system builder, research and social entrepreneurship support organization established in partnership between the state government of Victoria and a private foundation. Similarly, various donors and development financing institutions support award schemes for impact entrepreneurs.[154]

Furthermore, government can help with **awareness raising on products and services** amongst beneficiaries of interventions provided by impact entrepreneurs (e.g. benefits of pre-school education). The public sector can also be involved in campaigns and larger field building events such as example the GIIN London Impact Forum 2013, a global gathering of impact investors, which was supported by the city of London.

Similarly, under the EC Social Business Initiative, the European Commission proposes a number of measures to increase transparency, information, and awareness raising:[155]

- To identify good practices and collect reliable data on the entrepreneurs and their eco-system;
- To promote mutual learning between national and regional governments and
- To create a single information and exchange platform for social enterprises and their partners.

Labelling or **certification** is another way to increase awareness and provide orientation to investors, the public sector, consumers, and the public. Certification confirms the (voluntary or compulsory) adherence to certain social or environmental standards. Standards can be developed and evaluated by private institutions but then

153 The Council has only been launched on 31 October 2013. More information is available on http://www.bigsocietycapital.com/Research-Council.

154 For example, the award scheme of the GIZ International Business Forum (www.ibf2013.net) or the IFC G20 Challenge on Inclusive Business (www.ifc.org).

155 European Commission 2013, 8.

endorsed by public authorities (e.g. the B-Corp Certification in the US, the Social Enterprise Mark UK) or user rights may be purchased and adopted for existing standards (e.g. Global Impact Investing Rating System GIIRS). In fact, to define eligibility for public support, there may be good argument to apply a reputable certification as an alternative to defining a separate legal structure for impact enterprises or social enterprise to avoid a challenging legal and parliamentary process.[156]

However, labelling and certification – in particular if it is compulsory –also have some downsides. Some members of the Expert Group of the EC Social Business Initiative, for example, rejected a Europe-wide social enterprise label, out of concerns that a rigid labelling policy could "*put astraitjacket around an emerging industry and kill experimentation.*"[157] It has also been argued that labelling should be rooted in the demand of the market, valued by consumers and developed by practitioners rather than imposed by policy makers.[158]

156 This has been one of the recommendations to the Government of Senegal, see Dahlberg 2012. Similarly, the Mercator Foundation social entrepreneurship research network in Germany recommended policy makers in 2012 to encourage and endorse a 'social entrepreneurship codex' to strengthen the legitimacy of social enterprises, see Jansen, Heinze and Beckmann 2013, 365.

157 Addarii 2012.

158 Addarii 2012.

6 POLICY RECOMMENDATIONS FOR TURKEY

6.1. LESSONS LEARNED

Many of the policy tools discussed in Section 5.4 above have only been developed and implemented recently. As a result, it is still too early to assess whether these interventions have been successful in promoting social entrepreneurship and attracting private capital for social impact. However, some practical insights from policy makers, academia, and practitioners reveal first lessons learned.[159]

The need to identify reform champions

The existence of a reform champion and individuals who develop a vision and drive the reform agenda forward appears crucial for the success of reforms. In the UK, for example, Sir Ronald Cohen has been a crucial figure in the early discussions led by the Social Investment Task Force in 2000 up to the creation of Big Society Capital in 2012. In the US, the Office of Social Innovation and Civic Participation was largely designed and set up by highly engaged staff from the Centre for American Progress, an independent think tank. The Indian Innovation Council has been established and led by Sam Pitroda, a highly regarded entrepreneur in India.[160]

Creating and implementing quality deals

There is no substitute for "getting on and doing it."[161] Pilot projects, actual investments, and evidence of social impact, for example, are powerful ways to attract interest and resources to this field and to build track records and templates. As a high ranking public official in the Indian government stated:

> *"After lots of planning and strategizing, at some point we just had to create facts that nobody inside and outside government could ignore. A social innovation fund equipped with USD 100 million of secured funding is such a fact."*[162]

However, there also needs to be room for experimentation, trial and error based learning as well as flexible revision and adjustments in case pilots do not achieve the desired impact.

Accountability for impact

Furthermore, as positive intentional social and environmental impact is the common denominator of entrepreneurs, investors or intermediaries in this field, **impact needs to be measured and demonstrated**. Otherwise, investors and other promoters will eventually lose interest. As a result, accountability for impact and impact measurement contributes to building a body of information that builds confidence, increases visibility and allows for learning and improvement.

Public sector role in de-risking engagement

Supporting social innovation, pioneering ventures and creating new markets for social impact is risky not only for the provider of private capital but any other support organization. The government has an important role to play in **de-risking engagement** in these new fields. In practice, however, government agencies and development organizations are equally risk-averse – and in some cases - more concerned about the potential failure of their intervention than other players in the newly emerging social impact eco-system.

159 See in particular insights gained in the cases studies provided in Schwab Foundation for Social Entrepreneurship/World Economic Forum 2013.

160 Schwab Foundation 2013, 17.

161 Addis, McLeod and Raine 2013, 35.

162 Rakesh Rewari, Office of the Advisor to the Prime Minister on Public Information, Infrastructure and Innovation, at Annual Impact Investing Policy Collaborative Conference on Policy Innovation in Impact Investing, 11 July 2013, London.

There will be more and more examples, however, of visionary public sector led interventions where the government indeed took a large part of the risk in a new market and built an expected failure rate in the design of their programs.

Government cannot (and should not) do it alone

Experience shows that government support matters in developing social impact markets, but they should not be the sole financier, promoter, or supporter. Instead, they have a significant role in **convening** and **mobilizing a variety of sources and players** to complement government support.[163] As such governments need to see their key roles in improving public awareness, market efficiency/transparency, and attracting new private (philanthropic, diaspora, commercial, institutional) capital.

Acting as convener and engaging with a variety of stakeholders (rather than only consulting or informing them on a decision as well as a thorough analysis of the situation) to understand beneficiaries' and partners' needs/expectations as well as exploring ways for cooperation and involvement is essential for the design and implementation of any successful policy intervention.

More attention will be paid in the future to the respective roles of public sector agencies, philanthropic funders, and other support organizations in supporting social innovation and building new fields.

Autonomy of public agencies and investment vehicles

Public investment vehicles or support programs are set up as independent structures and are even often managed by a third party outside the government. For example, the newly established Investment and Contract Readiness Fund (ICRF) in the UK is administered by Social Investment Business (TSIB) and the cabinet office only has non-voting representation in investor panel, the unit that decides on applications. Similarly, the newly established Indian Innovation Fund will be managed by a professional fund manager, not a government department[164] and the Ghana Venture Capital Trust Fund is set up at arm-length from government.[165]

Tailoring financing, investment and non-financial support to identified needs in the entrepreneurial life-cycle

Each impact enterprise has its own specific needs for financing, investment, and non-financial support. As a result, policies need to be based on a thorough analysis of needs and refined in a regular dialogue with entrepreneurs, funders, and investors as well as intermediaries. Furthermore, these needs will change over the life-cycle of the organization. Policies need to take these changes into account, identify gaps, and provide or encourage the provision of interventions that meet their specific needs in each phase of the life-cycle.

Considering the local level

Social innovation can be particularly powerful in resolving challenges at the local level. However, in practice, most public sector interventions are designed and implemented at central level. More recently, in countries with strong decentralized decision making powers at the municipal, regional, or state level, policy innovations have been led by local or state authorities rather than the central government (e.g. the Social Business City of Wiesbaden, state legislation on bespoken legal structures for impact entrepreneurs and investors in the US, municipal bonds etc.).[166]

163 This explains, for example, why most public investment mechanisms for social impact match resources and conditions and require co-financing by private funders. For example, the KfW social enterprise fund in Germany, the US social innovation fund or the rural development programme MiChacraEmprendedora in Peru amongst many others. See Schwab Foundation 2013, 22; 35.

164 Schwab Foundation 2013, 17.

165 Schwab Foundation 2013, 28.

166 For example Cities for Active Inclusion, http://www.eurocities-nlao.eu/.

6.2. NEXT STEPS

If social innovation in Turkey is to move from niche to scale (and eventually mainstream) the Turkish government needs to start stimulating and shaping social impact markets. The Turkish government could take some concrete and immediate actions to initiate the reform process as proposed below:

Engage stakeholders

- **Social Innovation Task Force:** Establish a cross-departmental social innovation task force to initiate the development of an inclusive social innovation strategy chaired by a senior government official. Identify and involve key stakeholders as partners during the entire process (collecting data, analysis needs, call for innovations, implementing solutions, evaluating policies).
- **Establish Regional Innovation Labs:** Istanbul Development Agency (or other agency) in cooperation with local municipalities establish two pilot innovation labs in Ankara and Istanbul (review international examples such as MindMap or La 27e Region and tailor to specific Turkish needs).

Develop capacity for action

- **Legal review:** Carry out an in-depth legal review based on existing legal work carried out in this field to identify challenges for impact entrepreneurs, potential funders, social investors, and intermediaries as well as legal aspects in relation to the use of some of the tools discussed in this report (e.g. public procurement, certification, public venture fund).[167]
- **Situation analysis, policy review:** Collect data and information on impediments for impact entrepreneurs reaching scale needs of social entrepreneurs as well as test of potential funders and investors in this field.
- **Strategy:** Develop a strategy at the national and regional level (e.g. regional development agencies) including actions, responsibilities, monitoring, and evaluation mechanisms based on stakeholder engagement, situation analysis, and policy review. A specific emphasis should be on how to attract impact capital from the private and philanthropic sector.
- **Feasibility study:** Carry out a feasibility study for the design of a public (or public-private) investment vehicle investing in (and providing technical assistance to) impact entrepreneurs; social impact bonds and (social) outcome based procurement; catalytic capital.
- **Capacity building:** Appoint a team of government officials to follow international trends, attend international events and trainings, and actively participate in international forums (e.g. EC Social Business Initiative quarterly Consultative Meetings; Global Learning Exchange, Impact Investing Policy Collaborative, SoCap Conference, Skoll World Forum).
- **Certification:** Consider the endorsement of a suitable and credible (international) certification as proxies for definition of impact entrepreneurs for public intervention purposes such as for example, the B Corporation and encourage its adoption.[168]

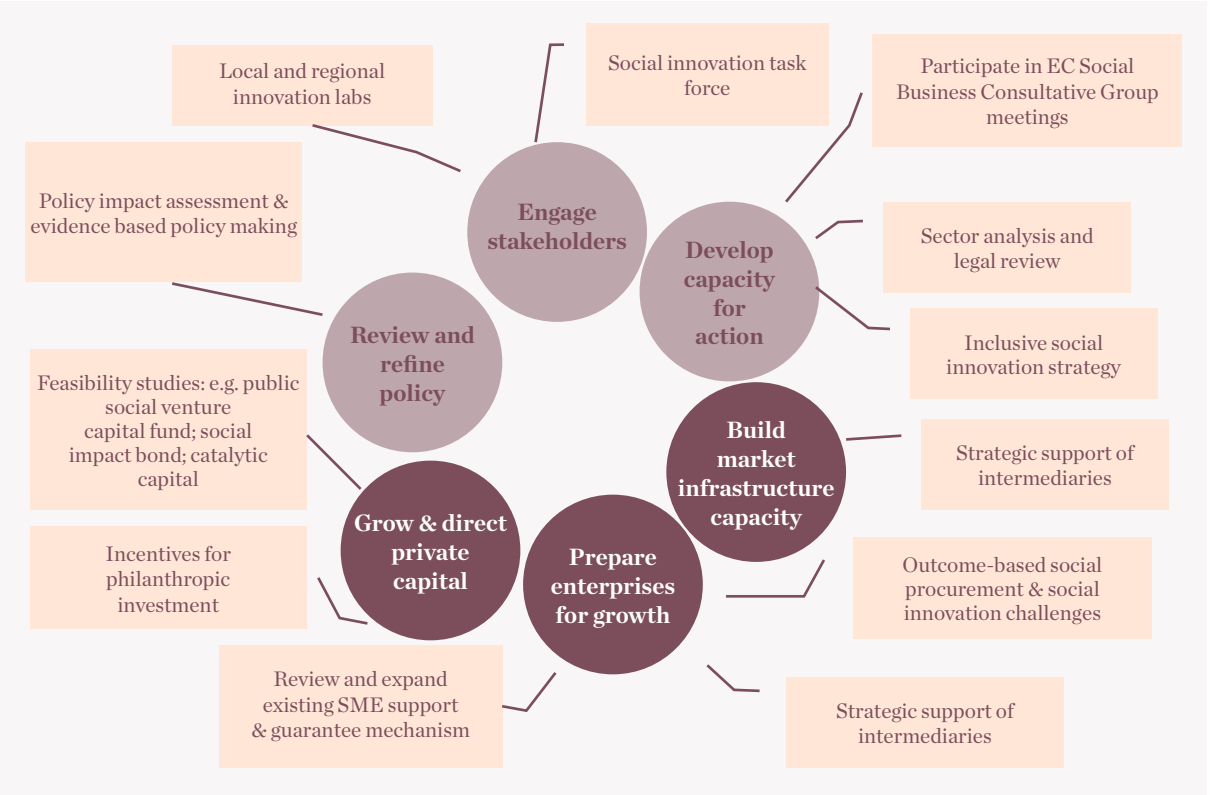
Build market infrastructure and intermediation

- **Intermediation services:** Identify key services and products for effective markets intermedia-

167 An initial, unpublished legal review was carried out by the Social Impact Markets & Policies project in 2013 and TUSEV has carried out substantial work on.

168 Legal amendments or the passing of new legislation may delay or put any reform process on hold. Any definition of social entrepreneurship in law should be as broad as possible and allow government to issue more detailed secondary legislation or administrative rules based on the needs of a specific intervention.

Figure 16: Options for short-term policy interventions



Source: based on Schwab Foundation/World Economic Forum 2013.

tion. Call for proposals from third party providers and provide support in the area of research, impact measurement, information, networking, and capacity building.

- Support awareness raising efforts by joining forces with existing intermediaries in the hosting of related events and using other opportunities to raise awareness (e.g. media).

Prepare enterprises for growth

- **Public procurement:** Integrate social and outcome-oriented criteria in the government procurement process. Regional Development Agencies and municipalities to organize "social challenges" around social problems that request social innovators at the local, regional, and national level to develop creative ideas for resolving such challenges linked to access for funding for implementation. Encourage the formation of collective impact consortia for such challenges (e.g. cooperation between social ventures and corporation, or NGO, universities, government agencies).

- **Expansion of conventional SME support and finance:** Review to what extent existing SMEs and other government support programs could

be expanded or modified to include impact entrepreneurship (e.g. Credit Guarantee Fund, support programs run by the public Small and Medium Industry Development Organization KOSGEB).

Grow and direct capital

- **Financing options:** Review options for attracting capital for social impact (e.g. by government issuing a social impact bond targeting inter alia the Turkish diaspora).
- **Islamic finance:** Explore opportunities on harnessing synergies between Islamic finance and impact investing models.
- **Philanthropy:** Incentivize philanthropic engagement in market building and support in early stage ventures.

Review and refine policy

- **Evaluation:** Review objectives achieved and effectiveness of actions and refine policies in consultation with stakeholders. Make the results of policy evaluation publicly available.

6.3. FURTHER RESEARCH

It is only recently that the government's role in social innovation, impact entrepreneurship, and impact investing has been further investigated in the academic research community and amongst practitioners. The following areas deserve more attention both in Turkey and at international level:

First, we still know little about the success of policy intervention discussed here nor do we have a sound framework that would allow us to carry out a systematic ex-ante or ex-post regulatory or **policy impact assessment** in this field. Brest and Born (2013) and Jackson (2013) each made useful suggestions for providing theoretical frameworks for impact investors to assess to what extent their investment contribute to improve the investees' outcomes, the lives of beneficiaries, and improve the performance of social impact markets.[169] Such impact assessment frameworks need to be further refined and adjusted in order to understand:

- To what extent have government policies contributed to improving investors' and investees' impact, attracting new players, and building the field?
- How should the non-monetary impact be measured and valued (e.g. using economic analysis such as cost-benefits, cost-efficiency, or willingness to pay methods)?
- Can these assessments be carried out ex-ante to help governments prioritize intervention?

Second, many of the considerations discussed in this paper are not only relevant to governments but to other promoters in this field. There has been a rapid emergence of such new players in recent years including foundations engaging in investing, high net-worth individuals that turned into social investors, peer investing networks, impact investors that have actively engaged in market building, investment advisors, and other intermediaries. More discussion is needed on the appropriate roles of each actor in the new landscape as well as the **effective division of responsibility between the government and other promoters of impact entrepreneurship in building social impact markets**.

Third, with the US and the UK considered at the forefront of public policy in social innovation, a substantial amount of research and the international debate is led from both an Anglo-American and a developed country perspective. However, this is against the backdrop of more and more locally-driven initiatives and promoters as well as the increasing availability of philanthropic and invest-

169 Brest and Born 2013; Jackson 2013.

ment capital in emerging countries such as Turkey, China, Brazil, or India as well as several countries in Africa such as South Africa, Nigeria, or Kenya. As a result, these countries do not only attract investments but also need to build their own social impact markets.

Unfortunately, little guidance is available for policy makers in these countries. Their **geographies, socio-economic and cultural contexts** are often significantly different from the US or the UK. Furthermore, social impact markets in these countries are at a less advanced stage of market development that those countries that are currently leading the international debate. As a result, practical guidance material should be developed to help policy makers carry out quick market assessments or legal reviews, identify priority interventions, and design effective policy tools. At the same time, a peer-to-peer dialogue between countries at a similar stage of social impact market development could be supported and facilitated at the international level.

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ANNEX 2: FRAMEWORKS FOR GOVERNMENT ACTION

Below are four frameworks that have recently been proposed to analyze the role of government in promoting impact investing, social innovation, or inclusive business each emphasizing a different perspective. These are frameworks:

- For designing and analyzing policies in impact investing (Thornley, B. et al 2011);
- On the role of government in institutional impact investing (Thornley, B. et al 2012);
- For promoting social innovation (Schwab Foundation/World Economic Forum (2013); and
- On inclusive business policies i.e. the role of government in engaging companies in meeting developmental goals (Tewes-Gradl, C. et al 2013).

I Impact Investing Policy Collaborative: A Framework for Policy Design and Analysis (Insight at Pacific Community Ventures and IRI Harvard University), 2011

Starting point: How can policymakers, investors, and civil society better evaluate and develop impact investment policies?

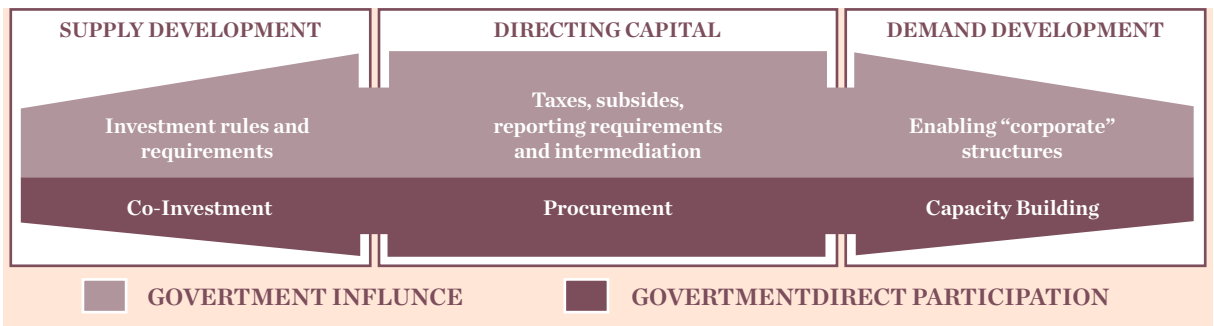
Objective: Describe and develop policies that catalyze private capital for investment in opportunities with social or environmental benefits**.**

Approach: Impact investing is seen as a subset of financial markets with a supply side, the providers of capital (government, individuals, foundations, banks, investment, and retirement funds), the demand side (companies, cooperatives, projects, and other vehicles in need of capital) and a market in which exchange occurs, where rules govern the terms of trade and buyers and sellers set prices. In each of these—supply, demand, and direction—the government can participate directly in the market or influence impact investing through rules and regulations. Policy in impact investing is understood as intervening at one or more points in this cycle:

- Increasing the amount of capital for investment **(supply development)**;
- Increasing the availability or strengthening the capacity of capital recipients **(demand development)**;
- Adjusting terms of trade, market norms, or prices (**directing capital).**

The framework is set out in Figure 17.

Figure 17: Impact investing policy framework (IIPC)



Source: Thornley, B. et al 2011, p. 8.

II Impact Investing Policy Collaborative: Policy Framework for Government Action in Institutional Investment for Social and Environmental Impact (Insight at Pacific Community Ventures and IRI Harvard University), 2012

Starting point: The government has an essential role to play in catalyzing a broader and deeper deployment of institutional assets to opportunities with public benefits.

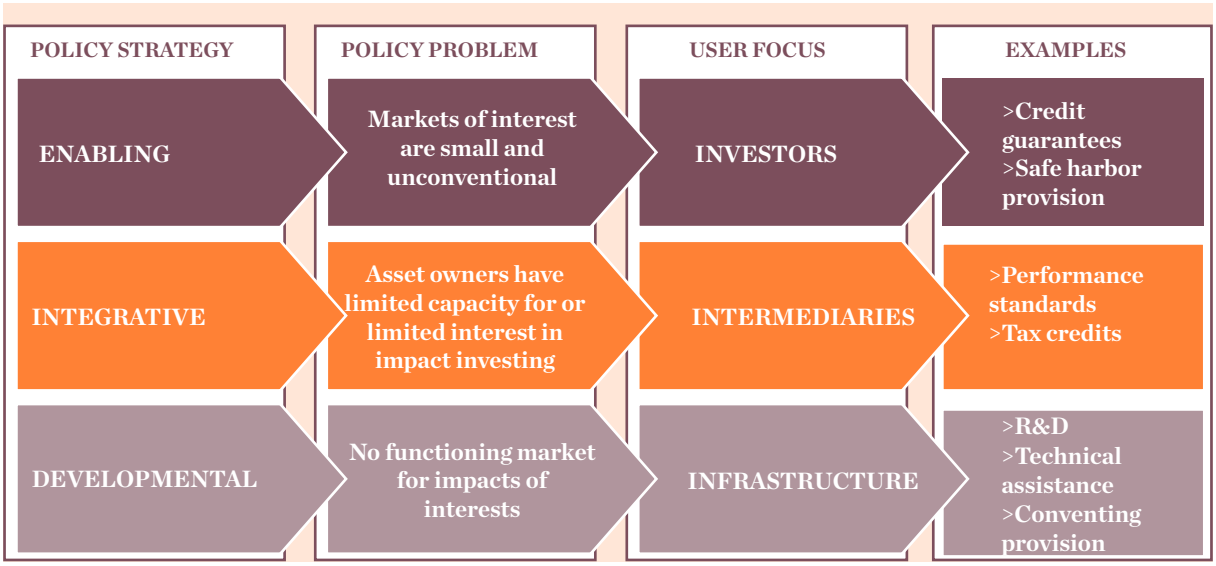
Objective: To identify effective policies to mobilize institutional capital for social and environmental impact and demonstrate the key role government plays where institutional investors invest for intentional social and environmental benefit.

Approach: The authors suggest three key strategies for using policy to catalyze institutional impact investment:

- **Enabling:** Enabling policies primarily address the challenge of small, untested, or unconventional markets focusing primarily on investors themselves (guarantees, fiduciary safe harbor provisions);
- **Integrative:** Integrative policies primarily address the challenges of insufficient opportunities for investors to deploy capital for ancillary social and/or environmental benefit, and the lack of interest or capacity on the part of investors (Target established intermediaries, performance standards mandating social and environmental criteria or tax credits to bolster the risk/return characteristics of investments)
- **Developmental:** A developmental strategy is needed when markets are undeveloped or nonexistent but impacts might be of interest moving forward (research, technical assistance, convening key stakeholders).

The framework is set out in Figure 18.

Figure 18: Model for Policy Engagement for Institutional Investors (IIPC)



Source: Thornley, B. et al 2012, p. 9.

II World Economic Forum – Schwab Foundation: Social Innovation (Insight at Pacific Community Ventures and IRI Harvard University), 2013

Objective: Provide clear entry into the policy process for developing social innovation at all stages – from idea to implementation. Fundamentally, it is about leveraging private enterprise and capital for public benefit.

Approach: The Framework for Government Action includes six elements of public effort to bolster social enterprises (not necessarily in a sequential order).

Engage Market Stakeholders: Government can break down the existing silos that prevent the generation and sharing of ideas and networking and develop structures that allow communication and coordinated action between investors, entrepreneurs, civil society and policy-makers.

Develop Government Capacity for Action: Policy-makers must establish ownership for government action, develop and align internal resources.

Build Market Infrastructure: Government can help build a broader network by developing and capitalizing intermediaries that capture market data, link stakeholders on specific projects and serve as financial vehicles for investing with social and environmental impact.

Prepare Enterprises for Growth: Based on an understanding of the needs of entrepreneurs and their current obstacles to scale government can help businesses build capacity, attract capital and increase demand for their products through assistance, and facilitating access to finance and investment.

Grow and Direct Private Capital: The government can incentivize private investors to participate in the social investment market, introduce subsidies to support expanded capital flows, or remove regulatory barriers that prevent interested investors from participating.

Review and Refine Policy: The government can build systems for evaluating performance and efficiently revising policies to ensure that the intended impact is met or policy objectives are adjusted to new circumstances.

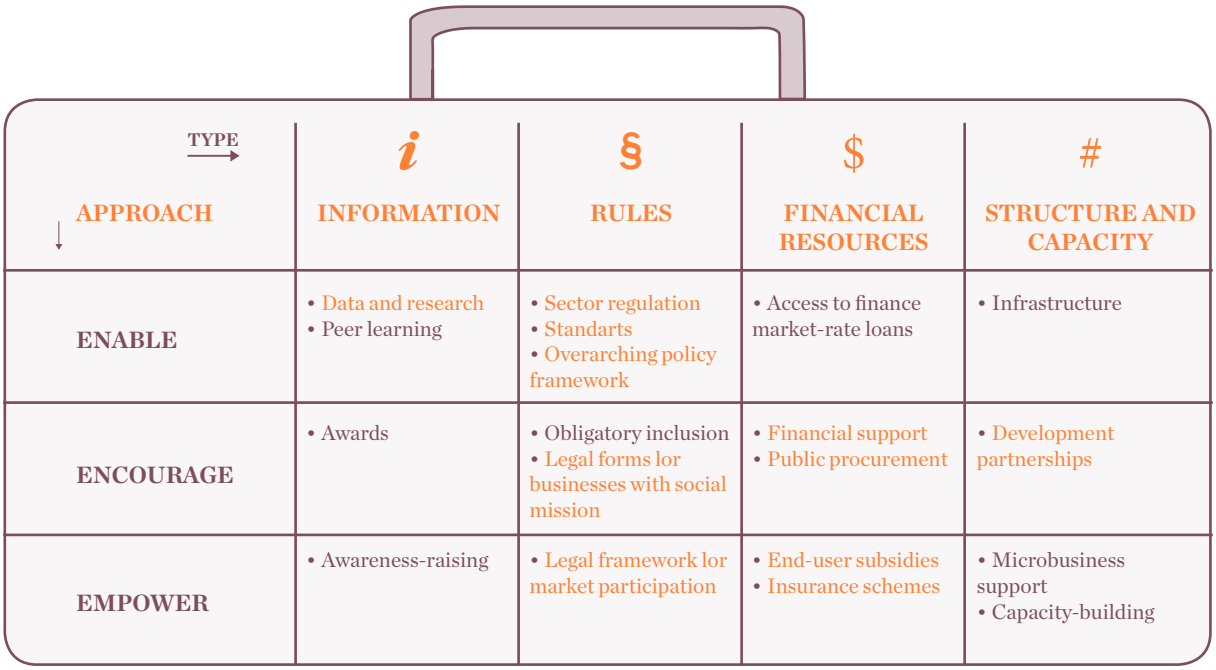
The framework is set out in Figure 19.

Figure 19: Framework for Government Action (WEF/Schwab Foundation)



Source: Schwab Foundation/World Economic Forum 2013, p 8.

Figure 20: The Inclusive Business Policy Toolbox (Endeva)



TYPE → / APPROACH ↓	*i* INFORMATION	§ RULES	$ FINANCIAL RESOURCES	# STRUCTURE AND CAPACITY
ENABLE	• Data and research • Peer learning	• Sector regulation • Standarts • Overarching policy framework	• Access to finance market-rate loans	• Infrastructure
ENCOURAGE	• Awards	• Obligatory inclusion • Legal forms lor businesses with social mission	• Financial support • Public procurement	• Development partnerships
EMPOWER	• Awareness-raising	• Legal framework lor market participation	• End-user subsidies • Insurance schemes	• Microbusiness support • Capacity-building

Source: Tewes-Gradl, C. et al 2013, p 22.

III German Federal Ministry for Economic Cooperation and Development: The inclusive Business Policy Toolbox (Endeva), 2013

Starting point: What can governments do to leverage the power of the private sector for development goals?

Objective: Identify policy instruments that are effective in supporting inclusive business models and lower barriers hampering interaction between poor people and companies.[170]

Approaches: Through the use of policy tools, the government has the capacity to ease constraints that inclusive businesses typically face: **information, rules, financial resources, structure and capacity**.[171] Governments apply these tools using three approaches:

- **Enable:** Governments can enable companies to enter low income markets by reducing market barriers and create more conducive conditions
- **Encourage:** Governments can encourage companies to invest in inclusive business models.
- **Empower:** Government scan empower poor people to engage with companies.

The toolbox is set out in Figure 20

170 Inclusive business models focus on the inclusion of the "Base of the Pyramid" in the companies value chains either on the demand side as clients or on the supply side as employees, producers, and business owners for mutual benefits. See UNDP (2008).

171 Based on the four categories of government action according to Hood, C. (1983): Nodality, Authority, Treasury, Organization (NATO).

ANNEX 3: GOVERNMENT IMPACT INVESTMENT SCHEMES

Table 8: Examples of government (including DFI supported) impact investment schemes

Name (country/year)	Description	Volume (in USDm)
Big Society Capital (UK/2012)	Wholesale independent financing institution to develop a social investment market in the UK and to improve access to finance by social sector organizations (charities, mutual, social enterprises, voluntary and community organizations. Financed by dormant accounts (2/3) and four private banks (1/3). Invests in social investment finance intermediaries, which connect social organization to social investors, for both financial and social returns (i.e. no grants) Initial investments include Social Impact Bonds, Social Stock Exchange, social investment intermediary Clearly So, Community Finance Trust Pure.	Approx. USD 920m
KfW Social Entrepreneurship Fund (Germany/2012)[172]	Pilot programme managed by KfW, the German Development Bank Provides equity investment for social enterprises in their growth phase Matching the conditions of a co-investor (e.g. a social impact fund, business angel, foundation) up to EUR 200,000 (USD 260.000) Co-investor is expected to support provide technical support and engage with management of the organization.	USD 2m
EIB Socia Impact Accelerator (EU/2013)	Managed by European Investment Fund (EIF), founding investors including EIB, Credit cooperative and Deutsche Bank Fund of fund that provides equity investment in social impact funds in Europe Social impact funds that pursue explicit social impact investment targets in addition to financial return; measure and report on impact achieved and that provide investee with necessary support.	Initial: USD 52m
Social Enterprise Development and	Government non-refundable grant combined with debt and equity investment in three separate independently managed funds (a community development finance institution; a loan fund; non-profit social venture fund)	USD 34m
Investment Funds (Australia/2012)[173]	Funds have return expectation between 6-13% Recipient to identify 1:1 matching funding from private or philanthropic sources, government funding leveraged to attract other investors with different risk/return profiles.	
Ghana Venture Capital Trust Fund	Provide venture capital financing to SMEs with social and environmental mission through intermediaries (venture capital finance companies). Mandate to build the venture capital market: developed venture capital finance companies; built technical assistance service providers; contributed to creating an alternative listing on Ghana stock market, the Ghana Alternative Market (GAX); established the Ghana Institute for Responsible Investment.	USD 22m

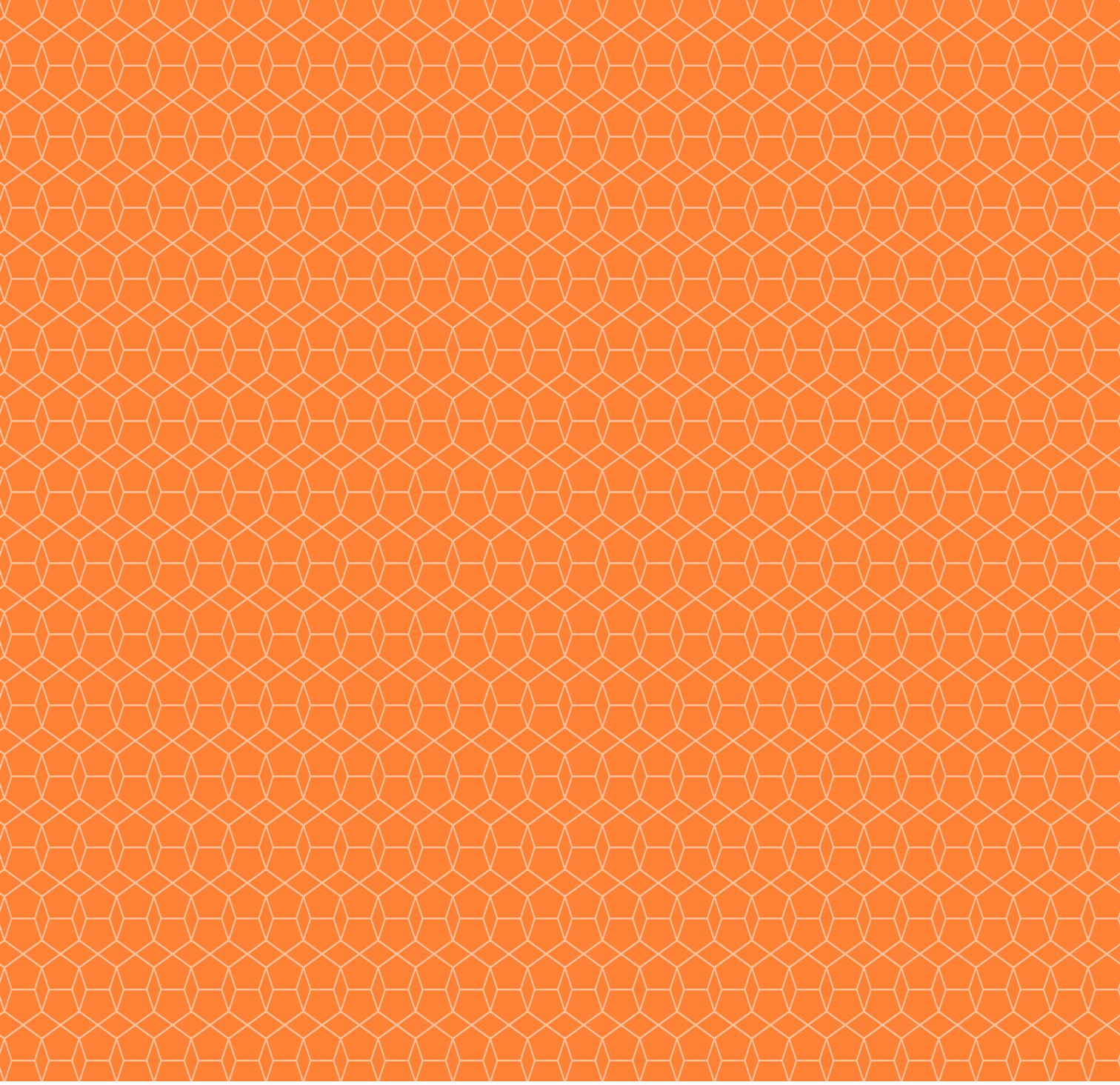
Source: various

172 www.kfw.de

173 Addis, R. et al 2013: Impact – Australia. Investment for social and economic benefit. Australia.

Name (country/year)	Description	Volume (in USDm)
Inclusive Innovation Fund (India/set up phase)	To be established with 20% seed financing from the National Innovation Council with the balance raised from banks, insurance companies and development financing institutions Focus on investment in early-stage social ventures (e.g. low cost health care, clean energy or inclusive mobile finance enterprises). Expected return 12% alongside a measurable social impact.	USD 91m
Trividend (Belgium)	A Belgium cooperative created as a public-private partnership between Flemish government and social economy stakeholders to provide venture capital to organizations with social value. Invests up to EUR 150,000 becoming a minority shareholder with the right to appoint a director to the board; provides subordinated loans and offers business planning suppor.	USD 2.3m (2012)
DFID Impact Fund (UK)	An 'impact first' fund of fund developed the UK's Department for International Development (DFID) and managed by CDC to invest in intermediaries in Africa and South Asia. No set target for returns, but expects to have at least its capital returned upon exit.	USD 106m

NOTES



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ISBN: 978-605-4348-75-6

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