

# An Assessment on the Financial Inclusion of Syrian-owned Enterprises in Turkey

January 2020



**Building Markets**

Connecting **Entrepreneurs**. Creating **Jobs**. Sustaining **Peace**.

**ingev** / İNSANI  
GELİŞME  
VAKFI

# Table of Contents

- PREFACE AND ACKNOWLEDGMENTS..... 3
- 1. Executive Summary..... 4
- 2. Introduction and Background..... 5
- 3. Research Findings..... 7
  - 3.1 SME Overview ..... 7
    - 3.1.1 Employment..... 7
    - 3.1.2 Trade ..... 8
    - 3.1.3 Customer Base ..... 9
  - 3.2 Financial Inclusion..... 9
    - 3.2.1 Banking and Loans..... 11
    - 3.2.2 Risk Aversion ..... 12
    - 3.2.3 Indicators of Financial Health – Tender Access ..... 12
    - 3.2.4 Awareness and Familiarity with Financial Services ..... 13
    - 3.2.5 Legal and Regulatory Environment..... 13
- 4. Conclusions and Recommendations ..... 15
- ANNEX I – Methodology and Objectives..... 17

## PREFACE AND ACKNOWLEDGMENTS

This report was produced by Building Markets and its partner INGEV and reflects the data collected and analyzed from businesses and other stakeholders. The findings presented in this report offer an assessment of the financial inclusion and access to finance constraints faced by Syrian-owned businesses in Turkey. However, it is important to note that the quality of the estimates made in this report are intimately linked to the quality of the data that was provided to Building Markets and INGEV by businesses and other interviewees.

Field research for this project began in December 2018 and concluded in July 2019.

This report was written by Guler Kaya (Senior Research Manager, Building Markets) and Can Çakır (Director of Social Research Center, INGEV). The authors of this report wish to also gratefully acknowledge the support of the research teams at Building Markets and INGEV, including Kirsten Harrod and Fatima Kamran. They would also like to thank all of the stakeholders and local companies who took time out of their demanding schedules to contribute their insights and expertise to the report. Questions and comments about the report can be directed to [newyork@buildingmarkets.org](mailto:newyork@buildingmarkets.org).

### Definitions

In this report, the terms “Syrian enterprises” or “Syrian-owned enterprises” refers only those companies owned or co-owned by a Syrian national and registered legally in Turkey. This definition does not include companies with headquarters outside of Turkey, e.g. in Syria.

The legal status of the owners or partners of these “Syrian enterprises” or “Syrian-owned enterprises” may vary. Some of these owners are under temporary protection (SuTPs), others may hold Foreigner Status (FS), and some may have Turkish citizenship. SuTP is the designation typically given to refugees fleeing the violent conditions in Syria and entering Turkey without a valid passport, whereas FS refers to those entering Turkey with a valid passport. In this report, enterprises specifically with owners who are from Syria and hold any of these statuses are considered “Syrian-owned enterprises”. Additionally, in this report, the term “refugee” refers only to SuTPs in Turkey. Any statements made in reference to “refugees” refers only these individuals.

### About Building Markets

Building Markets, headquartered in New York City, United States, is a nonprofit organization that creates jobs and encourages economic growth in crisis-affected countries by connecting local micro, small and medium-sized enterprises (SMEs) to new business opportunities. Through its approach, the organization has profiled and built a network of more than 25,000 local SMEs, assisted those businesses in winning \$1.3 billion in contracts, and helped create over 70,000 jobs. For more information: [www.buildingmarkets.org](http://www.buildingmarkets.org).

Building Markets operates the Business Mentors for Social Cohesion project in Turkey. With its local partners, including INGEV who played a key role in this research, the project offers business development services to Syrian entrepreneurs and works to enable partnerships with Turkish-owned companies to create jobs and economic benefits for refugees and host communities.

### About INGEV

INGEV Foundation was established to contribute to human development in Turkey. INGEV’s objectives are to become a reference guide and primary resource with regards to human development in Turkey; to present guiding opinions and suggestions to political decision-makers through research and reports; and to support human development along with innovative implementation projects. Its work is conducted in cooperation with relevant state institutions, local authorities, multinational corporations, universities, and the private sector. For more information: [www.ingev.org](http://www.ingev.org).

## I. EXECUTIVE SUMMARY

To effectively support Syrian entrepreneurs, their needs and priorities must first be understood. Earlier studies focusing on the status of Syrian entrepreneurship in Turkey indicate that, at their arrival, refugees were unaware of the intricate details of Turkey's legislation, labor market, financial system, and overall business culture. Language was also a key barrier. These external factors impacted the ability of these refugees to do business, which was further exacerbated by macroeconomic challenges and increasing tensions amongst Syrians and host community members<sup>1</sup>. Earlier studies also indicate that accessing financial services, raising capital, and understanding financial regulations and tax laws are some of the chief concerns of Syrian entrepreneurs in Turkey.<sup>2</sup> This report focuses on assessing the financial inclusion of Syrian-owned enterprises<sup>3</sup> in Turkey, including their business characteristics and operating environment. Its intention is to highlight their needs and priorities and to better inform business development services and policies that can more effectively support their growth and integration into the Turkish economy.

Key findings include:

1. The majority of Syrian-owned enterprises in Turkey are micro- or small-sized enterprises with limited support services such as finance, accounting, legal, and human resources. Difficulty in accessing finance was amongst the top three responses given by Syrian SMEs when listing their challenges over the next six months. This difficulty was attributed to economic fluctuations (21 per cent), refusal by banks due to refugee status (19 per cent), lack of knowledge of laws and regulations (19 per cent), and insufficient contacts with financiers (19 per cent).
2. Syrian-owned enterprises appear to rely heavily on Islamic financing options due to a lack of financial products available from traditional banks. Turkish banks may regard refugees as high-risk clients with low traceability and transparency. As a result, the majority of Syrian enterprises (66 per cent) choose Islamic participation banks. While only one per cent of Syrian enterprises have ever received a loan, of those reportedly interested in seeking loans, all expressed a need for capital to increase or maintain production capacity by purchasing additional inputs, updating equipment, and/or acquiring new facilities.
3. Bureaucratic processes, such as travel restrictions and other legal regulations, limit the reach and scale of Syrian enterprises. Work permits and licenses are renewed annually. In some cases, applications take weeks or months to be evaluated, and any associated fees can be varied and unpredictable. During this period, Syrian entrepreneurs often face difficulties travelling or entering into legal contracts, such as purchase agreements. Furthermore, most Syrian enterprises seem to prefer employing other Syrians due to similarities in language, culture, and business customs; however, national employment quotas make this challenging.
4. Information gaps prevent Syrian enterprises from identifying business resources and opportunities. Awareness of available financial services or sales opportunities presented by public, private, and civil society organizations is low. Furthermore, information on laws, regulations, and government incentives is not easily accessible, resulting in an atmosphere of uncertainty for entrepreneurs and potential investors.

---

<sup>1</sup> INGEV, Human Development Monitor, Attitudes toward Syrians in Turkey Report

<sup>2</sup> Building Markets, *Another Side to the Story- A Market Assessment of Syrian Refugees in Turkey*

<sup>3</sup> Please see "Note on Definitions" on Page 2.

## 2. INTRODUCTION AND BACKGROUND

Access to finance remains one of the major stumbling blocks for better economic integration of Syrians in Turkey. A 2018 report<sup>4</sup> by the European Bank of Reconstruction and Development (EBRD) and the Economic Policy Research Foundation of Turkey (TEPAV) shows that Syrian companies in Turkey point to 'access to finance' as the biggest obstacle they face. Research shows that 38.5 per cent of Syrian companies use the informal hawala system for transferring money, which is a method for transfer through a network of trusted individuals acting as intermediaries. Syrian companies also express having problems with opening a commercial or individual bank account, domestic money transfers, and letter of credit transactions.

It is also noted that better sources of information on finance and tax should be made available to reduce aversion among Syrian enterprises to further integration with financial institutions. This is one of the chief reasons they opt not to apply for any loans or credit. The research findings also indicate that Syrian companies in Turkey are more inclined to undertake export and import activities in comparison to their Turkish counterparts, suggesting that increased access to finance has the potential to strengthen Turkey's international as well as domestic trade.

Turkey's willingness to provide legal status to Syrians entering Turkey has had important implications on their ability to access livelihood opportunities. Syrians under Temporary Protection (SuTPs) are afforded the opportunity to start a business in Turkey, as well as open a bank account, although, in practice, the latter poses challenges for those trying to access private or commercial banks.<sup>5</sup> SuTPs can also travel outside of the province in which they are registered, as long as they receive approval from the local immigration office. In comparison, those under Foreigner Status (FS) can start businesses in Turkey and travel freely throughout the country.<sup>6</sup>

Despite the opportunity to start a business, afforded by legal status, earlier studies indicate that access to finance is a major obstacle for Syrians in Turkey, especially for SuTPs.<sup>7</sup> While the existence of temporary protection bestows significant aforementioned rights to Syrian entrepreneurs looking to establish businesses in Turkey, in practice they face many barriers, stemming from the low traceability of capital arriving from Syria as well as international banking sanctions. Money transfers, credit, and foreign trade financing are some of the most important functions that banks fulfill for entrepreneurs. Thus, access to financial services such as banking, insurance, venture capital, accounting, and financial consultancy can be vital for the survival and growth of these enterprises.

During the initial years of the Syrian refugee influx to Turkey, this lack of access to financial services was less prominent due to other urgent needs refugees and their businesses faced. However, with a protracted stay in Turkey, Syrian entrepreneurs' focus is shifting to growing their enterprises, which has brought these challenges into greater focus.

Table 1 lists the details of the potential need for financial services among refugees broken down by the phase of displacement. This categorization illustrates that the types of financial services that need to be prioritized become more advanced as the duration of displacement increases.

Table 1. Segmented Financial Needs by Displacement Phase<sup>8</sup>

<sup>4</sup> EBRD & TEPAV - [Syrian Entrepreneurship and Refugee Start-ups in Turkey](#)

<sup>5</sup> It is not easy for Syrians to open personal or commercial bank account. Ninety-three per cent of business have bank accounts in Kuveyt Türk, Albaraka and Ziraat, but only seven per cent have bank accounts in İşbank, Akbank – the biggest private banks.

<sup>6</sup> They are also eligible for residency or citizenship if they meet certain requirements. The duration of their legal stay in Turkey is limited by the validity of their passport, which in the case of Syrians is often difficult to renew. Syrians with FS can apply for TPS as well upon the expiration of their passport.

<sup>7</sup> INGEV- [Potential Enhancement Areas For Companies Established by Syrians](#)

<sup>8</sup> Federal Ministry for Economic Cooperation and Development (BMZ) of Germany, [Financial Inclusion of Forcibly Displaced Persons](#), - 2018

Phase	Arrival / Transit	Early Displacement	Protracted Displacement	Permanence
Time Period	1-3 months	3-12 months	1-3 years	> 3 years
Focus	Immediate, basic needs.	Housing, education, language, work, health.	Improving standard of living; re-building a life.	...building livelihoods and productive assets; a life resembling that of the host community.
Potential need for financial services	Cash aid for shelter, food, medical services, and to repay debt incurred during escape. In some cases, remittances.	Cash aid for basic needs, subsistence and urgent care. In some cases, savings and remittances. (Micro) consumer credit for furniture, appliances, school fees, business equipment.	Savings. Remittances (receiving and/or sending). (Micro) consumer credit, mortgage/home improvement loans, business loans, and micro-insurance.	If integration is the goal: more sophisticated financial services which resemble those of hosts: savings, investments, payments, pension plans, credit, insurance, and transnational services (e.g. line of credit, remittances, insurance for family in country of origin). If return/resettlement is the goal: savings for journey, transferable credit history, transferable pension schemes, housing credit to rebuild, and deferred annuities.

Although financial inclusion may become more of a priority for Syrians in Turkey with every passing year, regardless of their legal status in the country, even formally registered Syrian-owned enterprises can experience difficulties, such as higher-than-normal fees or interest rates when trying to access financial instruments like loans, money transfers, and insurance premiums.<sup>9</sup> This is an especially significant challenge considering the erosion in Syrian entrepreneurs' savings due to the devaluation of Syria's currency.<sup>10</sup>

On the provider side, while some of these problems are related to the international security concerns surrounding Syria, banks or other financial institutions may limit their services to refugees for several other reasons.<sup>11</sup> First, they may be deemed to be in the country only temporarily and are attributed a high risk of "flight". Also, contracts made with refugees are assumed to be less enforceable. These reasons, coupled with the fact that Syrian refugees usually have no credit history with banks in Turkey, causes financial institutions to categorize them as high-risk clients.

In addition, barriers exist on the demand side. Entrepreneurs who attempt to establish their business in a country they are not completely familiar with may feel threatened by the uncertainties involved in the process. This is one of the chief reasons why Syrian entrepreneurs in Turkey may avoid using financial

<sup>9</sup> INGEV

<sup>10</sup> The pre-war exchange rate of the Syrian pound against the US dollar displayed a steep decline from 50 SYP for 1 USD to around 500 SYP for 1 USD, bringing the Syrian pound to around 10 per cent of its value before the war: Al Awsat Online Daily- <https://aawsat.com/english/home/article/1470686/devalued-syrian-currency-adds-people%E2%80%99s-economic-hardship>

<sup>11</sup> Ibid

instruments, taking out insurance policies, approaching Turkish financial institutions, or registering their enterprises. They instead depend upon their relatives and friends for access to finance and borrowing.<sup>12</sup> Further, utilization of the formal financial system was low among Syrians even before the crisis, with less than 20 per cent of the pre-2011 population using the formal financial system.<sup>13</sup> An overall lack of familiarity with financial instruments, as well as low financial literacy, has generated an aversion to these services among Syrian enterprises in Turkey.

Improving Syrian enterprises' access to finance is a means of meeting not only their current needs but also their future expectations. Understanding the current financial practices and unmet needs of these enterprises is therefore the start of uncovering the barriers against their better financial inclusion and growth.

### 3. RESEARCH FINDINGS

This assessment specifically focuses on financial inclusion and its relation to sales and capacity growth. It was conducted in order to better understand the key challenges that refugee entrepreneurs face with access to finance when trying to establish businesses in Turkey for the first time. A key component of this research was an analysis of the current economic and legislative environments in which Syrian enterprises operate. This study targeted Syrian entrepreneurs through face-to-face interviews with representatives of 191 Syrian-owned small and medium-sized enterprises (SMEs) and in-depth interviews with 12 key stakeholders experienced with the intricacies of the Turkish economy, business culture, labor market, or livelihoods of refugees in Turkey. For more information on the methodology used in this research, please see Annex I.

#### 3.1 SME Overview

Most of the Syrian-owned businesses in Turkey are micro or small-sized enterprises. Among those surveyed for this study, micro-sized (less than 10 employees) represent 83 per cent; small-sized (less than 50 employees) make up 15 per cent of businesses; and, medium-sized (less than 250 employees) constitute the remaining 2 per cent.

Table 2. Top Business Sectors

Business Sector	% of Syrian-owned SMEs
Wholesale/retail trade	23%
Accommodation and food service activities	14%
Manufacturing	12%
Administrative and support service activities	9%

#### 3.1.1 Employment

Seventy-five per cent of Syrian enterprises state that they employ 1 to 5 Syrian employees. Similarities in language, culture, and business customs often mean that Syrian enterprises prefer to employ other Syrians. However, during Key Informant Interviews (KIIs) it was frequently mentioned that employment quotas prevent Syrian entrepreneurs from hiring other Syrians, creating an incentive for unregistered labor amongst Syrians.

Table 3. Number of Syrian Employees

<sup>12</sup> [Financial Inclusion in Refugee Economies](#) - Kim Wilson, The Fletcher School, Tufts University, Roxani Krystalli, Feinstein International Center, Tufts University, February 2017

<sup>13</sup> Federal Ministry for Economic Cooperation and Development (BMZ) of Germany, Financial Inclusion of Forcibly Displaced Persons, - 2018

Number of Syrian Employees	% of Syrian-owned SMEs
0	10%
1-5	75%
6-10	10%
11+	5%

The majority of Syrian enterprises do not employ a finance professional and their owner manages the finances. Few enterprises have full-time staff for finance management, while others outsource these responsibilities to third-party companies or consultants (see Table 4 below). Twenty per cent of the enterprises stated that they do not keep balance sheet statements, while 21 per cent claimed that they do not have profit/loss statements. Therefore, the employment of finance experts or procurement of professional financial services may be a potential area of improvement in order to move towards greater financial inclusion for Syrian enterprises.

Table 4. Financial Management

Syrian-Owned SMEs	Exports
Owner manages all finances	67%
Full-time finance staff in-house	12%
Outsource finance work to outside company / consultant	12%
Finance duties shared by non-finance-oriented staff	4%
Outsource finance work to outside company – consultant	3%
Part time finance staff in house	1%
Other	0.5%

### 3.1.2 Trade

Despite their often small size and lack of access to professional financial services, Syrian enterprises hold valuable potential for contributing to Turkey's export market. Fifteen per cent of SMEs reported importing while 42 per cent reported exporting to other countries. This is partially due to the fact that most Syrian manufacturers have ongoing business ties to Syria, so their supply chains may still have links to suppliers in Syria or they may still possess inventory or movable assets there. It is important to note that these manufacturers are faced with difficult regulatory processes that can make it impossible to move supplies across the border into Turkey. These supplies are generally comprised of raw materials, agricultural products, or inventories to be used for processing in Turkey. The final products of these processes are generally exported to other countries. Therefore, the challenges faced by Syrian enterprises in transporting their supplies into the country reduces Turkey's export potential.



### 3.1.3 Customer Base

Syrian SMEs mainly sell to individuals/consumers and other SMEs. Additionally, 52 per cent of Syrian-owned enterprises sell to Syrian buyers, while only 27 per cent sell to Turkish buyers.<sup>14</sup>

Table 5. Buyer Types (Multiple Answers Allowed)

Buyer Types	% of Syrian-owned SMEs
Individuals	75%
SMEs	45%
Microenterprises	41%
Large Enterprises	17%
Nonprofit/Nongovernmental Organizations	16%
Governmental organizations	7%

In addition to selling their products to Syrians and other Arabic-speaking communities in Turkey or abroad, Syrian enterprises believe they have the potential to grow in the Turkish market, but have not yet fully established the networks necessary to do so. As Syrian enterprises start building commercial links in Turkey, their need for financial inclusion will become more salient.

### 3.2 Financial Inclusion

Findings indicate that the majority of Syrian SMEs report a need for additional capital but struggle with access to finance, which is one of their top three reported challenges over the next six months, along with the competitive environment in the Turkish market and exchange rate fluctuations.

Table 6. Biggest Challenge in the Next 6 Months

Biggest Challenge Next 6 Months	% of Enterprises
Competition	19%
Exchange Rate/ Currency Challenges	18%
Difficulty Accessing Finance	12%
Lack of Customers / No Demand	9%
High Operating Expenses	7%
Language Barriers	6%
Security / Political Instability	5%
Taxes (Too High)	5%
Government Laws, Policies, Bureaucracy	4%
Corruption	3%
Lack of Market Information	3%

<sup>14</sup> INGEV; *Needs Assessment for Syrian SMEs, 2019*.

Other	6%
-------	----

Market competition greatly impacts the demand for SME products. As Syrian enterprises begin to enter into the Turkish market, they will generally experience a market that is already saturated. Further, Syrian businesses often prefer working with upfront cash payments, making it more difficult to compete in the Turkish market. This may put them at a disadvantage, as, in the Turkish market, it is commonplace for late payments to be accommodated to a higher extent in comparison to pre-conflict Syria. Lack of financial access and know-how amplifies the negative effects of managing cash flow under these new conditions. It also makes it harder to maintain healthy cash flow during periods of low sales demand. Hedging against exchange rate fluctuations is also more difficult with limited knowledge of financial tools and methods.

Sixty-two per cent of Syrian enterprises stated that access to finance exerts some degree of constraint on their operations, with 23 per cent indicating that it was an extreme or large constraint.

Table 7. Constraint Placed by Access to Finance on Operations

Degree of Constraint	% of SMEs
Extreme constraint	9%
Large constraint	14%
Moderate constraint	16%
Small constraint	23%
No constraint at all	37%
Does not know	1%

Sixty-five per cent of Syrian enterprises stated they need additional capital for their businesses, with 33 per cent sharing they require relatively minor amounts of capital, such as 100,000 TL or less. However, overall, 80 per cent of SMEs reported challenges with accessing capital.

The most frequently expressed challenges in accessing finance were economic fluctuations, refusal by banks, and an inability to connect with investors. Like all businesses, Syrian enterprises are affected by market demand and the overall status of a country's economy. KIs revealed that most Syrian enterprises are not aware of the financial methods or services that can help reduce risk during times of economic volatility and downturn.

Table 8. Major Challenge Accessing Finance

Major Challenge Accessing Finance	% of Enterprises
No Challenge in Accessing Finance	20%
Has Challenge in Accessing Finance	80%
<i>Economic Crisis or Fluctuations</i>	21%

<i>Banks Decline Application Due to Refugee / Newcomer Status</i>	19%
<i>No Connection with Investors or Financiers</i>	19%
<i>Unacceptable or Too Risky Terms and Conditions</i>	11%
<i>No Information About Finance or Laws</i>	7%
<i>Language Barriers</i>	3%

### 3.2.1 Banking and Loans

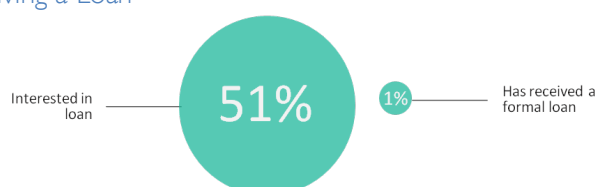
Eighty-seven per cent of surveyed Syrian enterprises reported possessing a bank account for their businesses, with Kuveyt Turk the most preferred. In fact, when questioned on their 'preferred bank', 66 per cent of Syrian-owned businesses chose Kuveyt Turk and Al-Baraka (Islamic participation banks), pointing to the importance of Islamic banking amongst the Syrian business community in Turkey.

Table 9. Preferred Banks by Syrian-owned Enterprises

Banks	% of Syrian Enterprises
Kuveyt Turk	56%
Ziraat Bankasi	17%
Albaraka Turk	10%
Is Bankasi	6%
Akbank	3%

Despite the vast majority of businesses using a bank account alongside their stated need for additional capital, an overwhelming 99 per cent of the enterprises reported never having received a formal loan from a financial institution. In comparison, 29 per cent stated that they have received a loan from family or friends.

Figure 1. Interest in Receiving a Loan



In fact, while 51 per cent of Syrian enterprises expressed an interest in taking out a loan, only one per cent reported ever receiving one, indicating a significant unmet demand for access to sources of financing among Syrian SMEs.

Loans or credit cards are not common among these enterprises due to concerns about interest payments—either because the concept of interest is risky or unfamiliar to the entrepreneurs or because it goes against their religious beliefs. While Islamic participation banks in Turkey, such as Al-Baraka Turk and Kuveyt Turk, offer a range of financing instruments suited to the needs of such entrepreneurs, not all Syrian entrepreneurs are aware of their services.

The use of insurance policies for their facilities, products, or equipment is also not widespread among Syrian SMEs due to the lower availability of these services in pre-conflict Syria. As they began their operations in

Turkey, a lack of general familiarity with the insurance process limited Syrian enterprises' interest in taking out insurance policies. However, there have also been cases of Syrian SMEs attempting to procure various kinds of insurance policies but facing higher premium costs than those available to local SMEs in Turkey.

### **3.2.2 Risk Aversion**

One of the primary challenges regarding the provision of banking services to Syrians in Turkey is that banks tend to regard them as high-risk clients. Banks find it difficult to trace the source of funds deposited or transferred by a Syrian national in Turkey as the information flow from Syria is severely diminished due to the conflict. To a certain degree this applies to Syrian enterprises in Turkey as well, especially when it involves the transfer of larger amounts of money or transfers to Syria and surrounding countries.

Banks also run into problems when estimating a Syrian enterprise's risk of default due to the aforementioned issue of traceability. International counter-terrorism and anti-money-laundering sanctions may also impact this as banks have to examine each account holder and transaction thoroughly and prefer to err on the side of caution. In many instances, banks decide not to provide loans to Syrians and also restrict their transactions, such as money transfers, to avoid being fined.

A sense of impermanence associated with refugees may also be a factor taken into consideration when assessing risk. It is also important to note that some Syrian businesses operate without registration and attempt to use their owners' personal bank accounts for commercial activities. Such businesses may be more susceptible to problems with the banking services they receive.

In turn, on the demand side, Key Informant Interviews (KIIs) indicate that the prevalent attitude among Syrian SMEs is that banking services are risky, complicated and difficult to understand. Some of these attitudes relate to the business practices in Syria. It was frequently stated that in Syria before the conflict, the use of financing instruments was uncommon among SMEs. Most enterprises preferred to work in cash payments made simultaneously with the delivery of goods or services. It was not routine for these enterprises to have a waiting period between delivery and payment. Therefore, they did not develop the tendency to rely on financing instruments for maintaining their cash flow.

KIIs also indicate that banks sometimes close the business accounts of Syrian enterprises without an explanation, or apply restrictions on (or completely refuse) their orders for money transfers, both domestic and international, further increasing the SMEs' perceived risk of engaging with banks. For the southeast region (namely, Gaziantep, Hatay, and Mersin), this issue is reported to be the chief reason many enterprises are unable to either export their products or import raw materials, machinery, or commodities from abroad, which hampers their commercial activities.

KIIs reveal that the lack of standardization in banking services also contributes to this risk perceived by SMEs. As long as the client's deposits are below a certain amount, the responsibility for assessing the risks of potential clients lies with the branch staff. This means that the extent and quality of banking services from one branch of the same bank to another, as well as from one city to another, can vary greatly. For this reason, even two branches of the same bank located in the same city may approach a client differently. These issues affect insurance services as well whereby Syrian SMEs tend to be quoted higher premiums than local SMEs.

### **3.2.3 Indicators of Financial Health – Tender Access**

Tenders present significant opportunities for sales growth for SMEs and can be indicators of financial health. Most are conducted for larger scale projects or purchases, and institutions that invite bids have well-defined pass/fail criteria in their tendering process. In some cases, a firm's expertise or track record will result in solicited invitations to bid; however, most SMEs will devote significant time and effort to

identifying tenders or will miss opportunities altogether based on a lack of resources or easily accessible information.

Of the SMEs surveyed for this research, only 11 per cent reported submitting a bid in the past and just five per cent said that they actually won a tender in the last six months. This is not surprising as bidding on public and private tenders is uncommon among Syrian enterprises. Interviews for this research revealed that language barriers, perceptions about market competition, disqualification due to financial health or business-size, and risk associated with taking on larger-scale project have limited Syrian SMEs' engagement with tenders.

Syrian businesses should be offered relevant training on the tendering process that will encourage more of them to compete. At the same time, buyers should be educated on Syrian businesses and the opportunities they present in the market so that their tendering processes are more transparent and inclusive. As Syrian SMEs engage more in bidding, they will not only better understand buyer requirements, but these awards will also allow them to create a client and credit history. The latter could be an important record to present to banks and other financiers in order to demonstrate readiness for loans and other capital.

### **3.2.4 Familiarity with Financial Services**

Familiarity with the financial services and opportunities offered in the market serves as the first milestone toward the improved financial integration of Syrian enterprises. Better access to finance starts with access to information, which is one of the key factors for increasing ease of doing business in a country.<sup>15</sup> There are numerous sources of information on the different issues related to doing business in Turkey, with respect to both legal and financial frameworks. However, such sources are dispersed and hard to find or access. They are frequently outdated and sometimes contain information that is irrelevant to Syrians in Turkey. Very few of the reliable sources are available in Arabic. The processes required for registering and operating a company, while maintaining its compliance with laws and regulations, seem very difficult to some Syrian entrepreneurs who are reluctant to go through these processes out of fear of making costly or outright ruinous errors. This is one of the chief hurdles slowing down the financial integration of Syrian enterprises in Turkey.

According to interview responses, Syrian enterprises will integrate better into the Turkish economy and the financial sector as they learn more about the local laws and regulations. For example, Syrian enterprises, especially those that are micro- or small-sized, find it difficult to estimate how much tax they will be required to pay. This stems from a lack of access to clear sources of information and may be one of the chief reasons some Syrian entrepreneurs find it safer to remain unregistered. Such enterprises may associate being registered with the risk of receiving tax penalties due to the uncertainty surrounding tax rules and their competencies to comply with them.

When it comes to government incentives available to small businesses in Turkey, awareness and access among Syrian enterprises are both low, limiting business development opportunities. While 21 per cent of Syrian enterprises state that they are aware of government incentives, only three per cent have actually applied for one before.

### **3.2.5 Legal and Regulatory Environment**

When asked what kind of government action would help Syrian enterprises, most responses related to easing bureaucratic or legal processes, such as getting work permits or operating licenses, as well as reducing taxes or penalty fees. Several regulatory issues constrain the deepening of links between the financial institutions and Syrian enterprises in Turkey, causing Syrian entrepreneurs to limit the amount of capital they

---

<sup>15</sup> World Bank Group, [Doing Business 2019- Training for Reform](#) - 2019

prefer to invest in the Turkish economy. As progress is made on these issues, the integration of Syrian enterprises into the Turkish banking system is likely to accelerate.

Table 10. Actions Needed from the Government

Actions Needed from the Government	% of Enterprises
Ease Bureaucratic or Legal Processes	32%
Reduce Taxes and/or Penalties	28%
Provide Financial Services or Rent Controls	19%
Provide Better Access to Information	7%
Provide Sales & Marketing Services/ Help	6%
Relax Travel Restrictions	4%
Provide Social Services Increase Awareness	3%

For entrepreneurs who are Syrians under Temporary Protection (SuTPs) in Turkey, difficulties in receiving operating licenses and work permits force restrictions on the amount of capital they infuse into the Turkish market and limit their connection to financial institutions. Currently, residence and work permits need to be renewed on an annual basis. The renewal process usually takes around a month and sometimes extends to more than three months. During the renewal process, SuTPs oftentimes face difficulties travelling to other cities and signing long-term contracts. If these permits lasted longer (e.g. three or four years), it would contribute to creating a more comfortable and dynamic business environment. It was asserted during KIIIs that long-term permits would positively influence the banking sector's approach to SuTPs and improve access to finance. It should be noted that this issue is mainly applicable to SuTPs, as Syrian entrepreneurs who have Turkish citizenships or valid passports (with valid permits) do not experience such issues except under rare circumstances.

In the same vein, another frequently expressed concern is that the process for acquiring an operating license is slow and unpredictable. After receiving an application, municipality officials visit the entrepreneur's workplace to determine the fee that the enterprise must pay in order to receive the license. It is for this reason that enterprises are generally unable to make a precise estimate of how much they will have to pay beforehand. More importantly, the visit and the resulting evaluation process may be quite lengthy and applications can be rejected without any clear explanation.

One other factor constraining the capital spending of SuTPs in Turkey is the difficulty surrounding domestic travel. Syrian SMEs that were registered by the Trade Chambers in their respective cities encounter complications when their Syrian owners or executives attempt to travel domestically to other cities. While temporary protection status and company registrations provided to these individuals makes them eligible for work permits, entrepreneurs who need to frequently travel to other cities are first required to receive permission from the immigration directorates in their cities. This process is generally quite time-consuming due to the backlogs caused by the number of people applying simultaneously. The time taken by the authorization process is occasionally long enough to put the trade relations of Syrian enterprises in jeopardy. It should also be noted that how strictly travel restrictions are enforced may vary from time to time in a fairly haphazard manner, creating difficulties for businesses to plan ahead or act quickly. For example, the same immigration office may allow travel only for emergency situations in certain periods while relaxing these rules at other times.

## 4. CONCLUSIONS AND RECOMMENDATIONS

This assessment aimed to understand the difficulties that Syrian-owned enterprises in Turkey face in accessing financial services and to highlight the opportunities that exist to improve their financial inclusion to facilitate their growth. The following are its main conclusions and recommendations:

4.1 Most Syrian-owned enterprises in Turkey are micro- or small-sized enterprises with limited access to business support and financial services. Access to finance and higher business performance start with better access to information related to financial services, incentives, and tax and other regulations.

- Finance consultancies should be established to help entrepreneurs cope with volatile economic conditions and better position themselves to access capital and financial services.
- Comprehensive and clear business information resources, preferably in Arabic, should be created and disseminated to help Syrian entrepreneurs better understand and comply with the laws and regulations in Turkey to minimize risks to their businesses.
- Website or call center services, as well as Arabic-language information desks in municipalities with sizeable Syrian populations, should be set up.
- The Turkish Government can provide training to businesses on how to benefit from incentives as well as inform businesses on laws and regulations to boost their contributions to the local economy.

4.2 Export-oriented Syrian enterprises have untapped potential to boost Turkey's exports and growth rate - especially if they can transfer their assets from prior activities and raw materials into Turkey with greater ease.

- Links should be established between Syrian SMEs with export potential and public and private institutions that can provide financing for export activities.
- Low-cost financing for transfer of Syrian entrepreneurs' production assets into Turkey should be made available.
- Connections should be made between Syrian entrepreneurs and investors (for example, angel investors or venture capital funds) to finance enterprises with plans for expansion and potential for export-driven growth.

4.3 Bureaucratic processes and legal regulations stifle the ability of Syrian enterprises to function efficiently.

- Work permits, operating licenses, and travel permits for Syrian owners and key employees could be given for longer terms and application times could be reduced.
- Removing the employment quota on SuTPs versus Turkish citizens, for enterprises owned by Syrians, could spur company registrations and formal hiring and encourage Syrian entrepreneurs to expand their operations.
- Banking services are occasionally interrupted due to blocked international money transfers, hindering Syrian enterprises' trade activities. The government and banking sector should work together to ease restrictions and speed up the customer assessment process to avoid such interruptions.

4.4 Syrian-owned enterprises' limited relationship with banking institutions constrains their access to finance.

- Findings indicate Syrian entrepreneurs' preference for Islamic Participation Banking. There should be efforts to connect these banks to Syrian enterprises.
- Banks should do more to reach out to this new market of Syrian enterprises, including bank branches with at least one Arabic-speaking client representative.

4.5 Challenges with access to finance prevent Syrian-owned enterprises from expanding their customer base. Syrian enterprises cite procuring marketing and sales services to grow among the chief reasons for their interest in taking out a loan, but loans often remain beyond reach.

- Business support services to Syrian enterprises should include market analysis focusing on the landscape of the Turkish economy in various business sectors to help them identify customer segments where they have a competitive advantage.
- Network development activities should be offered by trade chambers, government institutions, or civil society organizations to help Syrian enterprises connect with local customers and suppliers, as well as to help recruit local sales people.



# ANNEX I – METHODOLOGY AND OBJECTIVES

## Data Collection Methods

### Desk Research

The initial phase of this assessment was conducted through online and hardcopy desk research and literature review. This research covered Turkey's existing legal and financial framework regarding Syrian entrepreneurs; the business environment; the impact of the refugee influx; and earlier studies related to Syrian enterprises, including by Building Markets and INGEV.<sup>16</sup> Additionally, Building Markets and INGEV conducted an extensive review of the relevant policies, best practices, actors, and programs that currently support Syrian enterprises. The results of this desk research helped shape the survey tool and methodology.

### Quantitative Survey

The quantitative survey questionnaire was prepared by Building Markets, with consulting support from INGEV on fieldwork sampling, methodology and questionnaire flow. The survey was conducted by a team of trained Arabic-speaking enumerators. This survey was piloted on a small group of Syrian-owned enterprises in order to inform potential revisions. Face-to-face interviews were conducted between May and July 2019 with 191 Syrian SMEs from Istanbul, Bursa, Mersin, Gaziantep and Hatay.<sup>17</sup> There were no limitations with respect to sector or field of activity of the enterprises, but in order to participate in the survey, SMEs had to be: 1) registered as a formal business in Turkey; and 2) able to provide an interview with the business owner or senior manager.

These interviews attempted to quantify the needs and future expectations of Syrian enterprises, from 15 different business sectors, regarding financial inclusion and factors restraining their access to finance. One of the key objectives of the survey was to provide a ranking of various opportunities, barriers, and factors with respect to their impact on access to finance. The quantitative basis for ranking allowed for the comparison of various issues based on their relative importance. This made it easier to identify the concerns that should have higher priority in generating progress on financial inclusion.

### Key Informant Interviews (KIIs)

Key Informant Interviews were meant to supplement and elucidate the findings of the quantitative survey. These interviews aimed to identify areas of improvement that may bring about deeper financial inclusion of Syrians in Turkey, to review the challenges they face in attaining better access to financial services, and to understand the financial practices and propensities prevalent among the Syrian business community. KIIs covered various sub-topics related to the financial inclusion of Syrian-owned enterprises in Turkey. These aimed to probe the interviewee's opinions on the current regulatory environment in Turkey; common banking and entrepreneurship services in the country; the awareness of Syrians regarding regulations and services; areas where the government can provide further support; and, finally, areas where the Turkish market can improve to better financially integrate Syrian-owned enterprises.

The KII process began with the creation of a shortlist of potential interviewees. Interviews were conducted based on guidance prepared jointly by INGEV and Building Markets. In-depth interviews with 12 stakeholders were conducted between December 2018 and February 2019. Interviews targeted a group of stakeholders that could provide first-hand experience on the issue of the financial integration of Syrian enterprises from different perspectives. Syrian business associations and civil society organizations shared direct experiences on the problems faced by Syrian entrepreneurs and refugees. Representatives of trade chambers and public institutions provided a macro-level perspective on Turkey as a whole as well as key

<sup>16</sup> INGEV'S ActHuman Conference & Platform, Refugee Capacity Building Survey, Syrian-owned SMEs Needs Assessment Survey Study, Social Cohesion in Turkey Report, Human Development Index, and Refugee Livelihood Monitor with Ipsos. Building Markets' Another Side to the Story: A Market Assessment of Syrian SMEs in Turkey and Turkish-Syrian Business Partnerships: A Nascent Opportunity.

<sup>17</sup> The survey study consisted of interviews with new Syrian-owned enterprises that were not involved with either Building Markets' 2017 study, "Another Side to the Story: A market assessment of Syrian SMEs in Turkey" or INGEV's 2019 study, "Syrian-owned SMEs Needs Assessment Survey."

insights on the services required by Syrian enterprises. Finally, banking institutions provided insight into the financial sector's approach and services that are available to Syrian enterprises.

#### List of Key Informant Interviews

Al-Baraka Turk, ASAM-SGDD, DEIK, Department of Migration, Gaziantep Chamber of Commerce, Governorship of Istanbul, Halkbank, ILO, MULTECI-DER, UNDP, UNHCR, Syrian Business People Association (SIAD), and the Syrian Economic Forum.

#### **Data Analysis**

Two-sided significance testing at a 95 per cent confidence level was carried out on the quantitative data, in order to compare the relative importance of each statement conveying a business obstacle. Similar confidence testing was also carried out on data related to knowledge and usage of various financial instruments. As findings from KIIs were qualitative, interview notes were indexed and subsections were grouped together to compare the prevalence of various findings over different interviews.

#### **Study Limitations**

The purpose of this report is to identify obstacles to financial access that are sufficiently common amongst enterprises, from different business sectors and cities, to be deemed a serious hindrance to the growth of Syrian enterprises in Turkey. Therefore, sectoral and geographic diversification of this sample was undertaken to minimize bias. However, this study's sample is not a representative sample of all registered Syrian businesses in Turkey.

This study does not deal in-depth with the impact of each business obstacle expressed by the target group. Rather it aims to provide a list and relative ranking of factors that have the highest potential to positively or negatively affect Syrian enterprises.

It can be argued that the most vulnerable group among Syrian entrepreneurs in Turkey, with respect to access to finance, are those who operate unregistered businesses because they cannot legally access banking or other financial services as enterprises. However, this study focuses only on businesses that are legally registered. It is our impression from KIIs that there is also a considerable number of unregistered Syrian businesses in Turkey. To the degree that those enterprises have concerns that differ from registered enterprises, the findings of this report will not apply to their needs. It is however important to note that this report describes several factors that have an impact on the decision to remain unregistered and provides recommendations where possible.

The fieldwork phase of this report was beset with difficulties related to conducting interviews. For instance, most of the banks approached for KIIs refused to participate in interviews. Many entrepreneurs representing target enterprises also refused to participate in, or were unavailable for, interviews. To the extent that those who refused to participate in this study share a set of characteristics, causing them to face different obstacles and concerns with respect to access to finance as compared to those who participated, the research findings may be at risk of participation bias. However, the findings of this research were checked against those from earlier research studies, as well as against the inquiries made by entrepreneurs at INGEV's Entrepreneurship Center (previously known as Syrian Entrepreneurship Center). No indication of such a deviation was observed.

Lastly, it is important to note that while this research collected data from Syrian SMEs on employee size, monthly revenues, their reason for interest in loans, and their expectations for the next six months, it did not monitor the impact of Syrian SMEs on job creation or the Turkish economy overall. It is possible to supplement this research with further quantitative or qualitative studies that focus on the root causes of each business barrier, further explore how they interplay with others, and collect feedback on hypotheses related to overcoming such barriers.